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# Investment Facility

ACP-EU Cotonou Partnership Agreement







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# Investment Facility

ACP-EU Cotonou Partnership Agreement

“The **Investment Facility** shall operate in all economic sectors and support investments of private and commercially run public sector entities, including revenue-generating economic and technological infrastructure critical for the private sector. The Facility shall:

- be managed as a revolving fund and aim at being financially sustainable. Its operations shall be on market-related terms and conditions and shall avoid creating distortions on local markets and displacing private sources of finance;
- support the ACP financial sector and have a catalytic effect by encouraging the mobilisation of long-term local resources and attracting foreign private investors and lenders to projects in the ACPs;
- bear part of the risk of the projects it funds, its financial sustainability being ensured through the portfolio as a whole and not from individual interventions; and
- seek to channel funds through ACP national and regional institutions and programmes that promote the development of small and medium-sized enterprises (SMEs).”

*Revised Cotonou Partnership Agreement, Annex II, Article 3*







## A word from the Vice-President

In many respects, 2008 was a year of change.

Some changes were predictable, such as the mid-year entry into force of the revised Cotonou Partnership Agreement, and of its associated financial protocol, the 10th European Development Fund.

Others came more unexpectedly, such as the financial and food crises, which triggered fundamental changes in the global economy and in the ACPs/OCTs respectively. The full impact of these upheavals remains to be seen, but first signs are already evident.

Against this unstable economic and social backdrop, the additional resources provided by the new financial protocol (10th EDF) will help the Bank to respond in a more flexible and innovative manner to investment needs in the ACPs and OCTs for the period 2008-2013.

In 2008, in spite of the challenges and negative external events affecting the regions of operation, the Bank managed to balance its portfolio sectorally, geographically and financially, in line with the orientations and objectives of the Cotonou Agreement.

The bulk of investments went into promoting infrastructure projects and the development of the financial and private sectors, notably small businesses which are at the heart of economic growth. Regional integration, support for projects that deliver sustainable economic, social and environmental benefits and cooperation with local and bilateral/multilateral stakeholders also remained centre stage. Throughout the year, the Bank paid particular attention to ensuring trans-

parency and a positive developmental impact across all its operations.

Nonetheless, greater uncertainties lie ahead.

As the credit crunch gradually begins to take effect in countries where exposure to the world economy is limited, the Bank stands ready to play a catalytic role in the ACPs and OCTs, encouraging the funding of private sector projects. In 2009 and beyond, the EIB will continue to apply best practice standards, closely monitor its project portfolio and apply stringent criteria in its screening of potential new projects.

I am confident that the EIB has the capacity to play a fundamental role in supporting the ACP and OCT regions through the difficult financial times which we now face. The Bank remains committed to utilising and building upon its broad range of innovative financial instruments and expertise with the aim of fostering infrastructure and financial sector development – the key drivers of sustained growth and private sector expansion.

Plutarchos Sakellaris  
EIB Vice-President  
responsible for lending operations  
in the ACPs and OCTs

# Map of ACPs and OCTs





## ⇒ ACP Countries and OCTs

### Africa

- Angola
- Benin
- Botswana
- Burkina Faso
- Burundi
- Cameroon
- Cape Verde
- Central African Republic
- Chad
- Comoros
- Congo
- Democratic Republic of the Congo
- Côte d'Ivoire
- Djibouti
- Equatorial Guinea
- Eritrea
- Ethiopia
- Gabon
- Gambia
- Ghana
- Guinea
- Guinea-Bissau
- Kenya
- Lesotho
- Liberia
- Madagascar
- Malawi
- Mali
- Mauritania
- Mauritius
- Mozambique
- Namibia
- Niger
- Nigeria
- Rwanda
- São Tomé and Príncipe
- Senegal
- Seychelles
- Sierra Leone
- *Somalia\**
- *South Africa\*\**
- Sudan
- Swaziland
- Tanzania
- Togo
- Uganda
- Zambia
- Zimbabwe



### Pacific

- Cook Islands
- East Timor
- Fiji
- Kiribati
- Marshall Islands
- Micronesia
- Nauru
- Niue
- Palau
- Papua New Guinea
- Samoa
- Solomon Islands
- Tonga
- Tuvalu
- Vanuatu

### Caribbean

- Antigua and Barbuda
- Bahamas
- Barbados
- Belize
- *Cuba\**
- Dominica
- Dominican Republic
- Grenada
- Guyana
- Haiti
- Jamaica
- Saint Kitts and Nevis
- Saint Lucia
- Saint Vincent and the Grenadines
- Suriname
- Trinidad and Tobago

### OCTs

- Anguilla
- Aruba
- British Antarctic Territory
- British Indian Ocean Territory
- British Virgin Islands
- Cayman Islands
- Falkland Islands
- French Polynesia
- French Southern and Antarctic Lands
- Greenland
- Mayotte
- Montserrat
- Netherlands Antilles
- New Caledonia
- Pitcairn Islands
- Saint Helena
- Saint Pierre and Miquelon
- South Georgia and the South Sandwich Islands
- Turks and Caicos Islands
- Wallis and Futuna

\* ACP countries not signatory to the Cotonou Partnership Agreement.

\*\* RSA: although part of the ACP regional grouping and signatory to the Cotonou Partnership Agreement, South Africa receives assistance from the EIB under a different mandate.







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## Institutional Framework

### “Supporting development through sustainable private sector initiatives”

#### African, Caribbean and Pacific States (ACPs)

The European Investment Bank (EIB) supports the European Union's (EU) cooperation and development policies in the African, Caribbean and Pacific States<sup>1</sup>.

Currently, the EIB operates in these regions under the ACP-EC Partnership Agreement signed in June 2000 in Cotonou, Benin, for a period of twenty years, and revised in 2005. The Agreement between the ACP States and the European Community and its Member States is based on various instruments to reduce poverty in the ACPs.

#### Member States' budgets

Financing under the Agreement is provided from EU Member States' budgets and is disbursed according to financial protocols defined for successive five- to six-year periods. Within the framework of the Agreement and following the entry into force of a second financial protocol on 1 July 2008 (covering the period 2008-2013), referred to as the 10th European Development Fund (EDF), the EIB is entrusted with the management of:

⇒ the **ACP Investment Facility (IF)**, a EUR 3 137m<sup>2</sup> risk-bearing revolving fund geared to fostering private sector investment in ACP countries;

⇒ **grants for financing interest rate subsidies** worth EUR 400m, of which up to EUR 40m can be used to fund project-related **technical assistance**. In view of the phasing-out of the EU-ACP sugar protocol, up to EUR 100m can be allocated to assist ACP sugar producers in adapting to changing world market conditions.

#### EIB own resources

In addition to the Investment Facility, the EIB can lend up to a further EUR 2 000m from its **own resources (OR)** in the ACP countries over the period 2008-2013. Operations carried out under the Bank's own resources are covered by a specific guarantee from EU Member States.

<sup>1</sup> The EIB extends long-term financing in the Republic of South Africa from its own resources to promote the country's economic development under a separate mandate of up to EUR 900m for the period 2008-2013.

<sup>2</sup> EUR 2 037m corresponding to the first financial protocol, supplemented by an additional EUR 1 100m under the second financial protocol.

<sup>3</sup> EUR 20m corresponding to the first financial protocol, supplemented by an additional EUR 28.5m under the second financial protocol.

#### Overseas Countries and Territories (OCTs)

In parallel, following a Decision by the European Council, a similar Investment Facility was set up for the OCTs in November 2001.

#### Member States' budgets

Under the current financial protocol (2008-2013), the EIB is entrusted with the management of a EUR 48.5m<sup>3</sup> revolving fund, the **OCT Investment Facility**, as well as EUR 1 5m of **grants for financing interest rate sub-**

**sidies**. Up to 10% of the grants can be used to fund project-related **technical assistance**.

#### EIB own resources

The EIB is authorised to lend up to a further EUR 30m from its **own resources** in the OCTs.

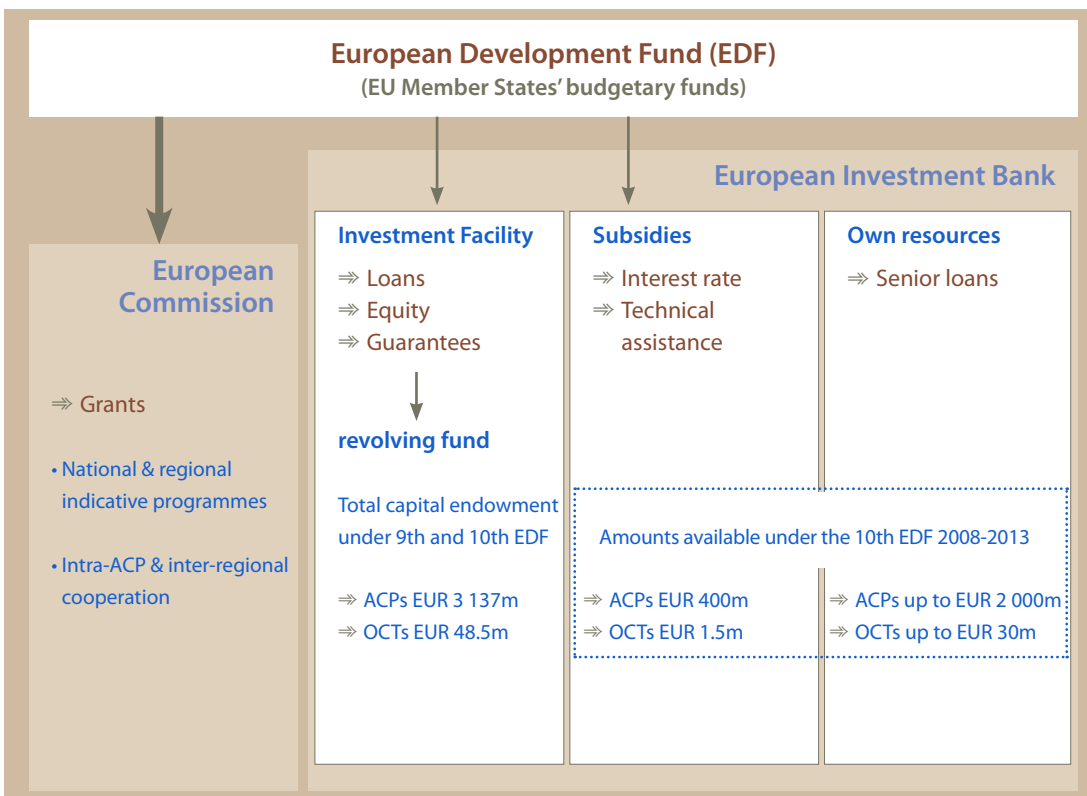


**Throughout the ACPs and OCTs**

In managing the ACP and OCT Investment Facilities, the grants for technical assistance and interest subsidies and its own resources, the EIB seeks to bring value added. The EIB concentrates its efforts on fostering private sector-led initiatives that promote economic growth and have a positive impact on the wider community and region. The EIB also supports public sector projects, typically in infrastructure, that are critical for private sector development and the creation of a competitive business environment.

In line with the objectives set out by the international community in the United Nations' (UN) Millennium Development Goals (MDGs), the EIB's overriding aim is to support projects that deliver sustainable economic, social and environmental benefits whilst ensuring strict accountability for public funds.

This report covers ACP and OCT Investment Facility projects, as well as EIB own resources lending operations carried out in these regions.



## Operational highlights for 2008

### 2008, entry into force of the Cotonou II mandate

Following the completion of its ratification process, the revised Cotonou Partnership Agreement, Cotonou II, and its associated financial protocol, the 10<sup>th</sup> EDF, entered into force on 1 July 2008. The protocol covers the period 2008-2013 and provides the Bank with additional resources to fulfil its mandate.

Signed ACP IF commitments during the year totalled EUR 326.3m, compared with EUR 314.6m in 2007.

ACP lending in EUR m	ACP Investment Facility	Own resources	Total
2006	569.6	167.3	736.9
2007	314.6	431.8	746.4
2008	326.3	224.8	551.0

### The fundamental role of infrastructure and financial sector operations

In 2008, IF and own resources-funded infrastructure projects covering the water, energy, telecommunications and transport sectors, accounted for 63% of signatures, the largest share of the portfolio. Operations targeting financial services and support for small and medium-sized enterprises (SMEs), including facilities for microfinance, represented the second largest share with 30% of signatures. The remainder of the portfolio covered ventures in the industrial sector.

Projects promoted by private sector operators accounted for 41% of signatures.

### Ongoing focus on regional integration

24% of overall portfolio signatures encompassed a regional dimension or activities aimed at supporting the development of cross-border and regional initiatives.

### The Bank promoting change

In line with its strategy for operations in the financial sector, the Bank's focus was not so much to provide funds as to promote change through contributing to financial sector development. It aimed to fill market gaps and act as a catalyst, thereby going beyond SME finance.

In relying on a broader range and alternative financial instruments, exploring new market segments, emphasising the role of technical assistance and promoting capacity building, the Bank pursued the objective of providing "finance for growth" which, ultimately, should encourage access to "finance for all".

### Spotlight on impact

A number of initiatives reflected the Bank's commitment to sustainable development and enhanced transparency, notably:



- extensive public consultations held with civil society on the revised EIB Statement of Environmental and Social Principles and Standards;
- membership of the Extractive Industries Transparency Initiative (EITI) (see box 9);
- more focused implementation of the Economic and Social Impact Assessment Framework (ESIAF) (see box 4).

**Enhanced cooperation** Promoting cooperation and coordination remained centre stage throughout the year: of 26 projects in 2008, 13 were co-financed by international development finance institutions, bilateral and/or multi-lateral donors.



## Investment conditions in ACP countries

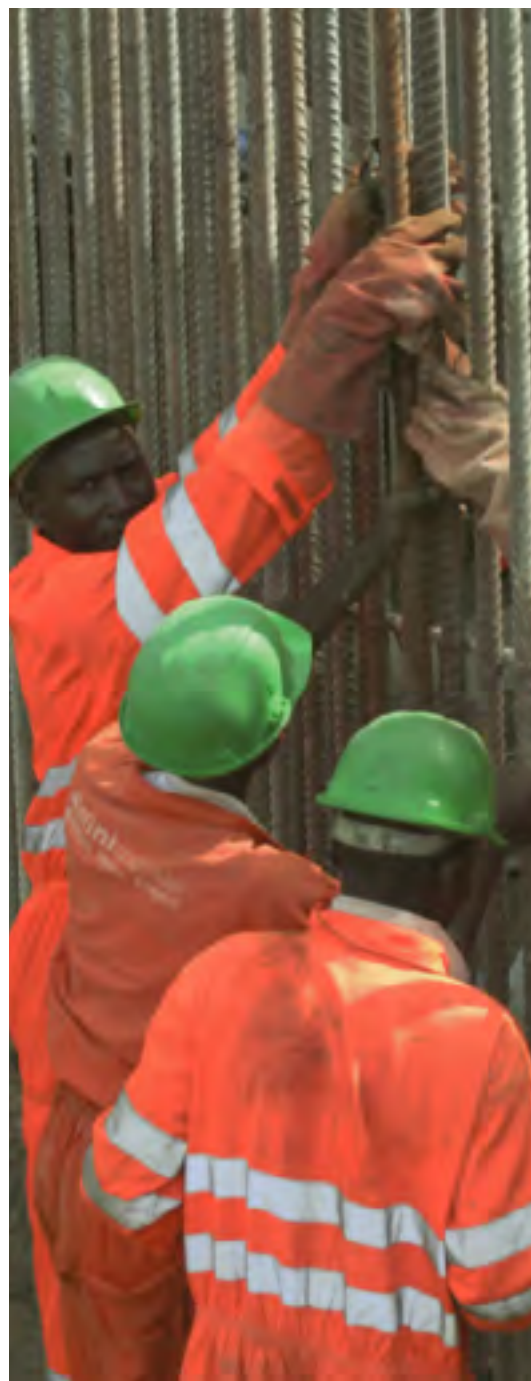
### “A changing environment”

#### Sub-Saharan Africa

Economic growth in sub-Saharan Africa (SSA) is expected to slow in the face of the financial turmoil, even though many SSA countries have benefited from terms-of-trade gains resulting from the surge in commodity prices. Overall, growth is projected to decline from nearly 7% in 2007 to just over 5% in 2008–2009. However, there are important cross-country variations. Due to a weakening external environment, economic expansion in oil-exporting countries is expected to slow down in 2008–2009, with growth declining to about 7% from nearly 8% in 2007. For oil importers, the terms of trade would remain broadly stable in 2008, with oil price developments offset by price increases in metals, coffee, cocoa, and cotton.

Recent sharp increases in food and fuel prices have posed significant challenges for price stability across SSA. Inflation is expected to rise from about 7% in 2007 to almost 12% in 2008, before easing again to around 9% in 2009. Food price rises tend to have a large impact on inflation in most SSA countries, reflecting a high share of food in consumer baskets. Domestic demand pressures, which have emerged in some SSA countries during the past several years of robust growth, may also be amplifying the initial impact of food and fuel price shocks through second-round effects on inflation.

The impact of higher food prices on poverty is a major concern as it risks undermining past progress in this area and puts social cohesion at risk. Many SSA countries' strong dependence on imports of food and fuel as well as a high incidence of poverty make them most vulnerable to increases in the prices of these commodities. Populations in these countries have few options to hedge against rising food prices, and the urban poor tend to suffer most. A recent International Monetary Fund (IMF) study estimates that rising prices for imported food would have the largest impact on poverty in Gambia, Ghana, Mauritania and Swaziland owing to their high dependence on imports and low incomes.





The external positions of net oil-importing countries have also come under pressure because of the surging prices of imported fuel. Current account deficits in these countries are projected to deteriorate on average from about 5% of Gross Domestic Product (GDP) in 2007 to around 6% of GDP in 2008 and 2009. In South Africa, a widening current account deficit, which stood at 7.25% of GDP in the second quarter of 2008, is of particular concern. The deficit is financed largely through volatile portfolio flows, although low external debt and a flexible exchange rate should provide some resilience if capital flows were to reverse. By contrast, current account balances in net oil-exporting countries are in surplus and are projected to strengthen further, from 8% in 2007 to more than 10% in 2008 before bouncing back in 2009.

The main challenge for the region is to respond to the large commodity price shock and the threat of slowing capital inflows. Oil-importing countries, where the negative terms-of-trade shock has weakened fiscal and external positions, need to adjust their monetary, fiscal, and income policies. Delaying the adjustment would jeopardise macroeconomic stability and the recent achievements in improving policy and institutional frameworks, which have been largely responsible for SSA's impressive growth performance in recent years.

Aside from the impact of oil and other commodities (see box 1), the relatively good external positions of most countries have also been a result of prudent macroeconomic frameworks that have been adopted in recent years, partly to satisfy the prerequisites of HIPC<sup>4</sup>.

More broadly, HIPC and MDRI<sup>5</sup> have contributed to significantly reducing the region's debt overhang. This has led to an overall improvement in financial conditions and corresponding sovereign ratings and a reduction of the relative risk perceived by investors in the region. Accordingly, foreign investment inflows to the region have progressed quite rapidly.

While the last few years have brought economic growth back to the region, poverty remains widespread and in fact only a small minority of countries appears to be on track to meet the Millennium Development Goals. Although the number of open military conflicts appears to be waning and political stability is on the rise, the region still occupies the majority of top positions in indicators such as the 2008 Failed States Index published by the Washington-based Fund for Peace – seven of the top ten countries in the index are in sub-Saharan Africa: Somalia, Sudan, Zimbabwe, Chad, Democratic Republic of Congo, Cote d'Ivoire, Central African Republic (in decreasing order of violent internal conflicts).

<sup>4</sup> *The Heavily Indebted Poor Countries programme, initiated by the World Bank and the IMF in 1996, provides debt relief and low-interest loans to reduce external debt repayments to sustainable levels.*

<sup>5</sup> *The Multilateral Debt Relief Initiative (MDRI) provides for 100% debt relief on eligible debt from three multilateral institutions – the IMF, the International Development Association (IDA) of the World Bank, and the African Development Fund (AfDF) – to a group of low income countries that have reached, or will eventually reach, the completion point under the joint IMF-World Bank enhanced Initiative for Heavily Indebted Poor Countries (HIPC Initiative).*



### Box 1: Commodity Prices and Current Account in ACP Countries

Weakening global demand is depressing commodity prices. Oil prices have declined by over 50% since their peak, retreating to levels not seen since early 2007 – reflecting the major global downturn, the strengthening of the US dollar, and the financial crisis – despite the decision by the Organisation of Petroleum Exporting Countries (OPEC) to reduce production. Similarly, metals and food prices have fallen from their recent peaks. While this eases the burden on households in advanced economies, it lowers growth prospects in many other emerging economies and commodity exporter countries.

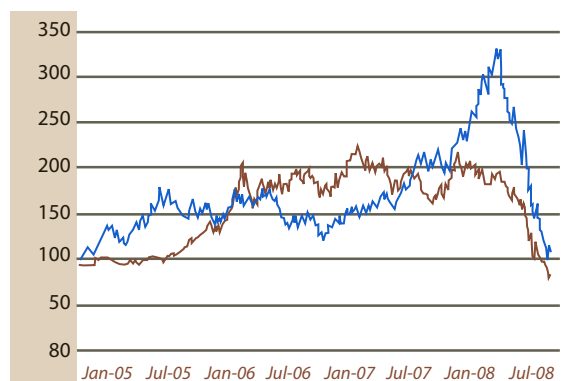
The combination of stabilising commodity prices and increasing economic slack will help to contain inflation pressures in advanced and emerging economies. However, in a number of these countries, inflation risks are still manifest, as higher commodity prices and continued pressure on local supply conditions have affected wage demands and inflation expectations.

For many ACP countries, trade is their main channel of exposure to a global downturn, in particular trade of commodities, the prices of which are declining sharply. The impact of declining commodity prices differs depending on the profile of ACP countries. A few countries benefited from high commodity prices, resulting in strong current account surpluses, reserve accumulation and improved fiscal accounts. Angola and Chad, for example, experienced a massive increase in their current accounts in 2008, however the decline in commodity prices will be hard felt in the most fragile countries. Chad’s current account will slide from a surplus of 10% of GDP to a deficit of about 2%.

In Nigeria, the current account will decline from a surplus of 6% of GDP to zero, with a significant impact on the 2009 budget, which assumes oil prices well above current levels. Resource-rich ACP countries may also experience a reversal of Foreign Direct Investment (FDI) in mining and oil sectors, further depressing growth prospects in 2009. Resource-poor countries were severely hit by rising import bills of food and energy in 2008. Plagued with widening current account deficits, inflation and a weakened international reserves position, they gain some relief from the recent decline in commodity prices. However, the global slowdown has dented their exports of textile and other manufactured goods, reducing growth and employment.

#### Tumbling Commodity Prices

— Energy  
 — Industrials



Source: Global Insight. Goldman Sachs Industrial and Energy commodity price indices. 2005=100.





The table below presents the current account and reserves positions for a selected group of ACP countries. The pattern is one of widening current account deficit in commodity and non commodity-exporting countries.

	2007		2008		2009	
	Current account (% of GDP)	Gross reserves (months of imports)	Current account (% of GDP)	Gross reserves (months of imports)	Current account (% of GDP)	Gross reserves (months of imports)
<b>Africa</b>	<b>-5.5</b>	<b>5.2</b>	<b>-10.9</b>	<b>4.9</b>	<b>-10.9</b>	<b>5.3</b>
Angola	11.3	5.7	18.0	7.4	15.9	9.8
Burkina Faso	-8.3	6.8	-12.7	5.3	-12.1	4.9
Burundi	-16.0	4.5	-21.9	4.3	-14.8	3.3
Chad	1.7	3.2	10.0	3.8	-1.8	7.0
Guinea Bissau	-2.2	8.1	0.2	6.0	11.6	7.1
Liberia	-18.7	0.4	-65.9	0.3	-43.9	0.4
Madagascar	-13.9	2.8	-23.1	2.3	-21.2	2.6
Malawi	-2.1	1.6	-8.2	0.8	-5.4	0.9
Mozambique	-9.5	4.8	-13.6	4.1	-13.3	3.9
Nigeria	-2.1	12.5	6.2	14.4	0.6	13.9
Rwanda	-5.0	7.0	-9.3	4.9	-12.4	4.7
<b>Caribbean</b>	<b>-12.1</b>	<b>3.0</b>	<b>-16.9</b>	<b>2.5</b>	<b>-14.8</b>	<b>2.3</b>
Barbados	-7.2	3.6	-9.9	3.1	-9.1	2.8
Dominica	-23.6	3.2	-27.5	3.1	-22.9	3.1
Dominican Republic	-5.4	2.1	-13.5	1.2	-12.4	0.8
<b>Pacific</b>	<b>-16.7</b>	<b>3.0</b>	<b>-21.7</b>	<b>1.7</b>	<b>-22.6</b>	<b>0.3</b>
Fiji	-15.5	2.5	-21.3	1.4	-21.4	0.8
Kiribati	-31.1	...	-43.7	...	-47.0	...
Tonga	-10.4	0.1	-10.4	-2.9	-8.8	-5.4
Vanuatu	-9.9	6.4	-11.4	6.6	-13.2	5.6

Source: WEO, IMF and DEAS Estimates

Furthermore, even some of the more stable countries face significant institutional challenges and governance problems – as highlighted by the World Bank (WB)'s governance indicators. In this context, it is not surprising that the reforms taken to address economic and social bottlenecks remain tentative, leading to difficult investment climates. One commonly cited measure that attempts to characterise the prevailing

business environments is the set of Doing Business Indicators (DBIs) compiled by the World Bank. The overwhelming majority of countries in the region continue to rank at the bottom of the 181 world economies currently surveyed and nine out of the ten worst business environments in the world are in sub-Saharan Africa. Nonetheless, there are some promising signs and the 2008 edition of the report places Senegal, Burkina Faso, and Botswana among the top ten reformers.

Table 1: Macroeconomic indicators for Sub-Saharan Africa

	Real GDP growth (%)				Inflation (%)				Current account balance (% of GDP)			
	2006	2007	2008	2009	2006	2007	2008	2009	2006	2007	2008	2009
<b>Sub-Saharan Africa</b>	6.6	6.8	5.5	5.1	7.3	7.1	11.9	9.5	-0.3	-3.0	-0.7	-2.4

Source: IMF, latest growth forecast as at November 2008. Inflation and current account balance forecasts as at October 2008.

### Caribbean countries

Back in 2006, regional growth was supported by the strong performance of construction and tourism and reached an average of 7.8%. Growth rates decreased to 5.6% in 2007 and are expected to drop further in 2008 and 2009, reaching 3.7% and 2.9% respectively, reflecting the negative impact of the developments in the United States (USA) on remittances, trade, and tourism, as well as high fuel costs.

The deceleration of the USA and European economies is expected to be felt mainly via real economy channels like lower trade, tourism and remittances. A slowdown in tourism-related real estate and construction activity would not only have a direct impact on growth and employment, but it would also reverberate through the banking system via heightened credit risk. Even in countries like Barbados, with a sound and profitable banking sector, banks are vulnerable to such credit quality shocks. Moreover, the growing pool of non-bank financial intermediaries remains largely unregulated across the region. Therefore, it is difficult to gauge how deeply they may be affected.

Under the present unsettled circumstances, external imbalances are another important source of vulnerability, often coupled with large fiscal deficits and high public debt. Caribbean countries typically have a relatively narrow export base and depend upon remittances and capital inflows to finance their current account deficits. When FDI inflows are not large enough to cover the deficit, countries are left exposed to adverse developments in the global economy and setbacks in financial markets. The Dominican Republic has proven particularly vulnerable in this respect. In Jamaica, while the banking system is generally sound, credit growth of nearly 30% and the existence of unregulated investment schemes are a cause for concern. In St Vincent and the Grenadines, the asset quality and capital adequacy of banks have recently improved. However, increasing competition from non-bank finan-

cial institutions and rapid credit growth could result in a deterioration of the loan portfolio at a time when global credit markets are strained. A similar problem could affect countries like Antigua and Barbuda to an even greater extent, where the financial system already displays substantial vulnerabilities, including high ratios of non-performing loans. In the Bahamas, tight exchange control regulations isolate domestic banks from the large offshore financial sector, and hence should somewhat protect them from the global financial turmoil.

### Pacific islands

In 2007 and 2008, the economies of the Pacific region grew by about 5.5%, partly due to high commodity prices. Papua New Guinea recovered from the fiscal crisis and its current account is in surplus due to a booming mining sector. After economic collapse, the Solomon Islands are experiencing high economic growth combined with a government budget surplus and rapidly declining public debt.

Inflation remains a regional concern due to higher costs for imported fuel. In 2008, inflation is projected to have exceeded 6% compared to less than 3% in 2006 and 2007. The Solomon Islands and Tonga were particularly affected, with inflation rates jumping from single figures in 2007 to more than 14% in 2008, mainly driven by high food and oil prices.

Because of their narrow production bases, the Pacific islands are dependent on imported goods, mainly from Australia and New Zealand. Apart from Papua New Guinea and Timor-Leste, trade deficits are a regular feature of these countries' balance of payments. Private transfers and remittances from nationals living overseas contribute to offsetting trade deficits, as in Samoa and Tonga. More broadly, official transfers have provided substantial support across the region. High commodity prices weigh positively on Papua New Guinea's current account with a surplus increasing steadily to reach 4.3% of GDP in 2007. Similarly,



**Table 2: Macroeconomic indicators for Caribbean economies**

	Real GDP growth (%)				Inflation (%)				Current account balance (% of GDP)			
	2006	2007	2008	2009	2006	2007	2008	2009	2006	2007	2008	2009
<b>Caribbean<sup>1</sup></b>	7.8	5.6	3.7	2.9	7.8	6.7	12.1	10.1	-0.7	-1.7	-5.3	-4.4

<sup>1</sup> Bahamas, Barbados, Belize, Dominica, Dominican Republic, Grenada, Guyana, Haiti, Jamaica, St. Lucia, Suriname and Trinidad and Tobago.

Source: IMF, latest regional forecast as at October 2008.



## Box 2: Economic vulnerabilities in ACP countries to the financial crisis

The overwhelming majority of ACP countries have avoided direct contamination from the type of “toxic assets” found in a large number of financial institutions in advanced economies. Still, the crisis’ impact on trade, capital flows, remittances and commodity prices is exposing some pre-existing economic vulnerabilities in these countries, which can be grouped according to the following five different risk categories:

- **Direct liquidity vulnerability:** countries with a low ratio of short-term liquid external assets over liquid external liabilities run the risk of a liquidity crisis due to asset revaluations.
- **Short-term capital inflow/remittances dependence:** these sources of balance of payments financing are likely to be severely affected by a slowdown in advanced economies, making excessive reliance on them risky.
- **Export dependence:** for many ACP countries, trade is their main channel of exposure to a global downturn, in particular trade of commodities, the prices of which are declining sharply, and GDP-elastic services like tourism.
- **Fiscal vulnerability:** fiscal vulnerabilities become even more risky during a global downturn because of potential revenue shortfalls, or a need to bail out financial institutions or provide stimulus.
- **Domestic financial market vulnerability:** pre-existing weaknesses in the domestic financial system also become more critical in the light of increased risk aversion and growth slowdown<sup>1</sup>.

Risk profiles in the various ACP regions are illustrated in the radar chart on the right with risk categories represented by the five spokes and risk levels increasing outwards.

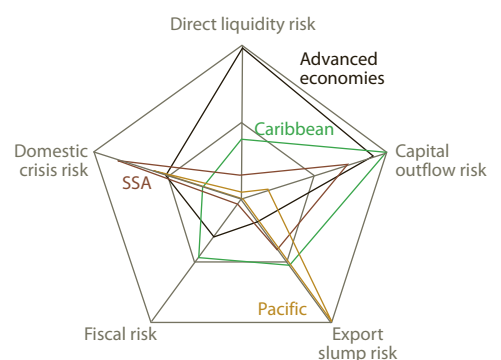
In sub-Saharan Africa, the financial sectors of a number of commodity producing countries – notably oil producers – have expanded very rapidly during the recent price boom and could thus be exposed to a significant economic turnaround. Many SSA countries also face the risk of a reversal of short-term capital flows and/or remittances as well as a risk of deteriorating exports. The latter two risks are even higher in the Caribbean region, where some countries also display a relatively high direct liquidity risk and generally have less fiscal intervention space than SSA countries. The main risks for the Pacific region lie in its dependence on exports – mainly tourism but also some commodities<sup>2</sup>.

The table below presents the principal vulnerability data for a selected group of ACP countries and South Africa.

<sup>1</sup> BIS research (Borio, 2003, “Towards a macroprudential framework for financial supervision and regulation?” BIS Working Papers No 128) identifies excessive growth of credit to the private sector as a first indication for such vulnerabilities.

<sup>2</sup> The average risk profile for advanced economies is also depicted for comparison. Obviously, this group has the highest direct liquidity risk exposure.

### Average risk profiles of ACP regions



Notes: averages weighted by GDP; SSA includes South Africa  
Source: EIB-DEAS staff calculations



## Selected vulnerable ACP countries

Vulnerability	Direct	Flows		Exports	Fiscal		Domestic	
Measure(s)	Liquid asset (% of liquid liabilities)	Net PF investments (% of GDP)	Net remittances (% of GDP)	CAD excl. exports to adv. econ. (% of GDP)	Gross debt (% of GDP)	Govmt. balance (% of GDP)	Credit to private (% of GDP)	Growth of private credit (%)
Angola	318	-3.3	-0.4	-18.9	16	12.8	11	91
Cape Verde	85	0.5	9.3	-10.9	69	-2.7	48	18
Gabon	171	8.0	-1.4	-12.4	28	8.8	11	20
Ghana	166	1.4	0.8	-22.7	50	-7.8	22	43
Liberia	353	0.0	8.6	-69.1	643	5.1	10	44
Nigeria	1,141	3.3	1.1	-24.1	13	4.4	23	56
Seychelles	97	4.4	0.1	-72.4	182	-7.2	41	12
South Africa	133	4.2	0.2	-21.0	29	0.9	85	23
Dominica	75	-1.3	6.4	-28.8	53	2.4	63	10
Jamaica	141	0.7	14.7	-33.4	95	-4.6	33	28
Papua N.G.	371	0.0	-1.1	-53.3	33	6.4	21	36
Risk level	High	Elevated	Source: EIB-DEAS staff calculations based on data from IMF (WEO, IFS), World Bank (WDI), and Fitch					



### Box 3: The “Partnership for Making Finance Work for Africa”

Contributing to the development of local financial sectors in ACP countries is one of the core objectives of the Cotonou Investment Facility. It was therefore quite natural for the Bank to join the “Making Finance Work for Africa” Partnership (MFW4A), which was launched at the initiative of the German Government and has received strong support from the World Bank, the African Development Bank (AfDB), the Consultative Group to Assist the Poor (CGAP) and a number of bilateral donors/agencies (from France, Sweden, UK, US). The formal launch of the Partnership took place in Washington in October 2007.

The main purpose of the MFW4A is to bring together public and private sector stakeholders with an interest in the development of Africa’s financial sector. It has three main strategic objectives, namely:

- to expand access to financial services to all sectors of the economy: as measured by the number of firms or households with access to quality financial services;
- to increase financial depth, diversity and efficiency, as indicated by the ratio of credit to the private sector as a percentage of GDP, interest margins and indicators of capital market and other non-bank financial sectors; and
- to strengthen institutional and regulatory capacity, as measured by business environment and other institutional development indicators.

Beyond these broad objectives, the Partnership aims to foster harmonisation around common priorities, to improve knowledge of financial sector issues, to increase awareness and to foster policy dialogue on these matters. There is scope in particular to enhance cooperation among stakeholders in order to create synergies, avoid duplication, share good practices and reduce transaction costs, in the spirit of the Paris Declaration on Aid Effectiveness.

The Partnership is meant to be an open forum, a clearing house where various stakeholders can share ideas and knowledge. A Partnership Secretariat, now hosted by the AfDB, supports and coordinates the activities of the Partnership.

The first MFW4A annual forum took place in June 2008 in Accra, where it brought together some 300 senior-level financial sector representatives from across the region, including government and central bank officials, bank and financial sector executives, consultants, researchers and international experts.



large oil and gas revenues have led to a sizeable current account surplus in Timor-Leste, which amounted to 250% of GDP in 2007 and is expected to stay above 200% of GDP in 2008. On the other hand, Fiji experienced significant current account deficits (15.5% of GDP in 2007, expected to increase to more than 20% of GDP in 2008), partly reflecting weak export performance following the loss of preferential access for their textile and sugar production.

In terms of fiscal performance, Papua New Guinea experienced a surplus for the third consecutive year in 2007 (6% of GDP). In Timor-Leste, government spending increased sharply on the back of emergency assistance programmes, damage repair and quick-disbursing grants for rural communities. Yet oil royalties pushed fiscal surpluses to 240% of GDP in 2007 and an expected 230% of GDP in 2008. In Fiji, the policy framework for 2007 reaffirmed the government's intention to narrow the deficit – which stood at 1.2% of GDP in 2007 – over the medium term.

Future economic development hinges on sustained structural reforms. Business investment remains constrained by problems related to land tenure, access, and utilisation. These are particularly detrimental to foreign private investment, notably in non-mineral sectors. Economic growth would also benefit from increased financial intermediation, which is often carried out, if at all, by foreign banks. The small size of these economies, the lifestyles of their rural populations, and their modest economic growth rates are reflected in relatively simple financial systems.

### Looking ahead

Despite limited integration into the world economy and the modest development of local capital markets, the ACP partner countries have not remained immune to the extraordinary economic developments of recent months in advanced economies (see box n° 2). Growth is slowing down, as reduced global demand leads to lower commodity prices and a shortage of foreign investment. The economic outlook for ACP countries is also clouded by the potential impact of worsening conditions in the advanced economies on the demand for tourism services, and on remittance flows to developing countries. Possible reduction in Official Development Assistance (ODA) would also play negatively on growth prospects. ACP countries should nonetheless benefit from significantly positive growth over the medium-term on the back of domestic consumption and investment activity, reflecting the improved debt profiles and business environments of a significant number of ACP countries achieved during the last few years.

Table 3: Macroeconomic indicators for Pacific economies

	Real GDP growth (%)				Inflation (%)				Current account balance (% of GDP)			
	2006	2007	2008	2009	2006	2007	2008	2009	2006	2007	2008	2009
Pacific	5.2	5.6	5.5	4.8	2.9	2.8	6.1	5.4	0.2	6.7	2.6	-0.7

Source: IMF, forecasts as at October 2008, data for Fiji, Kiribati, Papua New Guinea, Samoa, Solomon Islands, Timor-Leste, Tonga, Vanuatu only.

## Operations in 2008

### “A year of transition”

In 2008, the Bank provided support to 26 development projects in the ACPs and OCTs, eight of which supported cross-border schemes.

**Signatures** under the IF during 2008 totalled EUR 326m in the ACPs, to which can be added EUR 225m from the Bank’s own resources, bringing the overall figure for new signatures in the ACPs to a total of EUR 551m (see the following table for the list of operations signed in 2008. Detailed lists of cumulative signatures since the inception of the Cotonou mandate are presented in Annexes 1 and 2). In the OCTs, the corresponding amount totalled EUR 10m in 2008.

**Disbursements** under the IF in 2008 reached EUR 218m, bringing total disbursements on a cumulative basis to the equivalent of 49% and 72% of the signed portfolio in terms of volume and number of contracts, respectively. Disbursements under the Bank’s own resources reached EUR 229m in 2008 for the ACPs, bringing total disbursements to the equivalent of 44% of signed commitments.

Throughout 2008, the Bank concentrated its efforts on those operations to which it could bring the highest value added. By focusing on ambitious and sometimes difficult projects, the Bank contributed to turning fairly risky and pioneering initiatives into bankable and sustainable undertakings. By offering products not available from other sources, be it long-term finance in local and/or foreign currencies or risk capital, the Bank encouraged new opportunities, sending a positive signal to other investors. Through its non-financial contributions, involving such aspects as the improvement of project design, environmental and social assessment and the provision of technical assistance, the Bank also promoted the legitimacy of a number of projects, generating demonstration and catalytic effects.







IF projects signed in 2008		
<b>ACPs</b>		
Jirama Water II	Water, sewerage	23.50
Pacific Mobile Network Development	Telecommunications	23.10
Inga Power Rehabilitation B ☼	Energy	55.00
Norman Manley International Airport ☼	Transport	35.00
Derba Midroc Cement Company	Industry	29.05
Société des plantations de Mbanga	Agriculture	4.10
NFC Forestry Project ☼	Forestry	5.00
Malawi Global Loan III	Loans for SMEs	15.00
DR Financing Facility ◆	Loans for SMEs	18.50
Capital Investment Line GL III	Loans for SMEs	20.00
Niger, PG secteur financier III	Loans for SMEs	8.00
Small Enterprises Global Loan B	Equity	1.00
Access Bank Liberia (+B) ★	Equity	1.00
African Lion Mining Fund III	Equity	11.00
Atlantic Coast Regional Fund	Equity	15.00
Aureos Africa Fund	Equity	27.00
Adlevo Capital Africa	Equity	15.00
AfricInvest Fund II LLC	Equity	20.00
<b>OCTs</b>		
OCTs Financing Facility	Loans for SMEs	10.00
<b>TOTAL</b>		<b>336.25</b>

EIB own resources projects signed in 2008		
<b>ACPs</b>		
AEP Ouagadougou II ☼	Water, sewerage	18.50
Assainissement Dakar ☼◆	Water, sewerage	20.00
Malawi Peri-Urban Water & Sanitation ☼★	Water, sewerage	15.75
Inga Power Rehabilitation A ☼	Energy	55.00
Jirama Andekaleka Hydro ☼★	Energy	24.50
Caprivi Interconnector Project	Energy	35.00
Ports of Cape Verde	Transport	47.00
DFL Regional SME	Loans for SMEs	9.00
<b>TOTAL</b>		<b>224.75</b>

- ☼ Operations benefiting from an interest rate subsidy appropriation  
 ★ Operations benefiting from a technical assistance grant  
 ◆ TA operations approved but not signed at end-2008



## Box 4: Transparency and accountability

Conscious of the core issue of aid effectiveness and the follow-up of the Paris Declaration and subsequent events, as well as its accountability for the mandate that has been entrusted to it by the EU Member States under the Cotonou Agreement, the Bank's revised "Statement of Environmental and Social Principles and Standards" addresses a number of these issues. In addition, it has initiated a dialogue with peer institutions to further reinforce coordination and cooperation throughout the project cycle, including upstream project identification, joint appraisal and monitoring.

Added value has always been a cornerstone of EIB lending policy, both within and outside the European Union. The Economic and Social Impact Assessment Framework (ESIAF), contributes to this objective, by identifying the value added of projects from the outset, based on the assessment made by Bank's staff at the appraisal stage according to the three pillars mentioned in the following table. Acknowledging the need to fine-tune further its methodology so as to promote sustainable development and align its development standards and goals with those of other international institutions, the Bank has started to ramp up its qualitative assessment of projects at both the appraisal and implementation stage through enhanced monitoring and reporting.

Starting in 2008, ESIAF has been systematically applied to benchmark all IF and own resources operations appraised, whether investment loans or financial sector operations. The outcome for projects approved in 2008 is reflected in the table below:

Impact	High	Medium	Low
<b>Pillar 1</b>			
Consistency with the objectives of the Bank's mandate under the Cotonou Agreement	17	4	-
<b>Pillar 2</b>			
Quality and soundness of projects (economic, environmental, social, financial and institutional)			
- Financial sector	2	9	-
- Non-financial sector	4	6	-
<b>Pillar 3</b>			
EIB contribution or additionality (both financial and non-financial)	12	9	-

Three projects out of the twenty-one approved<sup>1</sup> during the year received a "high" rating on all three pillars, including the Inga Power Rehabilitation Project and Dominican Republic Financing Facility (refer to boxes 6 and 8), both being landmark projects for the countries concerned.

High on all pillars	3
Two "high" and a "medium"	12
Two "high" and a "medium"	2
Three "medium"	4

For the four projects that received three "medium" ratings, the "medium" rating mainly reflected the fact that these were fairly straightforward operations, not requiring complex or innovative financial structuring, and with a clear but indirect positive development impact. For all four operations, the Bank nevertheless played a catalytic role and provided flexible instruments involving the sharing of risks<sup>1</sup>.

<sup>1</sup> This box refers to projects approved in 2008. Projects signed in 2008 may have been appraised prior to 2008 and, consequently, have not systematically had the ESIAF applied to them.



The rating of pillar 2 focuses on the expected quality of projects, i.e. the extent to which they constitute a rational allocation of resources and meet the needs of their beneficiaries, including society at large. Projects are benchmarked according to:

- their economic and financial sustainability (the economic rate of return, environmental externalities generated, the financial rate of return);
- their environmental sustainability, including their ability to comply with the Bank's Social and Environmental Statement;
- other qualitative elements such as the project's design, its contribution to social and economic developments, including MDGs, the promoter's ability to deliver the project, governance issues, mitigation measures foreseen etc.

#### **Mitigating negative externalities**

In 2008, the Derba Midroc Cement project received a "medium" rating on pillar II (see page 36 for the project's description). This rating is linked to the fact that both positive and negative externalities are generated by the project. However, from the outset, satisfactory mitigation arrangements have been planned to counter negative aspects, notably linked to displacement of the local population. Early public consultations have been instrumental in identifying appropriate environmental and social compensation measures. The project will contribute to generating positive outputs such as, amongst others, creating employment, limiting rural exodus in the region, extending access to health, education and communication facilities for both its employees and local communities and satisfying unmet cement demand, a bottleneck to the country's economic growth.

#### **Emphasising economic and social development**

When considering a project, the Bank carefully balances financial and economic considerations with the project's expected social and development impact. The Jirama Water II project (described on page 28) illustrates such a weighing-up process. Although the project does not generate the highest financial internal rate of return nor benefit from the strongest management, its impact on poverty reduction outweighs such considerations. The project's contribution to the MDGs, its indirect contribution to health and social development and its expected impact on institutional strengthening fully justify its "high" pillar II rating.

## Infrastructure Sectors

In 2008, investment in sustainable and reliable infrastructure and affordable services remained a priority. The Bank supports those projects that stimulate economic growth, promote regional integration and contribute to the MDGs. Given their positive impact on development, governance and social and environmental issues, operations focused on water and sewerage projects and large productive infrastructure such as telecommunications and energy. The Bank also supported initiatives promoting the emergence of an efficient environment for trade, notably through the EU-Africa Infrastructure Trust Fund established in 2007 under the EU-Africa Infrastructure Partnership and managed by the Bank (see box 5).





## Box 5: The EU-Africa Infrastructure Trust Fund

One year down the road...



EU-Africa Infrastructure Trust Fund		
	2007	2008
Grant operations approved	4	4
Approved amount (in EUR m)	15.5	47.8
Clearances in principle (CIP) <sup>1</sup>	25.0	1.7

In 2008, the EU-Africa Infrastructure Trust Fund (the Fund) promoted further regional integration on the African continent by supporting four key projects:

- the construction of a 970 km transmission connection, **the Caprivi interconnector**, to reinforce electricity transmission between Zambia, Namibia and South Africa, supporting the emergence of a competitive regional power market and improving security of supply;
- the extension of the **Ruzizi hydropower plant** to supply electricity to Burundi, Rwanda and the Democratic Republic of the Congo, contributing to long-term economic growth prospects for the region;
- the rehabilitation of the transport infrastructure in the **Beira corridor**, a channel linking landlocked areas of Southern Africa to the port of Beira, in Mozambique. Railway lines and port access will be improved, contributing to poverty reduction and enterprise development in the sub-region (Zimbabwe, Mozambique, Zambia, Malawi and South Africa);
- the financing of environmental and social components of the **Gouina Hydro Power Project**, a priority project identified by The New Partnership for Africa's Development (NEPAD) to support multipurpose water resources development among the four riparian countries of the Senegal River Basin, namely, Senegal, Mali, Mauritania and Guinea. The project will foster regional growth and improve the living conditions of inhabitants of the basin.

The blending of grants provided by the Fund, alongside long-term loan finance made available by the EIB and by European development finance institutions (EDFIs), was paramount in accelerating the financing of these four ambitious undertakings.

Portugal joined the Fund in 2008 and the Commission increased its initial contribution, bringing the Fund's financial commitments to EUR 146.7m. Finland announced its intention to become a donor in early 2009.

The Secretariat of the Fund, housed at the EIB, actively contributed to facilitating the first full year of operation by preparing Trust Fund Executive Committee and Project Financiers Group meetings, releasing the first Annual Report of the Fund, launching an interactive website (<http://eu-africa-infrastructure-tf.net>) and monitoring discussions on the initial review of the Agreement. The Secretariat, in collaboration with the EIB, has also worked to enhance the Fund's visibility, notably by publishing a Trust Fund brochure, drafting articles and press releases as well as attending/hosting high level meetings and expert workshops.

<sup>1</sup> "Clearance in principle" refers to an initial decision on the eligibility of a given project and its related grant operation.

## ⇒ Water, sewerage

### “Water and sanitation for all”

The Bank is committed to supporting the United Nations MDG of halving the proportion of people without sustainable access to safe drinking water and adequate sanitation by 2015.

As underlined in the EIB’s lending policy in the water sector, lack of funding is not the only factor hampering the development of this sector in the ACPs/OCTs. Accordingly, governance, efficiency and water tariff concerns are duly taken into account throughout the project cycle.

The Bank focuses on innovative approaches, involving all stakeholders, including civil society. It supports the provision of sustainable universal services, i.e. increasing access to water and sanitation services for un-served populations, thereby contributing to poverty alleviation. It benefits from the help of the ACP Water Project Preparation Facility that provides technical assistance to render such projects bankable, and works in very close cooperation with other donors and lenders involved in the sector.

#### Madagascar: Jirama Water II

Whilst the legal framework of the water and electricity sectors in Madagascar underwent thorough reform in 1999, practical implementation lagged behind. Jirama<sup>6</sup>, the country’s water and electricity provider, suffered from this delay. Overhauling the company and restoring the sustainability of its services has become a priority for the Government, and the IF loan will support this institutional restructuring, already instigated by the donor community under the leadership of the Agence Française de Développement (AFD) and the World Bank.

Alongside a grant from the EU Water Facility, the project also supports the improvement and expansion of the existing water distribution network. The project will provide drinking water at social tariffs to an additional 500 000 poor urban dwellers, mostly in the under-served outskirts of the country’s capital, Antananarivo. By providing quality services and widespread access to drinking water, the project will help reduce the incidence of water-borne disease and release women and

children from water drudgery. The extension of water supply services should facilitate the development of infrastructure for other basic services such as health-care and education, as well as new industrial zones, contributing to local employment and impacting positively on the region’s economy.

The service level, and related cost to the users, will be established within the framework of a working group. This group, set up by the Ministry, encompasses members from several non-governmental organisations (NGOs) and private sector providers of water, already active in the peri-urban areas of Antananarivo. Their involvement will ensure that the interests of the local communities are taken into account at an early stage, while allowing for a harmonisation of water tariffs in the different areas of the capital.

#### Burkina Faso: AEP Ouagadougou II

Ouagadougou’s population is surging, mainly driven by demographic growth and rural exodus. The urban expansion of the country’s capital is generating addi-

<sup>6</sup> *Jiro sy rano Malagasy.*



tional water supply challenges. The project builds on a previous extension of the drinking water network of Ouagadougou, including the construction of the Ziga dam<sup>7</sup>.

In line with the Sanitation National Plan (PN-AEPA), under which the Authorities of Burkina Faso have established guidelines and priorities in planning water supply works, the project involves an increase in the pumping and treatment capacity of the Ziga dam, as well as an extension of the distribution network.

The project will improve the living conditions of the population of the capital and suburban districts by providing a safe, affordable and reliable water supply through either household connections or better access to public fountains. It will bear other positive social benefits, notably by reducing risks of waterborne diseases and freeing time for income-earning opportunities and school.

Given its status as a HIPC country, the loan extended to the Government from the EIB's own resources benefits from an interest rate subsidy. The Government will on-lend the funds to the Office National de l'Eau et de l'Assainissement (ONEA), the public utility entrusted with the supply and distribution of drinking water in urban areas. Part of the subsidy will be spent to strengthen ONEA's commercial, technical and financial management, and complements technical assistance financed by the AFD. Co-financing is provided by the EU, the Kreditanstalt für Wiederaufbau (KfW) and the Netherlands Development Finance Company (FMO).

#### **Senegal: Assainissement Dakar**

Since the 1970s, the natural environment of Hann Bay, a beach located south-east of Dakar, has deteriorated, owing to the construction of many industrial facilities and uncontrolled urban development. The discharge of substantial volumes of sewage and solid waste without prior treatment exacerbates the damage to the environment and generates negative economic and social impacts on the local economy. The cleaning up of Hann

Bay has been singled out by the Authorities as a priority operation under Senegal's Drinking Water and Sewage Programme for the Millennium (PEPAM).

This wastewater initiative is the first industrial pollution abatement programme to be implemented in Senegal. As the first phase of the programme, the project focuses on restoring water quality in the bay, notably by setting up industrial and domestic wastewater collection, household connections, a water treatment plant and a sea outfall. The inhabitants of the bay, estimated at over 55 000 people, will benefit from significantly reduced health risks stemming from the discharge of untreated effluents into the natural environment. By enhancing the bay's water quality and environment, it will foster the development of income-generating activities, particularly in the areas of tourism and fishing, thus helping to reduce poverty and improving the living conditions of the local population.

Given its implications for the institutional and regulatory aspects of the urban water and sanitation sectors, the project is likely to have a powerful leverage effect on the reform of these sectors, accelerating the achievement of the MDGs in Senegal.

The EIB is extending a loan from its own resources to the Senegalese Government for on-lending to l'Office National de l'Assainissement du Sénégal (ONAS), the state-owned company responsible for operating the urban sanitation public utilities. Given Senegal's status as a highly indebted poor country, the loan is coupled to an interest rate subsidy. The EIB and the AFD, co-financiers of the project, also provide support and technical assistance measures, notably to strengthen ONAS's institutional and management/monitoring capacities.

#### **Malawi: Malawi Peri-Urban Water & Sanitation**

Malawi's Water Boards, commercially-run public entities in charge of providing water supply and wastewater collection, treatment and disposal services in the country's urban and peri-urban areas, are facing a

<sup>7</sup> A project supported by the EIB and finalised in 2005.

number of acute challenges, which the Government of Malawi is addressing with the support of the EIB, the World Bank, and the NGO WaterAid.

The project, covering Malawi's two largest cities, Blantyre and Lilongwe, aims at providing safe and sustainable water supply and sanitation services to more than half a million people, two thirds of whom are in the low-income category. It will create an access-to-water facility (AWF) to facilitate payments for the connection fee, as this is the main obstacle to network access for poor households.

Funding will be provided for the rehabilitation and expansion of essential water facilities (pipes, pumps, distribution network, etc.) as well as institutional capacity building initiatives to address the operational inefficiencies and investment needs of the Water Boards of the two cities. The project implementation will involve a private sector service contract covering both Water Boards so as to ensure the sustainability of the investments and transfers of expertise.

The project benefits from strong donor coordination in Malawi with respect to reform of the sector and support for its gradual opening to private operators, including local entrepreneurs. It promotes a demand-driven and participatory approach to project design with the direct involvement of NGOs and community-based organisations.

The loan extended by the EIB from its own resources benefits from an interest subsidy for the financing of investment components targeting the urban poor. It is combined with an EU grant from the EU Water Facility.







## ⇒ Telecommunications

### “Bridging the digital divide”

Through enhanced access to reliable and more affordable communication services and by striving to reduce unequal access within the population, the following project contributes to reducing the digital divide, generating economic and social opportunities.

#### **Pacific (Fiji, Samoa, Tonga and Vanuatu): Pacific Mobile Network Development**

The Pacific islands are scattered over a large geographical area. Accordingly, by putting people in contact, generating new business opportunities, linking remote and rural areas to markets and fostering regional integration, enhanced telecommunication services are essential in stimulating the development of the region.

In extending a loan to the private mobile phone operator Digicel (Digicel Pacific Limited), the IF supports the development, upgrading and expansion of competitive Global System for Mobile (GSM) communications networks in a number of Pacific Island States, notably in Fiji, Samoa, Tonga and Vanuatu. By introducing more competition, Digicel will contribute to enhancing the quality and coverage of the mobile network. The project should also trigger tariff cuts for the underserved lower-income groups and improve the quality of related services. It will generate additional jobs for the local population (around 400 direct jobs and more than 2 000 indirect jobs) and encourage a transfer of skills to the region.

Under the guidance of the International Finance Corporation (IFC), the promoter has developed and implemented an environmental and social handbook throughout its operations in the Pacific. A proportion of the sites erected (45 out of 300), will rely on alternative power generating methods such as solar and wind power.

The EIB worked hand in hand with other international financial institutions such as IFC and FMO to catalyse

the participation of private sector partners like the Bank of the South Pacific, ANZ<sup>8</sup> and Citibank in the project.



<sup>8</sup> The Australia and New Zealand Banking Group Limited.

## ⇒ Energy

### “Powering economies”

Providing energy is one of the most capital-intensive of all infrastructure activities, requiring massive investments in power generation, transmission and distribution systems and related facilities. The critical role of electric power to economic and social well-being is widely recognised and in 2008 the EIB extended its support to three energy projects, two of which have a regional dimension.

#### Madagascar: Jirama Andekaleka Hydro

This project aims at doubling the capacity of Madagascar’s largest hydropower plant, Andekaleka, located about 125 km east of Antananarivo, and forms an integral part of the Madagascar Action Plan – the Malagasy Government’s road map to fulfil the MDGs by 2015. It will also help prepare the ground for additional hydro-electric capacity, a high government priority, through two feasibility studies, one on a related storage dam and the other on a new hydropower plant.

While addressing the acute shortage of electricity in Madagascar, the project will also support the increase of environmentally-friendly and competitive indigenous hydro-electricity, thereby contributing to the country’s overall sustainable economic development.

To bring the final interest rate in line with the country’s debt sustainability obligations, the own resources loan extended by the Bank to the Government for on-lending to Jirama benefits from an interest rate subsidy. This, the Bank’s fifth operation carried out with Jirama since 1987, will benefit from project-related technical assistance partly directed towards Jirama and partly to other stakeholders in the energy sector, such as the regulator. The project is instrumental in supporting the continued reform and restructuring of both the sector and the country’s utility company.

The project is, in principle, eligible for carbon credits under the Clean Development Mechanism (CDM) of the Kyoto Protocol. The promoter has taken the

first steps towards registering the project for the programme.

#### Namibia: Caprivi Interconnector Project

The Caprivi interconnector is a cornerstone of the SAPP initiative, identified as a priority project by the NEPAD, as it will interconnect the northern and southern parts of the SAPP network. The project provides Namibia with access to the hydro capacities of Zambia, Mozambique and other SAPP members, contributing to reducing its dependence on South Africa for its electricity supply.

By providing a reliable and secure electricity supply to Namibia and reinforcing electricity transmission interconnections between SAPP partners, the project promotes national and regional economic development and is expected to stimulate regional energy trading and support the emergence of a competitive power market within the SAPP.

The project benefits from increased cooperation between the EIB, AFD and KfW. Given the project’s positive impact on the region’s economy and interconnectivity, the South African rand (ZAR)-denominated own resources loan extended by the EIB to Namibia’s state-owned electricity utility, NamPower, has also been granted an interest rate subsidy from the EU-Africa Infrastructure Trust Fund.

The provision of long-term funding denominated in ZAR, to which the Namibian dollar is pegged, constitutes an implicit credit enhancement mechanism and



addresses some of the constraints faced by NamPower, namely its limited access to foreign long-term funding as well as the need to mitigate currency risk through derivative trading.

#### **Box 6:** **Democratic Republic of the Congo (DRC), Inga Power Rehabilitation**

The refurbishment of the Inga hydropower plant and associated infrastructure is a high priority for the DRC government. The Inga plant, a run-of-river installation on the Congo River, constitutes the backbone of the DRC's generation capacity. Due to a combination of technical, financial and managerial factors, its two existing dams (Inga I and 2), built decades ago, are currently operating at just 40% of their combined capacity.

Through a blend of own resources and IF funds, the Bank is extending its first sovereign loan to DRC since 1986, as part of the wider WB-led programmes (known by their acronyms SAPMP and PMEPE) to tackle the rehabilitation and expansion of Inga's existing generation capacity and the reinforcement of its transmission and distribution networks.

The rehabilitation of the Inga facilities – a flagship NEPAD project – is critical for electricity supply to customers in DRC, including currently un-served areas, and for export to other countries in the region. It will benefit 1.5 million people who have access to electricity in Kinshasa, as well as commercial and industrial consumers in Kinshasa, Bas Congo, Brazzaville, Katanga and countries of the Southern Africa Power Pool (SAPP)<sup>1</sup>.

To support DRC, a post-conflict country subject to HIPC concessional terms, the financing package provided by the EIB and other co-financiers (World Bank and AfDB) to the Government for on-lending to the state-owned utility Société Nationale d'Electricité (SNEL), comprises subsidised resources. The project also aims at strengthening SNEL's capacity to monitor the impact of the project, notably through the provision of WB-financed technical assistance and the establishment of an Environmental and Social Management Unit (ESMU).

The successful realisation of this project could substantiate the validity of further expansion plans that are currently being considered by the DRC Government and are being examined by the international community, namely Inga III and Grand Inga. The expansion of the Inga site could generate between 4 000MW and 40 000MW of additional renewable energy and substantially boost Africa's power sector.

<sup>1</sup>South Africa Power Pool (SAPP), an initiative launched under the auspices of the Southern African Development Community (SADC) to create a common market for electricity in the region.

## ⇒ Transport

### “Transport and trade facilitation”

#### Jamaica: Norman Manley International Airport

Reliable air transport is a key factor in ensuring Jamaica's economic growth. The EIB's support for Jamaica's "Airport Development Strategy" and, more specifically, for the extension and modernisation of the Norman Manley International Airport (NMIA) is fully in line with the EU strategy for the island. The project is based on a well-founded Airport Expansion Plan and aims at increasing the airport's capacity to cater for the projected increase of goods and passenger traffic.

Improved air transport will support the competitiveness of Jamaican business and the country's economic growth as it facilitates the development of high value export industries, business and tourism. The project will contribute to the country's progressive integration into regional and global markets.

The project will not only improve traffic flow, it will also increase passenger security through greater compliance with security and environmental regulations. The implementation of an "Environmental Management System" to improve the airport's environmental performance supports this objective.

The project, co-financed by the Caribbean Development Bank (CDB), supports the Government's efforts to improve the country's transport services and infrastructure. Alongside an IF loan, the Bank will also provide technical assistance to support private sector input to the air transport sector in Jamaica, primarily through the privatisation of NMIA.

#### Cape Verde: Ports of Cape Verde

Despite robust growth rates in recent years, Cape Verde remains vulnerable, notably due to its small and undiversified economy, structural food deficit and dependence on imports, absence of natural resources and its territorial fragmentation. Port facilities, the main point

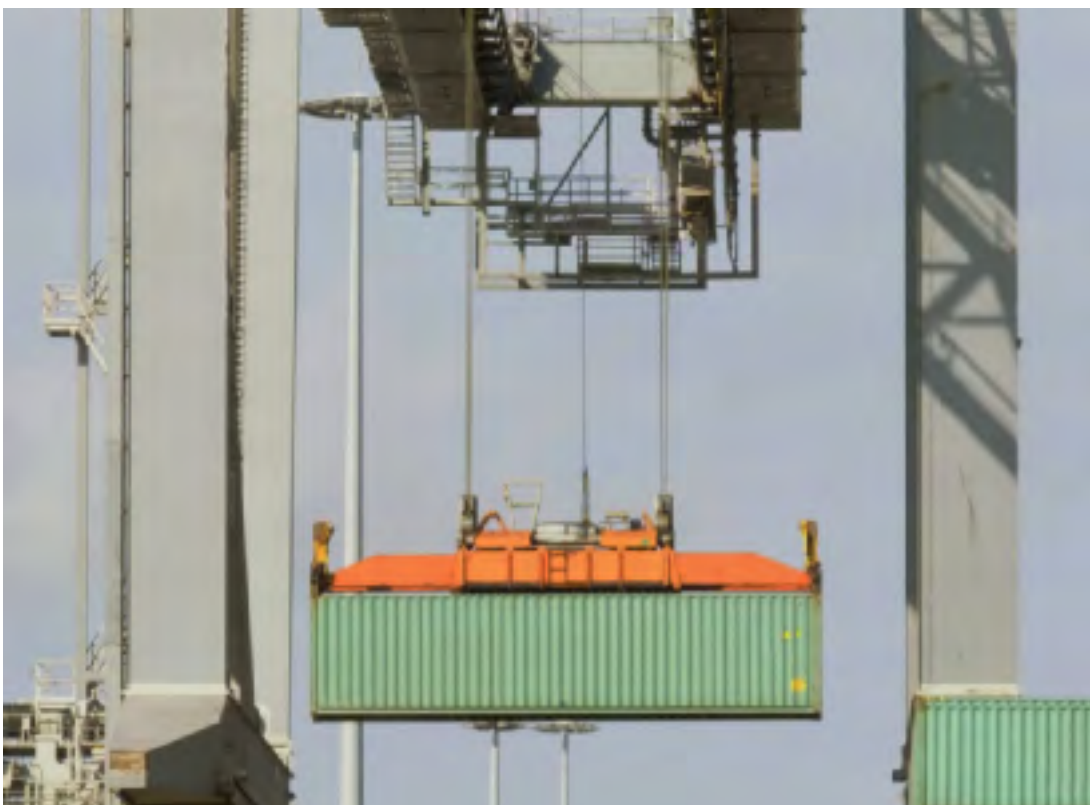
of entry for merchandise into the country, are currently congested due to domestic, inter-island and international traffic increases. Their adaptation to current needs is a priority for the Government.

The project aims to renovate and expand two of the country's main ports, namely Palmeira on the main island of Sal, and Praia, located near the capital city on the island of Santiago. It will generate additional berth capacity, and also include, amongst others, the construction of loading and unloading facilities and storage areas.

The Bank's own resources loan will help relieve the ports' current capacity constraints and increase their competitiveness by achieving faster and more efficient handling of ships and cargoes, shorter turnaround times for ships, compliance with International Maritime Organisation environmental and security requirements, and lower cargo distribution costs.

These improved infrastructure facilities will contribute to creating a favourable environment for the country's economic development by facilitating the growth of the housing and tourism sectors, as well as daily consumption on the islands.

The Millennium Challenge Corporation, a subsidiary of the United States Agency for International Development (USAID), is providing a grant alongside the EIB's loan to the Cape Verdean Ministry of Finance, for on-lending to ENAPOR, the state-owned company responsible for the operation and management of all ports in the country. The EIB's involvement has enhanced the environmental sustainability of the project and ENAPOR is committed to strengthening project environmental monitoring.



## Industry and Agriculture/Forestry

There is no unique approach to strengthening local economies and the private sector. Accordingly, the EIB supports projects adapted to each country's strengths, priorities and needs, be it through the diversification of the export basis or initiatives directed at national and regional markets.

### ⇒ Industry

#### "Meeting national demand"

##### Ethiopia: Derba Midroc Cement Company

Urban development and the need to curb the chronic housing shortage (particularly in Addis Ababa) and to develop infrastructure projects are key priorities for Ethiopia, but the country is highly dependent on imported cement with an estimated annual cement demand-supply gap of more than two million tonnes.

The IF loan supports the construction and operation of a greenfield cement plant, as well as of an adjacent limestone quarry and other related infrastructure such as power lines and roads. By providing 2.1 million tonnes of cement to the domestic market, the project will reduce the country's dependence on imported cement and contribute to ensuring lower cement prices. The establishment of the plant in Derba, a region with limited economic activity other than small-scale agriculture, will help to develop the Ethiopian industrial base and will transform a local low-value raw material into high-value cement. Once operational, the plant will employ around 475 people and a further 1 500 jobs will be created indirectly by the plant (and up to 4 000 during the construction phase). Developing local skills and infrastructure is central to this project. Employees will receive training and a EUR 200 000 social fund set up by the promoter will provide for health and education services for the surrounding communities.

Alongside equity provided by the local sponsor and the IF loan, the project is co-financed by IFC, AfDB and the Development Bank of Ethiopia (DBE). The involvement of International Financial Institutions (IFIs) has impacted positively on the project, reinforcing its technical, financial, social and environmental features, in line with the Equator Principles and IFC performance indicators.

This project, one of the first private sector projects financed by international lenders in Ethiopia, should pave the way for future foreign and domestic private sector initiatives.





## ⇒ Agriculture and forestry



### “Sustainable management of natural resources”

The Bank endeavours to support initiatives that combine the protection of the environment, exploitation of new market niches (trading opportunities, both for local and export markets) and reliance on the country's natural wealth and resources.

#### Cameroon : Société des plantations de Mbanga (SPM)

Cameroon is the largest ACP banana exporter to the EU, the demand of which has soared over the last few years following the accession of the new Member States. Export to the European market, quota and tariff free, is likely to be further supported by the Economic Partnership Agreement (EPA) process, which offers good prospects for local producers, including SPM.

The project will expand SPM's current plantation area of 900 hectares by an extra 500 hectares, as well as contribute to improvement in the fields and factory to maximise yields and output. The land on which the expansion will take place will be leased from local village chiefs, providing substantial rental income. More than 1 000 jobs will be created in the local area, with additional benefits such as healthcare and housing allowances. The project also contributes to economic diversification and private sector enhancement in a still relatively unexploited sector.

The financing package offered to this relatively new producer comprises an IF loan combined with technical and financial assistance grants from the European Commission (EC) (covering 40% of the project cost), and provides long-term funding which is practically non-existent in the local market.

#### Uganda: New Forests Company (NFC Forestry Project)

A rapid increase in population and the socio-political turbulence of the 1980s resulted in indiscriminate and widespread deforestation in Uganda. Despite the continuing depletion of the country's forests at a rate of 55 000 ha per year, a solid ecological basis

from which sustainable forestry can operate still exists. In a largely undeveloped agricultural sector, forestry is considered vital in Uganda's fight against poverty, as well as for meeting the high local demand for timber.

The project consists of a sustainable commercial plantation of eucalyptus and pines on degraded forest land. The EIB will partly finance New Forest Company's (NFC) first plantation, located at Namwasa, 120 km northwest of Kampala, where the company intends to plant around 6 500 ha by 2011. The timber harvested will be sold mostly locally as transmission poles and round wood. In addition, a significant proportion of the land will be dedicated to the non-commercial regeneration of indigenous rain forests, in line with the Ugandan Government's policy to restore the natural environment.

NFC has developed an extensive community programme, including the recruitment of relationship officers, ensuring the positive impact of the project in the surrounding areas through employment generation and poverty alleviation. The programme encompasses a small-holder plantation initiative to help increase the forest-covered area, and includes the distribution of free seedlings and training for local farmers.

The project may generate carbon credits through the carbon storage from the trees. The IF loan will cover 50% of the project cost, with the remainder being brought in equity. The project will benefit from a subsidy from the IF to finance its community programme and has also received a USD 178 000 grant from the EC Sawlog Production Grant Scheme (SPGS)<sup>9</sup>.

<sup>9</sup> The Sawlog Production Grant Scheme is a special EU fund aimed at attracting the private sector to establish commercial timber plantations in Uganda. It provides subsidies for private sector tree planters as well as technical support and practical training.

## Financial Sector

### “Promoting change”

The overall strategic objective in the financial sector is to strengthen local capital markets and institutions with the aim of facilitating local businesses’ access (particularly micro and small enterprises) to financial products and services.

The Bank tailors its financial instruments to each operation to help remove restrictions on access to credit, promoting a favourable investment climate and strengthening local financial markets.

In order to address specific market failures, notably the limited availability of financial services to the poor and economically marginalised, the Bank has supported an increasing number of micro-finance investment vehicles that invest in, and provide assistance to, local microfinance institutions throughout the ACPs. Technical assistance supports the extension of sustainable services and development of innovative products that, in turn, will generate positive social and economic impacts. In 2008, IF operations included a package of technical assistance grants to support the further development of microfinance institutions in 12 countries, focusing on financial services to small and micro-businesses.

### Box 7: IF support for the financial sector

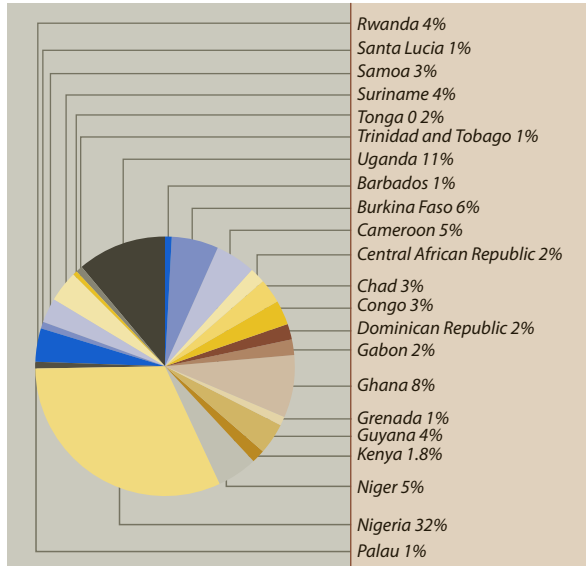
At the end of 2008, the Bank had signed 41 financing agreements under the IF with ACP/OCT financial sector counterparts – of which 7 in 2008 – for a total of just over EUR 522m. These agreements funded 4 065 allocations, covering 22 countries. The average amount per allocation stands at EUR 38 700. In the Dominican Republic, where the Bank principally finances the microfinance sector and institutions such as the Banca de Ahorro y Credito Adopem (ADOPEM) (see box 8), the average amount allocated was slightly under EUR 1 000. Such allocations cater for the needs of a fringe of the population that would not be able to benefit from direct support from the EIB and that, through their entrepreneurship, make a significant contribution to economic growth and poverty reduction.

Lines of credit allow the Bank to reach a greater number of sectors, diversifying its operations away from its traditional sectors of activity, for example by supporting undertakings in the wholesale and retail trade, agriculture, hunting and forestry, education or health and social work, accounting for respectively, 6%, 5%, 3% and 1% of allocations. Lines of credit in favour of regional banks, e.g. the CDB or Development Finance Limited (DFL) in Trinidad and Tobago are also very useful to reach out to those smaller countries where it is sometimes difficult for the Bank to operate directly, thereby supporting the regional diversification of its portfolio.





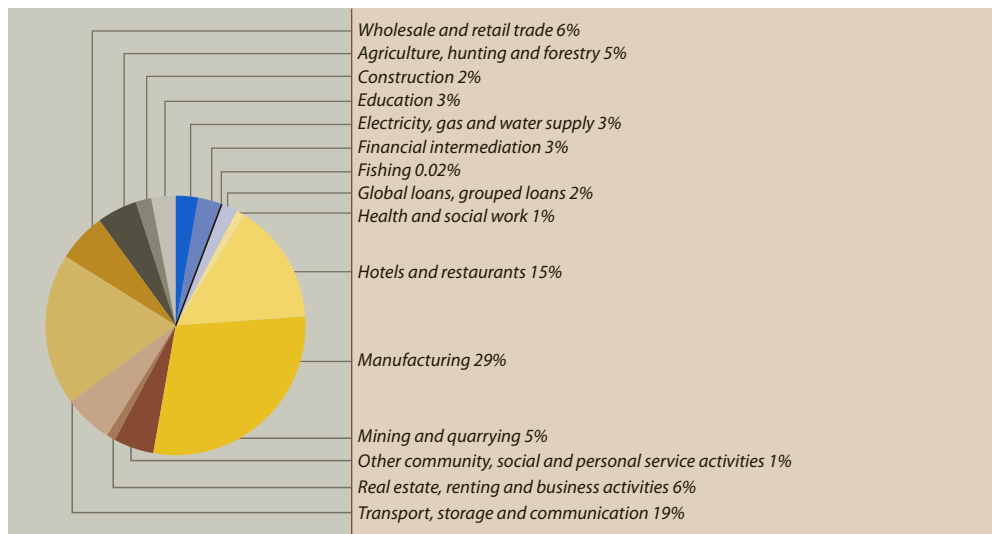
**Cotonou Investment Facility in the ACP States and in the OCTs:**



**Allocations realised from 01/04/2003-31/12/2008  
Breakdown by beneficiary country**



**Allocations realised under credit lines signed from 01/04/2003-31/12/2008  
Breakdown by sector**



The EIB continues to take an active role, together with relevant local authorities and domestic and international banking partners, in the issuance of local currency debt aimed at contributing to the development of local currency debt markets. Since 2004, the EIB has issued the equivalent of almost EUR 1.8bn in ACP local currency bonds, using five African currencies: the South African rand, Botswana pula, Ghanaian cedi, Mauritian rupee, Namibian dollar and Zambian kwacha. The EIB was the first non-domestic issuer in Botswana (2005), in Mauritius (2007) and in Zambia (2008).

In addition to local currency debt issuance in the international markets, the Bank is examining possibilities of accessing selected domestic markets with the twin objective of mobilising additional local resources for investment and contributing to domestic capital market development in the region. Depending on the outcome of this exercise, a number of proposed Bank operations in this sub-region could become eligible for local currency funding.

### “EIB loans for SMEs”

In developing countries, a vast majority of the workforce operates in SMEs, both in the formal and informal sector. The financial sector is often not in a position to offer adequate financial intermediation to such structures, i.e. long-term loans denominated in local or foreign currencies, thus hampering the expansion of both local and export-oriented businesses.

Accordingly, the Bank strives to increase outreach to SMEs by mitigating restrictions on access to credit, supporting the emergence of a favourable investment climate and strengthening local financial markets.

The Bank focuses on identifying and selecting the right intermediaries, based on their financial strength, the quality of their governance, their risk management and internal control systems, as well as their interest and willingness to lend to SMEs and small businesses. In this context, technical assistance activities strengthen the capacity of financial intermediaries and help improve the implementation of global loans.

#### Malawi: Malawi Global Loan III

In recent years, the IMF has sponsored several programmes in Malawi aimed at improving macroeconomic management, which have led to increased fiscal discipline, a reduction in inflation rates and some stabilisation in the foreign reserves position. The country also attained HIPC completion point in September 2006.

Despite this, the financial sector is still not in a position to support the expansion of export-oriented businesses. This new line of credit, the first in the country under the IF, addresses this critical deficiency by extending long-term dollar (USD)-denominated funding to three of the country's main commercial banks, namely, National Bank of Malawi, First Merchant Bank of Malawi and Standard Bank Malawi. The three institutions cater for slightly different customer bases and, combined, cover the country's main sectors and regions. By supporting both local banks and export-oriented companies operating in the agriculture, agro-

industry (tea and coffee), tourism and mining fields, this initiative will generate a positive impact on the country's economy through local job creation and direct poverty alleviation.

#### Zambia: Capital Investment Line GL III

The Capital Investment Line is a follow-up to previous credit lines extended by the EIB under the Lomé Convention<sup>10</sup>. Its purpose is to provide selected intermediaries with long-term resources in foreign exchange, to improve local risk management capabilities and increase cooperation with locally owned banks.

The intermediaries retained to date, namely Stanbic Bank, Standard Chartered Bank, African Banking Corporation, Finance Bank and Investrust (with Barclays Bank possibly joining at a later date) will provide medium to long-term loans and lease financing either in EUR or USD for private investment projects in a wide range of productive sectors of the Zambian economy.

<sup>10</sup> This operation is the sixth EIB loan to the financial sector in Zambia since 1994. The previous loan, totalling EUR 40m, created over 7 000 jobs and contributed to investments of some EUR 130m.



## Box 8: The Dominican Republic

For the past 12 years, the Bank has supported the development of the microfinance sector in the Dominican Republic, playing an instrumental role in the development of Banco de Ahorro y Crédito Ademi (ADEMI) and ADOPEM<sup>1</sup>.

With this objective in mind, in 2008, the EIB extended its support to two initiatives addressing the specific development needs of a wider spectrum of microfinance institutions in the country, from the smallest to the largest and regulated ones. By combining equity and lines of credit a high level of flexibility has been introduced.

The DR Financing Facility project provides lines of credit in local currency, the Dominican Peso, and USD as well as equity to selected local microfinance institutions. It will contribute to extending the geographical coverage of Microfinance Institutions (MFIs) to other regions of the Dominican Republic, notably Santiago and the Haitian border.

The project Small Enterprises Global Loan B complements this intervention. The provision of equity capital and institutional support to ADOPEM will contribute to strengthening its position as an experienced financial intermediary and to supporting its transformation into a regulated financial institution.

By providing local institutions with financing that would otherwise not be available on the local market, and on more flexible terms, both projects will contribute to the development and strengthening of the financial sector. Local entrepreneurs – notably in rural and poor areas – will benefit from improved long-term financing opportunities. In turn, this should stimulate the country's economic growth and contribute to poverty reduction.

Best practices will be encouraged, notably regarding governance and risk management. The DR Financing Facility will benefit from a comprehensive technical assistance programme (financed by the Cotonou TA envelope).

<sup>1</sup> Banco ADOPEM (Banco De Ahorro Y Crédito Adopem), founded in 2004, is the second largest microfinance institution in the Dominican Republic. It finances micro-entrepreneurs and less favoured socio-economical classes. Banco ADEMI (Banco de Ahorro y Crédito Ademi), founded in 1997 is the largest development bank in the country. As a savings and credit bank, its clients are mainly micro-enterprises and SMEs.

By addressing the structural need for USD term funding, the Facility supports investments in internationally competitive activities, thus reducing the country's over-dependence on copper. It will also generate viable employment opportunities in the private sector. The facility will spur competition among financial intermediaries, which should have positive implications for the pricing of the sub-loans and easing the access to finance of neglected customer segments.

#### **Niger: PG Secteur Financier III**

Following the successful implementation of two previous Bank credit lines to Nigerian financial intermediaries for on-lending to SMEs, the need for medium to long-term loans in local currency remains as pressing.

Accordingly, a third CFAF-denominated line of credit has been extended to three Nigerian banks, namely, the Banque Internationale pour l'Afrique au Niger SA (BIAN), the Société Nigérienne de Banque (SONIBANK) and the Bank of Africa Niger (BOAN), for on-lending to local SMEs, including micro-enterprises. The scheme will continue to benefit from the financial support of the Tanyo Group (backstopping the underlying projects) either financially, through partial guarantees, or via the monitoring of the borrower from the implementation of the projects to the full repayment of the loans.

The previous lines of credit have proven to be a good means of supporting SME project creation, modernisation or expansion in Niger. Both operations have been allocated to a total of 70 projects, including the financing of schools and clinics, and have generated more than 1 000 jobs.

The operation will target SMEs with high value added in the industry, agro-industry, tourism, health and education sectors. By supporting intermediary banks, the project will encourage the development of Niger's – still very under-developed – financial sector and its capability to provide competitive financial services to SMEs.

#### **Regional – OCT: OCTs Financing Facility**

The Caribbean countries that are signatories to the OCT Decision and beneficiaries of the related Investment Facility are spread across a wide area. Nevertheless, they share common economic and financial characteristics. In spite of the existence of offshore financial centres, their SMEs suffer from poor access to long-term financing. This financing facility addresses this need. Initially, the funds will be made available to the Development Bank of the Netherlands Antilles (OBNA) and the Aruban Investment Bank (AIB), located in the Netherlands Antilles and Aruba respectively.

Such credit lines are an efficient way for the Bank to cover small and dispersed territories and to provide improved finance access for SMEs in the region, across a wide range of sectors, including transport and services, as well as tourism, manufacturing, industry and agriculture.

Given its development mandate, OBNA covers market segments and projects which are not normally of interest to commercial institutions, notably small-scale projects for fishermen. AIB offers a wide range of integrated financial, economic and management services to both the private and public sector.

Alongside the IF USD-denominated line of credit, the project includes a technical assistance grant to support the intermediaries' efforts to deal with SMEs facing problems accessing long-term finance and to improve their risk management and compliance procedures, including best practices regarding corporate governance or environmental issues.

#### **Regional – Caribbean: DFL Regional SME**

The financial services sector in the Southern and Eastern Caribbean has a poor track record of investment in SMEs. Through previous operations, the Bank has supported the transformation of Development Finance Limited (DFL) in successive phases from a government-owned development bank in the 1980s to a private



sector development banking group. In Trinidad and Tobago, where the majority of DFL's operations are carried out, the sector has faced increased competition in recent years, but other countries in the area offer key growth potential in the future.

Consequently, DFL is looking to expand its SME lending programme across the region, to encompass Guyana, Suriname, Barbados and Belize initially. Through its various subsidiaries, the group offers financing in the form of loans, equity and quasi-equity in the manufacturing, agro-industrial, tourism and renewable energy sectors.

This new IF operation with DFL Holdings will address the significant unmet demand for flexible SME financing across the region. Support for local SMEs will contribute to employment and economic growth in some of the least-developed economies in the region. The project will also help Trinidad and Tobago in its mission to achieve 'Developed Country' status by the year 2020 through the development of competitive business.



## IF Equity Portfolio

Over the last five years, the IF has invested in equity funds targeting small, medium or large private enterprises. The performance of the first generation of IF funds is encouraging, with a number of them showing initial returns on investments above expectations (e.g. African Lion Fund II and Emerging Markets Partnership II). In 2008, the IF continued to maintain a mix between funds addressing the lower and the upper ends of the spectrum in terms of the size of the target enterprises. It endeavoured to assist successful managers in raising second or third generation funds as well as to identify new managers to complement and diversify the existing pool of private equity managers with a strong ACP/OCT background. A majority of equity operations adopted a regional approach.

### Liberia: Access Bank Liberia

The violence that characterised Liberia's political scene since the late 1980s ended in 2003 with the signing of the Accra Comprehensive Peace Agreement. Since taking office in 2006, President Ellen Johnson-Sirleaf has implemented reforms designed to move the country towards macroeconomic stability and a credible political framework. Access to microfinance is still sparse for the entire population following two decades of turmoil.

This project jumpstarts the provision of such financing by creating a new commercial bank, Access Bank Liberia, which aims to provide financial services to micro and small enterprises in the capital of Monrovia and other main urban centres. Technical assistance is also being provided to ensure the bank has the resources to apply best practices in microfinance.

This initiative has a strong demonstration effect and outreach in a post-conflict country. The EIB's additionality in this project focuses on its ability to offer a funding package that includes equity, debt and technical assistance funds. Few other organisations are able or willing to provide this combination of resources. By creating a new institution able to sustain microfinance on commercial terms, and following best practices, the project has the potential to generate a substantial increase in the long-term availability of financial services for the poor. The project is the Bank's first operation in Liberia

for 20 years and is the first private sector project supported by any multilateral development bank for many years. The IFC and the AfDB are among the institution's primary shareholders.

### Regional – Africa: African Lion Mining Fund III

Despite cyclical downturns in commodity markets, the demand for financing exploration and mine development remains huge and junior explorers and mining companies have difficulty financing the riskier early-stage phases of exploration and mine development.





### Box 9: EIB support for the Extractive Industries Transparency Initiative

According to the International Energy Agency's estimates, investments worth USD 26 trillion are required between now and 2030 to cater for the world's growing energy needs.

To meet this demand, the Bank, in accordance with Article 23 f) of the Cotonou Agreement, extends its cooperation to the "development of competitive industrial, mining and energy sectors", recognising that transparent and well-managed projects can make a significant contribution to sustainable economic development and poverty alleviation in the countries where they are implemented.

In 2008, the EIB endorsed the Extractive Industries Transparency Initiative (EITI). The initiative encourages, on a voluntary basis, the disclosure and reconciliation of extractive industry payments and revenues. Enhanced transparency from both governments and extractive companies contributes to increased accountability regarding the use of extractive industries proceeds.

The EIB is committed to promoting good governance in all the projects that it finances. Supporting the objectives of the EITI reconfirms the Bank's recent joint undertaking with other development financing institutions, in the form of the Approach Statement on Corporate Governance, to promote sound corporate governance, as well as the orientation of its recently revised anti-fraud and corruption policy. The EIB applies European Union standards and international best practice to all the projects it finances, devoting particular attention to development, environmental and social issues.

The EIB supports EITI work in the resource-rich countries in which the Bank operates, by working with its project sponsors to introduce greater transparency and consistency in reporting on payments at a project level. At the same time, the EIB promotes the initiative in its contacts with governments and national authorities and encourages them to adopt the EITI principles for reporting and publishing extractive industry revenues. The EIB also actively supports the work of the EITI International Secretariat based in Oslo.

Following two highly successful earlier investments, the IF is supporting the third African Lion Mining Fund established to provide early-stage equity for private mining companies throughout Africa, principally targeting advanced exploration, feasibility and development projects. The Fund focuses on Sub-Saharan countries and is actively involved in reviewing and advising the companies in which it invests. The Fund

does not limit its investments to precious, base and other metals, but also covers other mineral commodities such as industrial minerals, bulks and gemstones.

Financing early-stage small and medium-scale mining projects in Africa prepares the ground for subsequent mining projects which can make a significant contribution to economic development and job creation,

as well as generate revenues for the host countries. Advancing exploration projects to the development or even production stages provides the mining industry with the new projects to meet the sustained demand for commodities on world markets.

A number of co-investors are involved in this “success story”, notably Lion Selection Ltd, the promoter, the AFD’s Promotion et Participation pour la Coopération Economique (PROPARCO), the Capital for Development (CDC) Group, Rand Merchant Bank and BIFM<sup>11</sup>. The Fund will only make investments in investee companies with full consideration of environmental and social factors, in accordance with best international practice. For the environmental and social aspects, World Bank and IFC Performance Standards will be applied in addition to local requirements. The well-experienced fund manager will ensure appropriate reporting on investee companies according to a set of agreed key development performance indicators such as anti-money laundering measures, environmental, health, safety, social, EITI and Kimberley Process considerations and development impacts.

#### **Regional – West and Central Africa: Atlantic Coast Regional Fund**

Given the shortage of risk capital and strategic support for small and medium-sized enterprises in the West and Central Africa region, the Fund will set an important precedent for foreign investment in the local markets, raising the profile of private equity to local financiers and intermediaries.

The Fund focuses on a broad range of mid-market companies operating businesses in need of growth and expansion capital. Companies in need of strategic and directional support are targeted, notably in the areas of technology, infrastructure, regional and pan-African initiatives, financial services and privatisation of state-owned enterprises.

By supporting private sector development, the Fund will foster economic growth and employment in the

region and also stimulate the emergence of a private equity culture. Ultimately, by attracting FDI to non-traditional sectors of the economy, it will contribute to its diversification away from reliance on natural resources and tourism.

Through this project, the Bank supports fund managers with strong African ties and backgrounds that, in turn, will contribute to adding value and transferring best practice to local companies.

The Bank’s equity participation and that of its co-investors (IFC, AfDB, CDC, the Finnish Fund for Industrial Cooperation Ltd (FinnFund) and private institutional investors), should have a strong demonstration effect, encouraging further investment by private capital – both local and foreign – in private equity on the continent. The involvement of the EIB and other donors as founding shareholders ensures the Fund’s application of best practices in terms of environmental and social compliance.

#### **Regional – Africa: Aureos Africa Fund**

Small and medium-sized enterprises contribute to more than 50% of economic output and employment in Africa. Lack of access to credit is one of the most persistent challenges that impede their growth and development. Aureos was established in 2001 to manage a portfolio of investments in small and medium-sized enterprises. As of 2003, it extended its operations to a new generation of regional private equity funds in sub-Saharan Africa.

This new pan-African private equity fund will further develop the investment strategies pursued by Aureos’s African regional funds since 2003, focusing particularly on building businesses with potential for regional expansion.

The investment strategy involves a hands-on value-enhancing approach, including the institutional strengthening of portfolio companies. The Fund will invest in sectors such as construction, engineering and

<sup>11</sup> BIFM, a Botswana-based insurance fund.





### Box 10: Overview of Investment Facility private equity operations in the ACPs

Since the inception of the Cotonou Mandate, private equity operations carried out by the EIB through the IF have concentrated on three aims: having a business development impact, generating a demonstration effect and triggering financial returns.

At the end of 2008, the IF's active equity portfolio comprised:

- **10 direct investment operations** amounting to EUR 30.24m. Seven of the operations target the financial sector while the remaining three are directed at the tourism sector.
- **23 indirect investment operations** in funds or specialised investment vehicles totalling EUR 256m<sup>1</sup>.

#### Further information on indirect investment operations:

To date, indirect investments have yielded EUR 24m in returns through capital gains and dividends. Cumulatively, these funds have generated approximately EUR 600m of investments in the ACPs.

The funds and vehicles in which the IF has invested cover a broad spectrum of sectors<sup>1</sup> and companies, ranging from very small SMEs to larger businesses. In its efforts to balance risks, the IF provides capital to both new funds and 2nd and 3rd generation funds. Most of them have a strong pan-African dimension. The EIB is committed to the success of these undertakings and plays an active role in the funds' governance, notably by assuming Board positions.

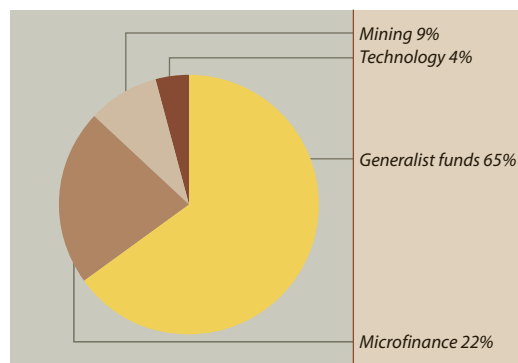
#### Commitments in EUR m

<5	10	32.36	13%
>5 &<10	4	28.24	11%
>10 &<20	5	63.40	25%
>20 &<30	2	47.00	18%
>30 &<50	2	85.00	33%

Through its investments in private equity funds, the IF has supported some 185 underlying transactions in 35 ACP countries (Nigeria, Senegal and Ghana attracting the largest shares of the investments). Underlying investment projects range from EUR 30 000 to EUR 32m.

#### Investments in EUR m

<1	110
>1 &<5	50
>5 &<10	9
>10 &<35	16



Although these operations are at too early a stage to draw conclusions, their financial performances are encouraging. In the light of the financial crisis, the IF's equity products should act as a catalyst for other investors and help restore confidence. The provision of much needed long-term capital to support the development of the private sector will remain centre stage throughout 2009.

<sup>1</sup> 15 operations target generalist funds, 5 micro-finance, 2 mining and 1 technology. The IF private equity portfolio seeks to cover as broad a spectrum of projects as possible, ranging from larger enterprises to microfinance operations. The economic growth of the ACP region, especially in sub-Saharan Africa, should, in the long run, increase the number of sectoral funds, contribute to expanding the regional focus and increase investment opportunities in medium-sized operations.

associated services and fast-moving consumer goods. The portfolio will be diversified and not limited to a particular transaction type, industry or sector and will target the lower to middle end of the spectrum in terms of size of target enterprises.

A number of investors have subscribed to the Fund alongside the EIB, notably IFC, CDC and other development finance institutions (DFIs). Their involvement ensures that the Fund follows best practices with respect to environmental and social compliance by investees.

#### Regional – Africa: Adlevo Capital Africa

Despite a rapid increase in private equity flows in Africa, the majority of investments are mainly in large companies in the traditional sectors of the economy. There is therefore a need to address the limited availability of risk capital for African technology companies.

Adlevo Capital Africa is the first pan-African private equity fund to target the growing opportunities for investment in technology and information and communications technologies (ICT). The Fund will focus on investment in high-growth firms with technology business models principally, although not exclusively, in Nigeria, West Africa and South Africa where recent economic developments have increased demand, notably for ICT services.

The project is expected to deliver significant enterprise development benefits, especially in the area of information technology. It has the potential to attract considerable levels of FDI in non-traditional sectors of the economy and to allow African businesses to gain competitive advantages and generate economic growth.

Adlevo benefits from the experience of other co-investors such as CDC, the UK Government-owned fund of funds. Its management team has international venture capital and technology experience and will operate from offices located in Lagos and Johannesburg. Benefiting from transfers of know-how from CDC, operations will be carried out according to best international practices.

#### Regional – Africa: AfricInvest Fund

This operation intends to replicate the Bank's well-proven experience with the AfricInvest I Fund<sup>12</sup>, which focused on the growth and expansion of SMEs in North Africa and in sub-Saharan, West and East African countries.

The Fund will make equity and quasi-equity investments in well-established SMEs, focusing on those sectors in need of growth capital, namely the financial sector, technology, agribusiness and manufacturing.

By providing long-term capital in the form of equity to Africa's growing private sector, the Fund will support the region's economic growth and employment. At the same time, it will encourage the emergence of modern African entrepreneurship and south-south cooperation, that is to say the transfer of skills acquired in North Africa to other parts of the continent and the expansion of national markets.

The Fund will act as a catalyst to attract FDI away from the traditional sectors of natural resources and tourism and help develop the private equity industry in the region.

The IF, alongside co-investors such as IFC, FMO, FinnFund, Swiss Investment Fund for Emerging Markets (SIFEM), Proparco, the Belgian Investment Company for Developing Countries (BIO), CDC and private institutional investors, as well as high net worth individuals, will support the emergence of this "reference" investor and ensure compliance with best practices with respect to environmental and social compliance.

<sup>12</sup> The Fund is sponsored by Tuninvest, an independent North African financial services company, a close partner of the EIB, in which it has invested a total amount of approximately EUR 24.4m from FEMIP risk capital resources in the Mediterranean.



### Box 11: Technical assistance (TA)

The EIB continued to expand and consolidate its TA programme in 2008, helping to support a range of projects and lending programmes. TA in ACPs has received funding from the Cotonou I and II frameworks, the EU-Africa Infrastructure Trust Fund, and the EU-ACP Water Project Preparation Facility.

Most TA operations are designed to either help identify and prepare projects or to ensure their smooth implementation. TA tends to facilitate the efficient utilisation of loan finance and can contribute to generating new lending opportunities. In accordance with the strategic thrust of the Investment Facility, the 2008 TA programme focused on:

- financial sector operations (microfinance and SME lending, for instance in Ethiopia, Rwanda, Liberia, Uganda and the Dominican Republic);
- infrastructure undertakings, notably regional initiatives in Rwanda, Burundi, Congo and West Africa.

#### Microfinance, fundamental to protecting and empowering the poor

In January 2008, the EIB signed its first microfinance technical assistance agreement with MicroCred, a microfinance investment company in which it holds a 16% equity stake. The purpose of the operation is to support the development of greenfield microfinance institutions in sub-Saharan Africa. The TA funding provided by the EIB enabled MicroCred's subsidiaries in Madagascar and Senegal to expand the range of financial products and services offered for productive purposes. As part of this TA support, a pilot SME programme targeting small formal enterprises was launched in Madagascar. The pilot proved to be a great success resulting in 73 disbursed SME loans over a 10-month period amounting to EUR 688 571 with non-performing loans standing at 3% at the end of 2008. In view of these encouraging results, SME loans are becoming a standard product offered by MicroCred Madagascar, catering to the needs of formal enterprises. It is planned to implement similar pilots at MicroCred Senegal, as well as at other MicroCred subsidiaries, in 2009.

The example of MicroCred Madagascar confirms that microfinance services can be delivered in a sustainable and profitable way. However, due to their relatively small size and high up-front investment requirements, greenfield and early-stage MFIs require technical assistance in order to build capacity during the initial years of operation.

The EIB works closely with a number of co-financing partners such as IFC, FMO, KfW and other agencies, as well as private foundations, when investing in microfinance investment companies and providing technical assistance.



Project-related technical assistance operations			
Contracts signed in 2008	Country/Region	Sector	Grant amount in EUR
Projet hydraulique urbaine au Cameroun - Identification mission	Cameroon	Industry/finance	34 700
Development Bank of Ethiopia - Technical Assistance preparation	Ethiopia	Industry/finance	34 950
Rwandian Development Bank - Technical Assistance preparation	Rwanda	Industry/finance	31 200
Etude tarifaire restreinte - Performance contract State of Sénégal / ONAS	Senegal	Environment/water	30 650
Microfinance facility - Advans / Cameroon, Ghana, Congo & fourth country	Regional- Africa	Industry/finance	2 000 000
Microfinance facility - Microcred Madagascar, Senegal & third country	Regional- Africa	Industry/finance	2 000 000
Development Bank of Ethiopia	Ethiopia	Industry/finance	461 129
Access Bank Liberia - under global autorisation	Liberia	Industry/finance	1 000 000
Microfinance facility - AccessBank / Tanzania, Madagascar and Zambia	Regional- Africa	Industry/finance	2 000 000
Capacity Building of private enterprises+facilitating the implementation of the Bank's Private Enterprise Finance Facility (PEFF) - Phase I, preparation	Uganda	Financial Sector	34 436
TA Programme to Financial Institutions in the Dominican Republic for institutional capacity building- Phase I, Preparation	Dominican Republic	Financial Sector	34 900
EASSy- Legal advisor and interim management team of the Special Purpose Vehicle	Regional- Africa	Infrastructure	294 000
Jirama Andekaleka Hydro	Madagascar	Energy	190 844
<b>TOTAL</b>			<b>8 146 809</b>



## Outlook for 2009

### “Flexibility and responsiveness”

Activity in 2009 will be influenced by the impact of the food and international financial crises on the ACPs and OCTs.

The negative effects of the global economic slowdown are expected to gradually trickle down, narrowing trade flows, reducing net capital inflows, affecting local currency financing and decreasing remittances. Potential cuts in public development aid raise additional concerns. In this context, the Bank will have to remain as flexible as possible so as to play a catalytic role, contributing to restoring confidence and to generating a counter-cyclical effect.

#### **Consolidation of the Bank's current strategy**

Efforts will remain concentrated on infrastructure and financial sector development as key drivers of sustained growth and private sector expansion. Regional integration through the financing of cross-border infrastructure projects and possibly financial sector interventions of regional character will be encouraged.

#### **Increasing the share of renewable energy and climate change mitigation projects**

The Bank will encourage the identification of renewable energy projects, energy efficiency initiatives or projects involving climate change adaptation measures, and projects making use of environmentally friendly energy solutions, such as geothermal, solar, biomass and wind power for which, in certain cases, subsidies will be required.

#### **Responsiveness, the key to a challenging economic environment**

This objective will be achieved by deploying, where possible and appropriate, alternative and innovative financial instruments, notably the use of guarantees and local currency financing.

Due to the credit crunch, the availability of equity instruments will play an increasingly important role in the funding of private sector investment projects, and the IF will step up its equity commitment (direct and via investment vehicles).

The IF will also pursue the diversification of its investment strategies and regional coverage in order to facilitate the development of sustainable microfinance operations with an emphasis on capacity building, integrated international networks and greenfield operations.

#### **Cooperation and dialogue**

Overall, the accent will continue to be put on closer cooperation with multilateral and bilateral financing partners as well as other stakeholders, notably in support of public-private initiatives. A more systematic dialogue will help to identify potential projects and incentives for leveraging private sector finance (and to reach delegated cooperation).



Efforts to reach out to policy-makers, civil society and NGOs will be maintained. Regular and constructive dialogue is paramount to refining project choice, increasing cooperation and generating impact.

#### **Result-oriented management**

In order to optimise the allocation of fairly limited resources in keeping with the needs of the ACPs and OCTs, while at the same time being responsive to the current global crisis, a more focused implementation of ESIAF is planned in 2009. This should result in selective, early-stage project screening, more consistent monitoring of the Bank's operations and ex-post project evaluations. Such an approach should enable an adequate balance to be struck between increased risk-taking, the overall long-term financial sustainability of the IF and achieving a development impact.

The Bank will take advantage of the additional funds made available for technical assistance under Cotonou II.



# Portfolio overview

## “Active management of the portfolio”

The portfolio remains balanced and in line with the orientations and objectives of the Cotonou Agreement and OCT Decision, in sectoral, geographical and financial terms.

### 1. Overall figures (IF and OR)

#### ACP figures

⇒ At end-2008, IF cumulative approvals and signatures totalled EUR 2 325m and EUR 2 039m or approximately 74% and 65% respectively of the EUR 3 137m cumulative capital endowment (Cotonou I and II). The stock of approved projects awaiting signature amounts to EUR 214m. Cumulative disbursements total EUR 943m, or 30% of the IF capital endowment, reflecting a fairly standard pattern for project financing in the ACP environment. Approximately 49% of the signed<sup>13</sup> portfolio is either under disbursement or fully disbursed. At

the end of 2008, 52 contracts had been fully disbursed, amounting to EUR 539m.

⇒ OR cumulative approvals and signatures totalled EUR 1 151m and EUR 967m or approximately 68% and 57% respectively of the EUR 1 700m OR lending ceiling under Cotonou I<sup>14</sup>. An additional EUR 76m was signed under Cotonou II. The current portfolio includes 30 signed operations. Cumulative disbursements total EUR 446m and approximately 47% of the signed portfolio is under disbursement, all under Cotonou I. At the end of 2008, ten projects had been fully disbursed, amounting to EUR 256m.

	EUR m	2003	2004	2005	2006	2007	2008	Cumulative	% of capital endowment
ACP-IF (Prot. 1 and 2) (EUR 3 137m)	Approvals	368.9	318.2	472.5	576.0	251.5	338.0	2 325.1	74%
	Signatures	140.2	337.2	351.2	569.6	314.6	326.2	2 039.1	65%
	Disbursements	4.0	93.1	113.7	185.2	329.2	218.0	943.3	30%
ACP-Own Resources Prot. 1 (EUR 1 700m)	Approvals	43.1	47.3	170.0	207.3	550.3	133.0	1 151.0	68%
	Signatures	6.1	62.2	150.9	167.3	431.8	148.8	967.0	57%
	Disbursements	0.0	6.7	13.6	86.0	110.6	229.3	446.2	26%
ACP-Own Resources Prot. 2 (EUR 2 000m)	Approvals						76.0	76.0	4%
	Signatures						76.0	76.0	4%
	Disbursements						0.0	0.0	0%

<sup>13</sup> Signatures net of cancellation.

<sup>14</sup> The Cotonou I OR mandate expired with the entry into force of the revised Cotonou Agreement on 1 July 2008, under which a new EUR 2 000m ceiling for OR lending is foreseen.

<sup>15</sup> EUR 28.5m corresponds to the additional endowment of the second financial protocol for the OCTs, bringing the total OCT IF endowment to EUR 48.5m.

#### OCT figures

Funds available under the first financial envelope of the Overseas Association Decision, namely EUR 20m, were

fully allocated in 2008 in favour of three projects. So far, no signatures have taken place under the second financial envelope of EUR 28 5m<sup>15</sup>, or under the EIB's own resources (an additional EUR 30m).





## 2. IF portfolio

The following sections present a global overview of the IF portfolio for the ACPs and OCTs.

### ⇒ Breakdown by sector

Private sector-led initiatives accounted for 77% of the cumulative signed portfolio at the end of 2008, reflecting the IF's central objective of fostering private sector development and economic growth. This percentage includes both direct financing to private sector projects and indirect financing via financial intermediaries, through which the development of local financial markets and local SMEs is encouraged. Investment in the financial sector, including credit lines to promote local SMEs and participation in equity and venture capital funds, represents 51% of the current portfolio (EUR 1 057m), of which EUR 190m under the European Financing Partnership Agency Agreements. Cumulative signatures for credit lines to financial institutions stood at EUR 522m at end-2008, representing 25% of cumulative signatures under the IF.

The energy sector matches this figure, accounting for 22% (EUR 447.9m) of the portfolio. The vast majority of operations are carried out in Central and Eastern Africa, as illustrated by the Inga power rehabilitation project launched in 2008.

Industry – predominant in the Southern Africa and Indian Ocean region – accounted for 16% (EUR 323m) of the portfolio at end-2008, and included a relatively significant proportion of mining projects, although the IF is diversifying its portfolio, reducing concentration on such operations. In 2008, only one operation targeted the mining sector (African Lion Mining Fund III), while the Bank also supported the construction and operation of a greenfield cement plant in Ethiopia. The Bank, as a member of the EITI, targets countries which are committed to implementing reforms under agreed Governance Action Plans that focus on improved governance and transparency in

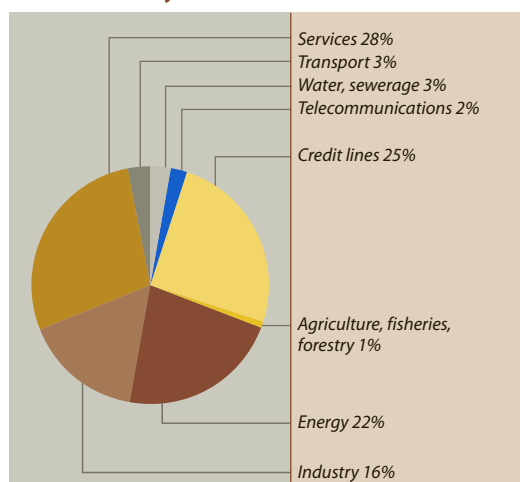
the extractive industries (carefully assessing the merits of each project identified, with due regard given to environmental aspects – see box 9).

Water and sewerage projects represent 3% (EUR 71m) of the overall IF portfolio, most of which are carried out in Southern African and the Indian Ocean region and in Central and Eastern Africa, bearing in mind, however, that the sector attracted a significant amount through the blending of EIB own resources subsidised loans with grants from the EU-ACP Water Facility.

Transport, telecommunications, tourism, agriculture, fisheries and forestry remain secondary sectors of operation in the ACPs and OCTs.

At the end of 2008, the Bank's own resources portfolio by sector presented a slightly different breakdown: 39% of operations focused on industrial undertakings, 22% on energy projects, 13% on credit lines and 10% on financial services, with the

### Cotonou Investment Facility: Cumulative signatures in the ACPs and OCTs 01/04/2003-31/12/2008 Breakdown by sector

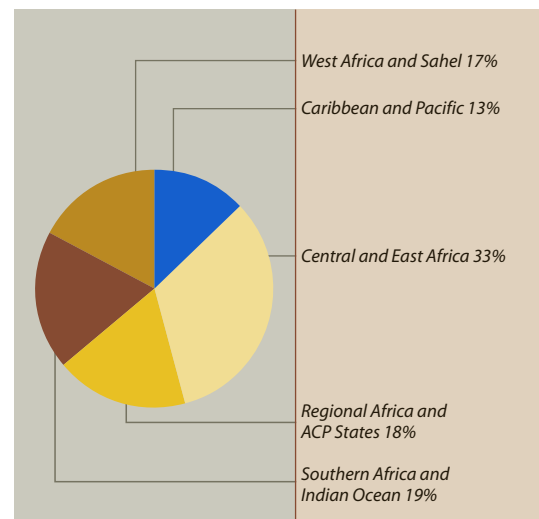


remaining 9%, 6% and 1% directed at water/sewage projects, transport initiatives and hotels and restaurants respectively.

⇒ **Geographical breakdown**

While promoting integration, regional projects, notably in the financial or related sectors, are very effective in enabling a larger number of ACP countries and OCTs to benefit from IF funding. IF financing has so far gone to 42 out of the eligible 77 ACP countries and 20 OCTs, either directly or through lines of credit. In the Caribbean and Pacific sub-regions, the regional investment approach is actively pursued in order to address the constraints faced by small economies compounded by their physical remoteness. Overall the Bank has achieved a good balance in terms of IF coverage of

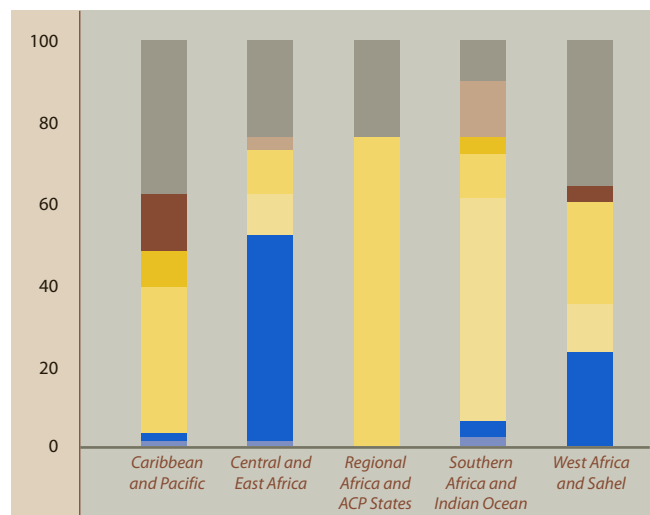
**Cotonou Investment Facility:  
Cumulative signatures in the ACPs and OCTs  
01/04/2003-31/12/2008  
Breakdown by region**



**Cotonou Investment Facility:  
Cumulative signatures in the ACPs  
and OCTs  
01/04/2003-31/12/2008  
Breakdown by region and by sector**

- Agriculture, fisheries, forestry
- Energy
- Credit lines
- Industry\*
- Services\*\*
- Telecommunications
- Transport
- Water, sewerage

\* includes mining.  
\*\* includes financial services (equity investments in funds, agency agreements) and tourism (hotels).





the various ACP and OCT regions, bearing in mind the substantial proportion of regional projects (37 projects, amounting to 35% of overall portfolio signatures).

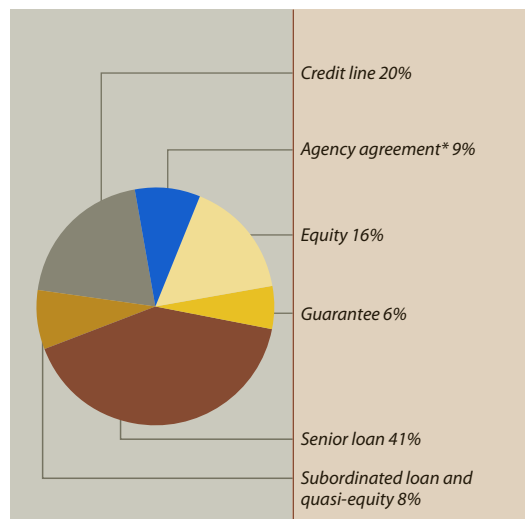
⇒ **Financial instruments**

Senior loans still constitute the bulk of the IF's overall portfolio in terms of volume, as they mainly concern large infrastructure or industrial projects for which lending volumes are more significant than those involving equity or quasi-equity. Looking at the number of financed operations, they account for 31% of the portfolio with the balance consisting of risk-bearing instruments for smaller amounts at the riskier end of the spectrum, in line with the IF remits under Cotonou.

The IF offers a wide range of other loan instruments adapted to the nature and risk profile of each project.

Credit lines represent a significant share of the IF's lending portfolio – 20% at the end of 2008 – given their relevance when it comes to supporting financial sector operations and SMEs, and are usefully complemented by the IF equity portfolio (see box 10).

**Cotonou Investment Facility:  
Cumulative signatures in the ACPs and OCTs  
01/04/2003-31/12/2008  
Breakdown by financial instrument**



\* EFP framework agreement



## Box 12: Interest rate subsidies

Under the Cotonou Framework, IF operations and own resources loans can benefit from an interest rate subsidy allocation, the purpose of which is to increase their concessionality under certain specific conditions:

- “for infrastructure projects in the Least Developed Countries, in post-conflict countries and post-natural disaster countries that are prerequisites for private sector development...;
- for infrastructure projects by commercially-run public entities that are prerequisites for private sector development in countries subject to restrictive borrowing conditions under the Heavily Indebted Poor Countries (HIPC) initiative or another internationally agreed debt sustainability framework...;
- for projects which involve restructuring operations in the framework of privatisation or for projects with substantial and clearly demonstrable social or environmental benefits...”

*Revised Cotonou Partnership Agreement, Annex II, Article 2(7)*

The second financial protocol provides new amounts of EUR 400m for the ACPs and EUR 1.5m for the OCTs. Up to 10% of the subsidies may be used for project-related technical assistance (refer to box 11).

At the end of 2008,

- EUR 131m, of which EUR 126m equivalent to 67% of the Cotonou I appropriation, had been earmarked for 22 ACP projects.
- EUR 1m had been earmarked for two OCT projects.





ACP Contract name	Country/ Region	Sector	Justification	Estimated subsidy amount in EUR	Loan amount in EUR
<b>First Financial Protocol: amount of the interest rate subsidy appropriation: 187,000,000</b>					
SONABEL III	Burkina Faso	Energy	Social	2 160 000	15 250 000
Liaison maritime Dakar-Ziguinchor	Senegal	Transport	HIPC	2 396 000	10 000 000
Compagnie Sucrière du Tchad - Garantie	Chad	Agro-industry	Environmental & social	1 800 000	11 800 000
Gilgel Gibe II -Hydropower Plant	Ethiopia	Energy	HIPC	18 410 000	50 000 000
KPLC Grid Development Project	Kenya	Energy	HIPC	10 290 000	43 000 000
VRA VII	Ghana	Energy	HIPC	2 580 000	10 500 000
Maputo Water Supply	Mozambique	Water	HIPC	9 152 000	31 000 000
Fiji Power	Fiji	Energy	Environment	4 251 000	24 500 000
Ecocimento Fibre Cement Project	Mozambique	Industry	Environment	157 070	1 300 000
West African Gas Pipeline	Regional-West Africa	Energy	HIPC	18 148 000	75 000 000
Small Town Water and Sanitation Project	Ethiopia	Water	HIPC	4 608 000	16 500 000
BLPC IV Wind Power Project	Barbados	Energy	Environment	1 960 000	9 750 000
Pacific Islands Financing Facility II-B	Regional- Pacific	Financial sector	Natural disaster recovery	327 000	2 000 000
Maseru Wastewater Project	Lesotho	Water	Social	3 176 000	14 300 000
Programme Eau Sénégal- SONES water programme	Senegal	Water	Social	1 408 000	15 000 000
SONEB - Alimentation en Eau Urbaine	Benin	Water	HIPC	4 011 000	13 000 000
Jirama Andekaleka Hydro	Madagascar	Energy	HIPC	8 028 000	24 500 000
AEP Ouagadougou II	Burkina Faso	Water	HIPC	5 917 000	18 500 000
NFC Forestry Project - under global authorisation	Uganda	Forestry	Environment	677 000	5 000 000
Malawi Peri-Urban Water and Sanitation	Malawi	Water	HIPC	3 895 000	15 750 000
INGA Power Rehabilitation	Congo (DR)	Energy	HIPC	18 786 000	110 000 000
Norman Manley International Airport	Jamaica	Infrastructure	Privatisation	3 500 000	35 000 000
<b>TOTAL</b>				<b>125 637 070</b>	<b>551 650 000</b>
<b>Second Financial Protocol: amount of the interest rate subsidy appropriation: 400,000,000</b>					
Assainissement Dakar	Senegal	Sewerage	HIPC	5 644 000	20 000 000
<b>TOTAL</b>				<b>5 644 000</b>	<b>20 000 000</b>

OCT Contract name	Country/ Region	Sector	Justification	Estimated subsidy amount in EUR	Loan amount in EUR
<b>First Financial Protocol: amount of the interest rate subsidy appropriation: 2,000,000</b>					
BCI credit line	New Caledonia	Financial sector	Environment	500 000	5 000 000
SOCREDO credit line	French Polynesia	Financial sector	Environment	500 000	5 000 000
<b>TOTAL</b>				<b>1 000 000</b>	<b>10 000 000</b>
<b>Second Financial Protocol: amount of the interest rate subsidy appropriation: 1,500,000</b>					
No operation so far				-	-

This is fully in line with the IF's risk-bearing nature and focus on financial sector operations.

So far, guarantee operations account for only 6% of signed commitments. The Bank is exploring ways to further develop the guarantee portfolio by promoting the use of guarantee products, notably to mobilise local resources and alleviate the foreign exchange risk for ACP and OCT operators, in particular those whose revenues are denominated in local currency.

Loans are extended in euros, widely traded currencies and, where feasible, in local ACP currencies, in line with the provision of the Cotonou Agreement which enables the Bank to bear the forex risk on local currencies, notably for supporting SMEs. The IF's ability, in certain circumstances, to provide local currency financing is a major value added in meeting the requirements of SMEs and other companies with very little, if any, foreign exchange revenues. Local currency operations totalled the equivalent of EUR 207.5m for 23 operations in the following currencies: CFA franc, Dominican peso, Fiji dollar, Kenyan shilling, Mauritanian ouguiya, Rwandese franc, South African rand and Ugandan shilling.

#### ⇒ Reflows

With the implementation of the IF now well under way, reflows are progressively building up as the first repayments under earlier investments (both debt and equity) begin to take place. In line with the terms of the Cotonou Agreement and the objective of ensuring the financial sustainability of the IF, these reflows will be reinvested into new operations. At the end of 2008, accumulated reflows stood at EUR 274m, of which EUR 169m<sup>16</sup> for 2008 only. This figure includes two fairly large early repayments. Capital repayment of loans and interest income on ongoing projects account for the bulk of this figure. Such reflows should provide a comfortable basis on which to build up the IF portfolio at an aimed level of EUR 450m per year. However, the environment in which the IF operates and the financial crisis could impact on the level of lending.

#### ⇒ Risk profile

The need to ensure the long-term financial sustainability of the IF implies the close monitoring of its risk profile and exposure limits. Each operation is subject to a thorough risk analysis at the time of its appraisal by the Bank's team, followed by close monitoring of project implementation in the field and regular reviews – at least annual – of the financial, economic and even technical aspects. At the end of 2008, the IF portfolio was characterised by a concentration of so-called “satisfactory” and “acceptable” risk operations, with predominance of the latter. Prudential limits related to foreign exchange and high-risk instruments (equity) were complied with, even though the impact of the financial crisis (see box 2) started to emerge, resulting in a higher than anticipated level of provisioning. Prospects for 2009 are a matter of concern, hence the need for greater attention and monitoring of a number of operations, notably those related to certain commodities and thus mining.

<sup>16</sup> Figure subject to change depending on the impact of swap reimbursements, yet to be confirmed.



*Meeting with the ACP Committee of Ambassadors, ACP House, Brussels, 7 July 2008.*

## Partnerships

### “Taking part in the global partnership for development”

Throughout 2008, the Bank maintained its drive to improve the quality of its operations and their impact on growth and development.

Such efforts have been based on strengthened partnerships and enhanced cooperation with the European Commission and the Member States, bilateral and multilateral donors, international financial institutions and ACP/OCT stakeholders.

The Bank plays an active role in the implementation of the principles of coordination and harmonisation re-stated in various forums over the year, notably in Accra and Qatar during the third level forum on Aid Effectiveness and the UN conference on financing for development.

Coherence and synergies between **EU development aid** and the Bank's operations are achieved through different initiatives and events, including regular meetings on policy matters as well as country, sector or project-specific issues, including, among others:

- ⇒ the EU-Africa Infrastructure Partnership, with which the Bank is closely associated. The Bank was instrumental in the process that led to the setting up of the EU-Africa Infrastructure Trust Fund (see box 5) and gives priority to making it a success. The Fund is aimed at fostering closer collaboration between EU donors and project financiers in order to finance regional infrastructure projects in sub-Saharan Africa;
- ⇒ co-funding of operations through the Water Facility (WF), which enables the EIB to collaborate with other donors, NGOs and community-based organisations in financing pro-poor urban water and sanitation projects. The WF also co-finances, along with the EIB, a EUR 3m ACP Water Project Preparation Facility (WPPF), a TA instrument which will support the preparation of further projects over the three-year period 2008-2010. In parallel, the Bank has been maintaining active contacts with other financing institutions (notably the World Bank and the AfDB) in order to agree upon a common strategy for the sector and to coordinate project initiatives.

Cooperation with **IFIs and DFIs** allows for resource sharing with higher leveraging effects and value added. Cooperation ranges from dialogue on institutional matters to mutual consultation on horizontal topics and thematic issues and cooperation on operational lending. Cooperation includes upstream dialogue on project identification, joint appraisal or monitoring work and co-financing, often characterised by a very open and systematic dialogue at staff level. Since the inception of the Cotonou I mandate and the OCT Decision in 2003, out of a total of 110 projects signed (accounting for EUR 2 059m), 55 projects have been co-financed with MFIs/EDFIs, representing EUR 1 167m in terms of signatures.

In addition to co-financing, the Bank is actively involved in a number of initiatives promoting closer cooperation amongst the **donor community and development stakeholders**, and will continue to play an active role to ensure the success of these initiatives, notably:

- ⇒ the Infrastructure Consortium for Africa (ICA) hosted by the AfDB. The Bank has been involved in assisting project identification and coordination in Africa, notably within the framework of the EU-Africa Infrastructure Trust Fund (see above and box 5). Links with the NEPAD Infrastructure Project Prepara-

### Box 13: European Financing Partners (EFP)

#### Coordination of national and European development policy cooperation in the ACP region

EFP is a special purpose vehicle created in 2004 and jointly owned by the European development finance institutions (EDFIs) and the EIB. EFP funds commercially viable, mainly medium-sized, private sector projects in the ACP States. Financing packages in support of individual projects can range between EUR 1m and EUR 25m in size. EFP contributes up to 75% of the funds (of which two thirds are provided from the IF and one third from EDFIs), while the EDFI member submitting the project – referred to as the promoting partner – contributes the remaining 25%.

Under the EFP structure, the EIB participates in the financing of projects that are promoted, appraised and monitored by the EDFIs. Out of EFP's existing EUR 330m total funding capacity, EUR 190m has been provided by the IF.

Over the years, EFP's procedures and processes have been streamlined, contributing to accelerating the submission and approval of projects.

At the end of 2008, EFP had committed EUR 248m in favour of 22 projects in 10 countries. In early 2009, all the funds provided by the IF envelope will have been allocated and a replenishment of EFP is envisaged for 2009.



*Inter-institutional events  
(Interact: AFD-KfW-EIB)  
Luxembourg, 8-9 May 2008.*





tion Facility (IPPF), hosted by the AfDB, have been strengthened;

- ⇒ the Limelette process, which aims at reinforcing coordination and cooperation between the World Bank and the EC, and with which the Bank and the IFC have been associated actively since 2006;
- ⇒ the Making Finance Work for Africa (MFW4A) partnership (see box 3), which was established with the support of the German Presidency of the G8 and aims at promoting more effective support for financial sector development with a clear focus on upstream activities at the policy and institutional levels;
- ⇒ the Interact/EDFI group. Cooperation with the EDFIs principally takes place under the European Financing Partners (EFP) framework (see box 13), which is a good example of the general trend in the donor community to coordinate activities, cooperate and co-finance with a view to channelling development finance more efficiently to the developing

world. Under EFP, the EIB participates in the financing of projects that are promoted, appraised and monitored by the EDFIs, which are remunerated through an annual management fee. The experience of this cooperation is positive, both in terms of the intensification of the cooperation between the EIB and the EDFIs, and in terms of the diversified portfolio of projects financed under the scheme by a number of EDFIs, which is a key objective of the EFP arrangement;

- ⇒ the Extractive Industries Transparency Initiative, which aims to strengthen governance by improving transparency and accountability in the extractive industries (see box 9). On a wider level, the Approach Statement on Corporate Governance by DFIs for equity operations supports the development and adoption by DFIs of guidelines, policies or procedures to take into account corporate governance issues in due diligence and investment decisions and the promotion and use of international standards.

### “Increasing awareness of the IF and the Bank’s activities in the ACPs/OCTs”

Throughout the year, the Bank has attended and hosted events and workshops to raise awareness of the IF and the Bank’s mandate in the ACPs and OCTs.

The European Development Days, presentations made to the joint ACP-EC Committee of Ambassadors in July 2008, civil society’s – notably, Counter Balance’s – and Multilateral Development Banks’ (MDBs) expert or annual meetings have provided the Bank with welcome arenas in which to explain its work and enhance its network of partners. Dialogue with NGOs has been constructive, with the Bank taking stock of their suggestions, replying to inquiries and responding to criticisms. The Bank works to build cooperation with such entities, especially those addressing the same issues as

the Bank, i.e. sustainable development, environmental protection and poverty alleviation. Such cooperation is carried out by both the Bank’s Communication Department and staff involved in operations.

The Bank hosted and contributed to the organisation of a number of events ranging from a seminar on regional infrastructure in Africa (in collaboration with ICA) and the European Microfinance Awards 2008 hosted by the European Microfinance Platform to the Interact annual meeting.

## Organisation and staffing





### “Relying on a pool of dedicated professionals”

#### EIB head office in Luxembourg

As part of the Directorate for Lending Operations outside the European Union, the ACP-IF Department is responsible for the management of projects and EIB activities carried out in the OCTs and ACP countries, including the Republic of South Africa. Tasks cover the whole project cycle, from identification to appraisal and actual project implementation and operation.

To carry out these tasks, the Department, in close cooperation with the project promoter, relies on multidisciplinary teams, drawing on resources from other Bank departments, namely engineers, economists and risk analysts. It also benefits from the services of the Bank's non-operational support Directorates such as Human Resources, Information Technology and Financial Control. The ACP-IF Department's move in early 2009 to the EIB's expanded Kirchberg head office buildings will ease communication and interaction among the different Departments.

At the end of 2008, a total of 114 Equivalent Full-Time Staff (EFT) were assigned to ACP/OCT-related operations throughout the Bank.

### EIB External Regional Offices in the ACP countries

The Luxembourg-based resources are complemented in the field by five External Regional Offices in Dakar, Fort-de-France, Nairobi, Sydney and Tshwane (Pretoria), covering respectively West Africa and Sahel, the Caribbean region, Central and East Africa, the Pacific and Southern Africa and the Indian Ocean. At the end of 2008, 10 EIB staff, supported by 17 locally hired contract staff were assigned to the five External Regional Offices.

The presence of staff locally is instrumental in raising the development profile of the Bank. Through its Regional Offices, the Bank can more readily visit projects regularly and facilitate communication and cooperation/coordination with project promoters, donors in the region, national authorities, European Commission delegations and civil society. Swift reaction at short notice to local needs as they arise contributes to improving the portfolio, often pre-empting problems and mitigating risks.

By channelling local and regional information to headquarters and promoting enduring close liaisons with operational divisions in Luxembourg, the Regional Offices are essential for identifying project opportunities and adding value at the project development stage.

Following up on the activities initiated in 2007, the **Dakar** Office was instrumental in finalising the appraisal and signature of two projects in the water and sanitation sectors. Regular contacts with local authorities and close interaction with promoters resulted in the signature of a drinking water supply project in Ouagadougou, Burkina Faso, and of an industrial sewerage project in the Bay of Hann, Senegal.

The **Fort-de-France** Regional Office has been active throughout the year at various conferences, workshops and donor meetings as well as through regular contact with local delegations of the European Com-

mission and other multilateral and bilateral agencies in the region. Direct intervention of the Regional Representation has been particularly useful in advancing projects in the operational pipeline: in Jamaica, a global loan for renewable energy; in Dominica, geothermal exploration in cooperation with AFD and in Belize, the financing of small and medium-sized enterprises – especially in the citrus and sugar sectors.

In 2008, the **Nairobi** Office's contributions to the project pipeline included upstream preparatory work relating to the Kenyan and sub-regional energy, transport and financial sectors. Throughout the year, the office continued to provide supervisory support to the division's ongoing projects (including some financed under the former Lomé conventions), amongst which the DAWASA project in Tanzania, the ASECNA project in Gabon, the Chad-Cameroon pipeline project and global loans in Rwanda. As regards the Bank's equity investments in East Africa, the Nairobi Office was instrumental in monitoring and representing the Bank for the Aureos East Africa Fund, the Business Partners (Kenya) Fund and the Fedha (Tanzania) Fund.

During its first full year of operation, the **Sydney** Office has contributed to increasing the Bank's visibility in the Pacific, notably by attending and making presentations at various conferences and regional meetings. This has generated a steady rise in the number of visitors and requests for assistance. In addition, the existence of the Regional Office has led to increased cooperation with donors, in particular the Sydney-based multilateral institutions, allowing the identification of a number of infrastructure projects, in particular in the renewable energy sector, in both Papua New Guinea and the Solomon Islands. Close contacts between the Pacific Regional Office and local financial institutions in the Pacific Islands has further increased lending and technical assistance activities with these institutions and their respective associations.

The **Tshwane (Pretoria)** Regional Office has had a marked influence on operations in Southern Africa and the Indian Ocean, whether through meeting directly



with individual clients, or the increased visibility from networking with multi- and bilateral institutions, governments and agencies, banks, and regional organisations (e.g. SADC – Southern African Development Community, COMESA – Common Market for Eastern and Southern Africa) that are increasingly involved in supporting investment, especially infrastructure. South Africa is in many respects the economic “locomotive” for the region. The location of the office in Tshwane (seat of government, but also close to Johannesburg, the continent’s largest business and conference centre) has proven to be a fortunate choice. The office also works with a very active programme under the separate mandate for financing in South Africa. Amongst the highlights of 2008 were presentations with the World Bank on infrastructure financing facilities to ministers, government officials and business people from Malawi, Mozambique and Zambia; participation in government-sponsored investment conferences in Botswana, Malawi, Mauritius, Mozambique, Zambia; contributions to SADC Energy and Investment Corridors conferences. The opportunity has also been taken to underline the Bank’s priority focus on energy and climate change, with participation in various events dealing with co-generation, carbon markets, and renewable energy. The office represented the Bank at an EC-sponsored high-level gathering of all the COMESA states on regional economic integration. Good cooperation with the Malawi and Mozambique EC delegations is helping to advance activity in regional transport and in Lesotho and Malawi in water sector development. It is notable that three projects signed in South Africa originated locally; moreover, the Malawi Global Loan III signed in 2008 was appraised mainly from Pretoria.



Dakar Office



Nairobi Office



Tshwane (Pretoria) Office



Fort-de-France Office



Sydney Office





## Financial review

The global financial turmoil and falling commodity prices started affecting a number of IF-financed projects towards the end of 2008, notably in the countries of the Southern African region, the economies of which are more exposed. In line with the principles underlying the International Financial Reporting Standards, on the basis of which the IF financial statements are prepared, the Bank has adopted a cautious approach in its year-end review of the IF portfolio and the valuation of individual investments.

This has resulted in a EUR 52.7m allowance for impairment recorded at the end of 2008, mainly concerning mining as well as small-scale industrial and services related projects in Botswana, Madagascar, Mauritania, Mauritius, Mozambique, Senegal and Zambia. Consequently, the IF reported a net loss of EUR 26m, compared to a EUR 36m profit in the previous year.

Total assets of EUR 1 145.0m comprised EUR 776.6m of outstanding loans and equity investments, up by 14% compared to 2007, 53% of which consisted of US-dollar denominated investments. The increase in outstanding commitments was largely financed by reflows from previous operations. Despite the loss reported in 2008, retained earnings remained at a comfortable level of EUR 51.0m, equivalent to 6% of total equity, which consists mainly of the contributions received from the Member States, EUR 845m at the end of 2008, equivalent to 27% of the total IF capital endowment.

Following entry into force of the second financial protocol of the Cotonou Agreement on 1 July 2008, and taking into account the appraisal or other fees charged by the IF for specific projects, only half of the costs incurred by the Bank for managing the IF were covered by the Member States, i.e. EUR 17.8m. The balance was borne by the IF.

The full IF financial statements as well as related notes are presented in Annex 5.



## Annexes

1. Investment Facility portfolio of signed operations 2003-2008 (ACPs and OCTs)
2. Portfolio of signed own resources operations 2003-2008
3. Overview of Investment Facility lines of credit
4. Organisation chart
5. Financial statements of the Investment Facility as at 31 December 2008
6. Glossary
7. EIB addresses







## ⇒ 1. Investment Facility portfolio of signed operations 2003-2008

ACP States					(in EUR m)
Contract name	Region/Country	Sector	Nature of operation	Private or public sector	Signed amount in EUR m
<b>2003</b>					
AFRICAN BANKS HOLDINGS, LLC	Regional - Africa	Services	Equity	Private	30.00
AUREOS EAST AFRICA FUND	Regional - East Africa	Services	Equity	Private	6.80
AUREOS SOUTHERN AFRICA VENTURE CAPITAL	Regional - Southern Africa	Services	Equity	Private	10.50
AUREOS WEST AFRICA FUND	Regional - West Africa	Services	Equity	Private	8.75
BEL OMBRE HOTEL B (SUBORDINATED LOAN)	Mauritius	Services	Subordinated loan and quasi equity	Private	3.30
BEL OMBRE HOTEL C (INDIRECT EQUITY)	Mauritius	Services	Equity	Private	2.80
DEV. DU SECTEUR PRIVE PG II A CAMEROUN	Cameroon	Credit lines	Credit line *	Private	3.00
DEV. DU SECTEUR PRIVE PG II B CAMEROUN	Cameroon	Credit lines	Credit line *	Private	25.00
EBTR MAURITANIE	Mauritania	Urban infrastructure	Senior loan *	Private	4.00
KANSANSHI COPPER MINE	Zambia	Industry	Subordinated loan and quasi equity	Private	34.00
PG BURKINA FASO CREDIT BAIL II	Burkina Faso	Credit lines	Credit line *	Private	2.00
PG BURKINA FASO II	Burkina Faso	Credit lines	Credit line *	Private	10.00
<b>Sub-total for 2003</b>					<b>140.15</b>
<b>2004</b>					
AFRICAN LION MINING FUND II	Regional - ACP	Services	Equity	Private	7.00
BOAD IV B FACILITE DE GARANTIE	Regional - West Africa	Services	Guarantee	Private	25.00
BOAD IV C PRISE DE PARTICIPATION	Regional - West Africa	Services	Equity	Private	4.60
DFCU LEASING GLOBAL LOAN	Uganda	Credit lines	Credit line *	Private	5.00
EDFI EUROPEAN FINANCING PARTNERS (EFP)	Regional - ACP	Services	Agency agreement	Private	90.00
EUROPEAN FINANCING PARTNERS (EFP)	Regional - ACP	Services	Agency agreement	Private	0.01
FABULOUS FLOWERS	Botswana	Agriculture, fisheries, forestry	Subordinated loan and quasi equity	Private	2.00
MAGADI SODA PURE ASH PROJECT / B (IF)	Kenya	Industry	Senior loan	Private	11.37
MAGADI SODA PURE ASH PROJECT / C (IF)	Kenya	Industry	Subordinated loan and quasi equity	Private	1.65
MOMA TITANIUM MINERALS	Mozambique	Industry	Senior loan	Private	15.00
MOMA TITANIUM MINERALS	Mozambique	Industry	Subordinated loan and quasi equity	Private	40.00
MOZ/RSA NATURAL GAS-UPSTREAM COMPONENT	Mozambique	Energy	Senior loan	Public	10.00
NIGERIA GLOBAL LOAN	Nigeria	Credit lines	Credit line	Private	50.00
NOVOTEL DENARAU PROJECT (IF)	Fiji	Services	Equity	Private	5.00
PRET GLOBAL II (GABON)	Gabon	Credit lines	Credit line *	Private	6.50
PRET GLOBAL II (GABON) B	Gabon	Credit lines	Credit line *	Private	3.50

\* in local currency

Contract name	Region/Country	Sector	Nature of operation	Private or public sector	Signed amount in EUR m
SAMOA VENTURE CAPITAL FUND	Samoa	Services	Equity	Private	0.35
SHORECAP INTERNATIONAL LTD (SCI)	Regional - ACP	Services	Equity	Private	2.50
SNIM VII	Mauritania	Energy	Senior loan	Private	22.50
SONABEL III	Burkina Faso	Energy	Senior loan	Public	15.25
WESTIN ROCO KI BEACH AND GOLF RESORT	Dominican Republic	Services	Subordinated loan and quasi equity	Private	20.00
<b>Sub-total for 2004</b>					<b>337.23</b>
<b>2005</b>					
ALBION RESORT MAURITIUS B	Mauritius	Services	Equity	Private	5.00
AQUALMA III	Madagascar	Agriculture, fisheries, forestry	Senior loan	Private	5.00
BANQUE REGIONALE DES MARCHES B	Regional - West Africa	Services	Equity	Private	0.61
BIMAO	Regional - West Africa	Services	Guarantee *	Private	5.00
CAPE FUND II	Regional - West Africa	Services	Equity	Private	11.90
CAP VERT - SECTEUR FINANCIER PG II	Cape Verde	Credit lines	Credit line	Private	8.00
CLICO GLOBAL LOAN	Trinidad and Tobago	Credit lines	Credit line	Private	20.00
COMPAGNIE SUCRIERE DU TCHAD	Chad	Industry	Guarantee	Private	11.80
DANGOTE CEMENT - C	Nigeria	Industry	Senior loan	Private	33.06
DEVELOPMENT FINANCE LIMITED IX	Trinidad and Tobago	Credit lines	Credit line	Private	7.00
ETUDE EL AOJ	Mauritania	Industry	Equity	Private	5.00
GILGEL GIBE II HYDROPOWER PLANT	Ethiopia	Energy	Senior loan	Public	50.00
GRENLEC III PROJECT	Grenada	Energy	Senior loan	Private	5.00
KPLC GRID DEVELOPMENT	Kenya	Energy	Senior loan	Public	43.00
ADVANS	Regional - ACP	Services	Equity	Private	3.50
LIAISON MARITIME DAKAR-ZIGUINCHOR	Senegal	Transport	Senior loan	Public	10.00
MOMA TITANIUM C	Mozambique	Industry	Subordinated loan and quasi equity	Private	2.75
MOPANI COPPER PROJECT	Zambia	Industry	Senior loan	Private	48.00
NIGER - PG SECTEUR FINANCIER II	Niger	Credit lines	Credit line *	Private	8.00
OLKARIA II EXTENSION	Kenya	Energy	Senior loan	Public	32.50
PACIFIC ISLANDS FINANCING FACILITY	Regional - Pacific	Credit lines	Credit line	Private	7.00
PACIFIC ISLANDS FINANCING FACILITY B	Regional - Pacific	Credit lines	Credit line	Private	6.00
SEPH-NOUADHIBOU	Mauritania	Agriculture, fisheries, forestry	Senior loan	Private	2.50
SEPH-NOUADHIBOU	Mauritania	Industry	Senior loan	Private	2.50
VRA VII	Ghana	Energy	Senior loan	Public	10.50
ZESCO KARIBA NORTH II	Zambia	Energy	Senior loan	Public	7.60
<b>Sub-total for 2005</b>					<b>351.22</b>
<b>2006</b>					
ACCESS MICROFINANCE HOLDING	Regional - ACP	Services	Equity	Private	3.46
ADEMI V	Dominican Republic	Services	Equity	Private	0.23
ADEMI V B	Dominican Republic	Credit lines	Credit line *	Private	3.00
AES SONEL-ELECTRICITY SUPPLY	Cameroon	Energy	Senior loan	Private	55.00
AES SONEL-ELECTRICITY SUPPLY B	Cameroon	Energy	Senior loan	Private	10.00
ALBION RESORT MAURITIUS	Mauritius	Services	Senior loan	Private	14.00



Contract name	Region/Country	Sector	Nature of operation	Private or public sector	Signed amount in EUR m
AMENAGEMENT HYDROELECTRIQUE DE FELOU	Regional - West Africa	Energy	Senior loan	Public	11.00
AMENAGEMENT HYDROELECTRIQUE DE FELOU B	Regional - West Africa	Energy	Senior loan	Public	11.00
AMENAGEMENT HYDROELECTRIQUE DE FELOU C	Regional - West Africa	Energy	Senior loan	Public	11.00
ASTRUM TRAVEL HELICOPTER SERVICES	Belize	Transport	Senior loan	Private	3.74
BDEAC PRET GLOBAL III	Regional - Central Africa	Credit lines	Credit line	Private	15.00
BDEAC PRET GLOBAL III B	Regional - Central Africa	Services	Guarantee	Private	5.00
BPI KENYA SME FUND	Kenya	Services	Equity	Private	4.24
BPI MADAGASCAR SME FUND	Madagascar	Services	Equity	Private	2.00
CARIBBEAN DEV BANK IV B	Regional - Caribbean	Services	Guarantee	Private	20.00
DFCU LEASING GLOBAL LOAN II	Uganda	Credit lines	Credit line *	Private	10.00
EADB REGIONAL FINANCE FACILITY	Regional - East Africa	Credit lines	Credit line	Private	25.00
ECOCIMENTO FIBRE CEMENT	Mozambique	Industry	Senior loan	Private	1.30
EDFI EUROPEAN FINANCING PARTNERS II	Regional - ACP	Credit lines	Agency agreement	Private	90.00
EDFI EUROPEAN FINANCING PARTNERS II B	Regional - ACP	Services	Agency agreement	Private	5.00
EDFI EUROPEAN FINANCING PARTNERS II C	Regional - ACP	Services	Agency agreement	Private	5.00
EMP AFRICA FUND II	Regional - Africa	Services	Equity	Private	40.00
FIRST BANK OF NIGERIA	Nigeria	Services	Senior loan	Private	35.00
FIRST BANK OF NIGERIA B	Nigeria	Services	Senior loan	Private	15.00
GHANA FINANCIAL SECTOR GLOBAL LOAN II B	Ghana	Credit lines	Credit line	Private	15.00
I & P	Regional - Africa	Services	Equity	Private	3.25
KOLOMBANGARA FOREST PROJECT	Solomon Islands	Agriculture, fisheries, forestry	Senior loan	Private	3.50
KOUILOU MAGNESIUM PHASE I	Congo	Industry	Subordinated loan and quasi equity	Private	13.00
KULA FUND II	Regional - Pacific	Services	Equity	Private	4.40
LUMWANA COPPER PROJECT A	Zambia	Industry	Subordinated loan and quasi equity	Private	48.00
LUMWANA COPPER PROJECT B	Zambia	Industry	Senior loan	Private	19.00
MAPUTO WATER SUPPLY	Mozambique	Water, sewerage	Senior loan	Public	31.00
NAMIBIA - OLD MUTUAL MIDINA FUND	Namibia	Credit lines	Credit line	Public	4.00
PACIFIC ISLANDS FINANCING FACILITY II	Regional - Pacific	Credit lines	Credit line	Private	5.00
RW - GL II PRIVATE SECTOR SUPPORT A	Rwanda	Credit lines	Credit line *	Private	3.00
SMALL ENTERPRISES GLOBAL LOAN	Dominican Republic	Credit lines	Credit line *	Private	4.00
SMALL TOWN WATER & SANITATION PROGRAMME	Ethiopia	Water, sewerage	Senior loan	Public	16.50
SOCIETE GENERALE MAURITANIE	Mauritania	Services	Equity	Private	5.00
<b>Sub-total for 2006</b>					<b>569.62</b>

Contract name	Region/Country	Sector	Nature of operation	Private or public sector	Signed amount in EUR m
<b>2007</b>					
ACCORD CADRE GARANTIE AFRIQUE CENTRALE	Regional - Central Africa	Services	Guarantee *	Private	50.00
ADEMI V C	Dominican Republic	Services	Equity *	Private	0.52
AFRICAP II	Regional - Africa	Services	Equity	Private	5.00
AIC CARIBBEAN FUND BARBADOS	Regional - Caribbean	Services	Equity	Private	45.00
BUJAGALI HYDROELECTRIC PROJECT	Uganda	Energy	Senior loan	Public	98.50
CAPITAL FINANCIAL HOLDING	Regional - Central Africa	Services	Equity	Private	5.00
CLICO GLOBAL LOAN B	Trinidad and Tobago	Credit lines	Credit line	Private	10.00
I&P CAPITAL II INVESTMENT FUND	Regional - Indian Ocean	Services	Equity	Private	4.61
MARTIN S DRIFT KIMBERLITE PROJECT	Botswana	Industry	Senior loan	Private	5.00
MICROCRED (PLANET BANK)	Regional - Africa	Services	Equity	Private	3.00
PACIFIC ISLANDS FINANCING FACILITY II B	Regional - Pacific	Credit lines	Credit line	Private	2.00
PEFF-UGANDA	Uganda	Credit lines	Credit line *	Private	30.00
PRET GLOBAL III (GABON)	Gabon	Credit lines	Credit line *	Private	7.00
PRET GLOBAL PRO-PME II	Cameroon	Credit lines	Credit line *	Private	4.00
PRIVATE ENTERPRISE FINANCE FACILITY	Kenya	Credit lines	Credit line *	Private	20.00
RURAL IMPULSE MICROFINANCE FUND (EQUITY)	Regional - ACP	Services	Equity	Private	1.30
RURAL IMPULSE MICROFINANCE FUND MEZZ	Regional - ACP	Services	Equity	Private	1.70
RW - GL II PRIVATE SECTOR SUPPORT B	Rwanda	Credit lines	Credit line *	Private	7.00
TVCABO MULTIMEDIA	Angola	Telecommunications	Senior loan	Private	15.00
<b>Sub-total for 2007</b>					<b>314.63</b>
<b>2008</b>					
JIRAMA WATER II (MADAGASCAR)	Madagascar	Water, sewerage	Senior loan	Public	23.50
MALAWI GLOBAL LOAN III	Malawi	Credit lines	Credit line	Private	15.00
DERBA MIDROC CEMENT COMPANY	Ethiopia	Industry	Senior loan	Private	29.05
AFRICAN LION MINING FUND III	Regional - Africa	Services	Equity	Private	11.00
ATLANTIC COAST REGIONAL FUND	Regional - Africa	Services	Equity	Private	15.00
ACCESS BANK LIBERIA	Liberia	Services	Equity	Private	1.00
DR FINANCING FACILITY	Dominican Republic	Credit lines	Credit line*	Private	5.00
DR FINANCING FACILITY B	Dominican Republic	Credit lines	Credit line*	Private	10.00
DR FINANCING FACILITY C	Dominican Republic	Credit lines	Credit line*	Private	3.50
AUREOS AFRICA FUND	Regional - Africa	Services	Equity	Private	27.00
ADLEVO CAPITAL AFRICA	Regional - Africa	Services	Equity	Private	15.00
PMND C (DIGICEL TONGA)	Regional - Pacific	Telecommunications	Senior loan	Private	3.90
PMND B (DIGICEL VANUATU)	Regional - Pacific	Telecommunications	Senior loan	Private	4.80
PMND (DIGICEL SAMOA)	Regional - Pacific	Telecommunications	Senior loan	Private	3.70
PMND D (DIGICEL FIJI)	Regional - Pacific	Telecommunications	Senior loan	Private	10.70
CAPITAL INVESTMENT LINE GL III	Zambia	Credit lines	Credit line	Private	20.00
INGA POWER REHABILITATION B	Congo (Democratic Republic)	Energy	Senior loan	Private	55.00



Contract name	Region/Country	Sector	Nature of operation	Private or public sector	Signed amount in EUR m
SMALL ENTERPRISES GLOBAL LOAN B	Dominican Republic	Services	Equity*	Private	1.00
NFC FORESTRY PROJECT	Uganda	Agriculture, fisheries, forestry	Senior loan	Private	5.00
NIGER - PG SECTEUR FINANCIER III	Niger	Credit lines	Credit line*	Private	8.00
AFRICINVEST FUND II LLC	Regional - Africa	Services	Equity	Private	20.00
NORMAN MANLEY INTERNATIONAL AIRPORT	Jamaica	Transport	Senior loan	Public	35.00
SOCIETE DES PLANTATIONS DE MBANGA	Cameroon	Agriculture, fisheries, forestry	Senior loan	Private	4.10
<b>Sub-total for 2008</b>					<b>326.25</b>
<b>TOTAL</b>					<b>2 039.10</b>
<b>OCT</b>					
Contract name	Region/Country	Sector	Nature of operation	Private or public sector	Signed amount in EUR m
<b>2007</b>					
BCI - LIGNE DE CREDIT ENVIRONNEMENTAL	New Caledonia	Credit lines	Credit line	Private	5.00
SOCREDO LIGNE DE CREDIT ENVIRONNEMENT	French Polynesia	Credit lines	Credit line	Private	5.00
<b>Sub-total for 2007</b>					<b>10.00</b>
<b>2008</b>					
OCT FINANCING FACILITY	Regional - OCT	Credit lines	Credit line	Private	10.00
<b>Sub-total for 2008</b>					<b>10.00</b>
<b>TOTAL</b>					<b>20.00</b>

## ⇒ 2. Portfolio of signed own resources operations 2003-2008

ACP States	(in EUR m)				
Contract name	Region/Country	Sector	Nature of operation	Private or public sector	Signed amount in EUR m
<b>2003</b>					
BEL OMBRE HOTEL A (SENIOR LOAN)	Mauritius	Services	Senior loan	Private	6.10
<b>Sub-total for 2003</b>					<b>6.10</b>
<b>2004</b>					
BOAD PG IV A	Regional - West Africa	Credit lines	Senior loan	Private	25.00
MAGADI SODA PURE ASH PROJECT / A	Kenya	Industry	Senior loan	Private	8.93
MAURITIUS CONTAINER TERMINAL II	Mauritius	Transports	Senior loan	Public	14.00
NOVOTEL DENARAU PROJECT	Fiji	Services	Senior loan	Private	6.00
VINLEC IV	Saint Vincent and Grenadines	Energy	Senior loan	Public	8.30
<b>Sub-total for 2004</b>					<b>62.23</b>
<b>2005</b>					
CARIBBEAN DEV BANK III FACILITY	Regional - Caribbean	Credit lines	Senior loan	Public	40.00
DANGOTE CEMENT - A	Nigeria	Industry	Senior loan	Private	57.85
DANGOTE CEMENT - B	Nigeria	Industry	Senior loan	Private	33.06
SBM GLOBAL LOAN	Mauritius	Credit lines	Senior loan	Private	20.00
<b>Sub-total for 2005</b>					<b>150.91</b>
<b>2006</b>					
BLPC IV WIND POWER	Barbados	Energy	Senior loan	Private	9.75
FIJI POWER	Fiji	Energy	Senior loan	Public	24.50
GHANA FINANCIAL SECTOR GLOBAL LOAN II C	Ghana	Credit lines	Senior loan	Private	40.00
LUMWANA COPPER PROJECT C	Zambia	Industry	Senior loan	Private	18.00
WEST AFRICAN GAS PIPELINE (WAGP)	Ghana	Energy	Senior loan	Public	75.00
<b>Sub-total for 2006</b>					<b>167.25</b>
<b>2007</b>					
AMBATOVY NICKEL PROJECT	Madagascar	Industry	Senior loan	Private	260.00
ECOBANK REGIONAL FACILITY	Regional - West Africa	Services	Senior loan	Private	50.00
INTERCONTINENTAL BANK	Nigeria	Services	Senior loan	Private	50.00
MASERU WASTEWATER PROJECT	Lesotho	Water, sewerage	Senior loan	Public	14.30
MUNALI NICKEL PROJECT	Zambia	Industry	Senior loan	Private	29.51
PROGRAMME EAU SENEGAL	Senegal	Water, sewerage	Senior loan	Public	15.00
SONEB-ALIMENTATION EN EAU URBAINE	Benin	Water, sewerage	Senior loan	Public	13.00
<b>Sub-total for 2007</b>					<b>431.81</b>



Contract name	Region/Country	Sector	Nature of operation	Private or public sector	Signed amount in EUR m
<b>2008</b>					
JIRAMA ANDEKALEKA HYDRO	Madagascar	Energy	Senior loan	Public	24.50
AEP OUAGADOUGOU II	Burkina Faso	Water, sewerage	Senior loan	Public	18.50
PORTS OF CAPE VERDE	Cape Verde	Transport	Senior loan	Public	47.00
INGA POWER REHABILITATION A	Congo (Democratic Republic)	Energy	Senior loan	Public	55.00
MALAWI PERI-URBAN WATER & SANITATION	Malawi	Water, sewerage	Senior loan	Public	15.75
CAPRIVI INTERCONNECTOR PROJECT	Namibia	Energy	Senior loan	Public	35.00
DFL REGIONAL SME	Regional - Caribbean	Credit lines	Senior loan	Private	9.00
ASSAINISSEMENT DAKAR	Senegal	Water, sewerage		Public	20.00
Sub-total for 2008					224.75
TOTAL					1 043.05

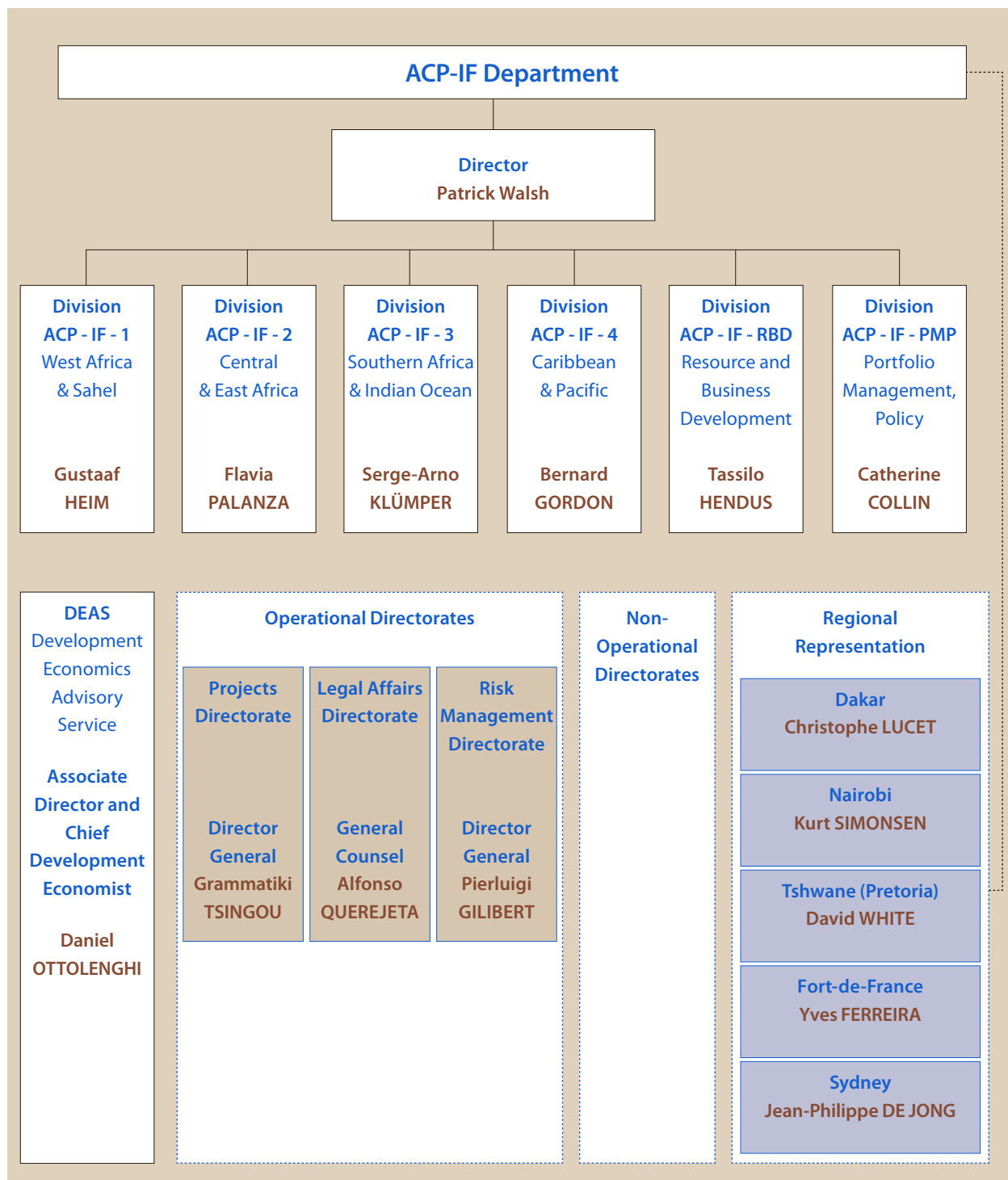
### ⇒ 3. Overview of Investment Facility lines of credit

Country	Name	Date of signature	Signed amount	Amount allocated	Number of allocations
<b>ACP STATES</b>					<b>(in EUR m)</b>
Burkina Faso	PG BURKINA FASO CREDIT BAIL II	08/12/03	12.00	8.85	30
Cameroon	DEV. DU SECTEUR PRIVE PG II A CAMEROUN	16/12/03	3.00	3.00	44
Uganda	DFCU LEASING GLOBAL LOAN	09/08/04	5.00	5.00	11
Gabon	PRET GLOBAL II (GABON)	18/10/04	10.00	3.50	4
Nigeria	NIGERIA GLOBAL LOAN	06/12/04	50.00	49.63	25
Regional - Pacific	PACIFIC ISLANDS FINANCING FACILITY - Development Bank of Samoa	15/10/05	7.00	5.29	202
Niger	NIGER - PG SECTEUR FINANCIER II	26/10/05	8.00	8.00	45
Regional - West Africa	BOAD IV B FACILITE DE GARANTIE	10/12/04	25.00	0.00	0
Trinidad and Tobago	CLICO GLOBAL LOAN	03/11/05	20.00	10.71	5
Regional - Pacific	PACIFIC ISLANDS FINANCING FACILITY B - Tonga Development Bank	15/12/05	6.00	0.07	1
Trinidad and Tobago	DEVELOPMENT FINANCE LIMITED IX	20/12/05	7.00	7.17	10
Cape Verde	CAP VERT - SECTEUR FINANCIER PG II	20/12/2005	8.00	0.00	0
Namibia	NAMIBIA - OLD MUTUAL MIDINA FUND	10/03/06	4.00	0.00	0
Regional - Central Africa	BDEAC PRET GLOBAL III	24/05/06	15.00	15.00	4
Uganda	DFCU LEASING GLOBAL LOAN II	28/06/06	10.00	5.17	10
Regional - East Africa	EADB REGIONAL FINANCE FACILITY	17/11/06	25.00	2.94	2
Regional - Pacific	PACIFIC ISLANDS FINANCING FACILITY II - National Bank of Palau	05/12/06	5.00	1.36	7
Dominican Republic	ADEMI V B	19/12/06	3.00	1.74	161
Dominican Republic	SMALL ENTERPRISES GLOBAL LOAN	19/12/06	3.20	1.75	3 454
Rwanda	RW - GL II PRIVATE SECTOR SUPPORT A	21/12/06	3.00	3.00	4
Ghana	GHANA FINANCIAL SECTOR GLOBAL LOAN II B	22/12/06	15.00	12.07	6
Rwanda	RW - GL II PRIVATE SECTOR SUPPORT B	02/02/07	7.00	3.53	11
Regional - Pacific	PACIFIC ISLANDS FINANCING FACILITY II B - Development Bank of Niue	23/02/07	2.00	0.00	0
Gabon	PRET GLOBAL III (GABON)	07/05/07	7.00	0.00	0
Cameroon	PRET GLOBAL PRO-PME II	28/06/07	4.00	2.51	19
Uganda	PEFF-UGANDA	31/08/07	30.00	6.88	10
Kenya	PRIVATE ENTERPRISE FINANCE FACILITY	07/12/07	20.00	0.00	0
Trinidad and Tobago	CLICO GLOBAL LOAN B	21/12/07	10.00	0.00	0
Malawi	MALAWI GLOBAL LOAN III	04/06/08	15.00	0.00	0
Dominican Republic	DR FINANCING FACILITY	15/07/08	18.50	0.00	0
Zambia	CAPITAL INVESTMENT LINE GL III	26/11/08	20.00	0.00	0
Niger	NIGER - PG SECTEUR FINANCIER III	19/12/08	8.00	0.00	0
<b>Total for the ACP states</b>			<b>385.70</b>	<b>157.17</b>	<b>4 065</b>
<b>OCT</b>					<b>(in EUR m)</b>
New Caledonia	BCI - LIGNE DE CREDIT ENVIRONNEMENTAL	29/11/07	5.00	0.00	0
French Polynesia	SOCREDO LIGNE DE CREDIT ENVIRONNEMENT	10/12/07	5.00	0.00	0
Regional - OCT	OCTS FINANCING FACILITY	09/05/08	10.00	0.00	0
<b>Total for the OCT</b>			<b>20.00</b>	<b>0.00</b>	<b>0</b>





## ⇒ 4. Organisation chart



## ⇒ 5. Financial statements of the Investment Facility as at 31 December 2008

### Income statement

For the year 2008 (in EUR '000)

	Note	Year to 31.12.2008	Year to 31.12.2007
Interest and similar income	5	61 097	46 580
Interest and similar expense	5	- 68	- 1 218
<b>Net interest and similar income</b>		<b>61 029</b>	<b>45 362</b>
Fees and commission income	6	2 632	1 396
<b>Net fees and commission income</b>		<b>2 632</b>	<b>1 396</b>
Net result on financial operations	7	- 19 425	- 8 005
Impairment charge for credit loss	11	- 52 675	- 2 770
Member States special contribution to general administrative expenses	13	17 871	32 756
General administrative expenses	8	- 35 741	- 32 756
<b>Profit/Loss for the year</b>		<b>- 26 309</b>	<b>35 983</b>

The accompanying notes form an integral part of these financial statements.



## Balance sheet

At 31 December 2008 (in EUR '000)

	Note	2008	2007
<b>ASSETS</b>			
Cash and cash equivalents	9	293 416	184 772
Derivative financial instruments	10	8 495	25 279
Loans and receivables	11	647 449	572 927
Of which accrued interest and receivable income		11 437	11 176
Financial investments - available-for-sale	12		
Equity investment - available-for-sale		129 146	109 363
Amounts receivable from contributors	13	65 891	181 183
Other assets	14	525	3 894
<b>Total Assets</b>		<b>1 144 922</b>	<b>1 077 418</b>
<b>LIABILITIES AND EQUITY</b>			
<b>LIABILITIES</b>			
Derivative financial instruments	10	15 746	841
Deferred income	15	20 186	18 030
Amount owed to third parties	16	193 733	131 152
Other liabilities	17	4 277	916
<b>Total Liabilities</b>		<b>233 942</b>	<b>150 939</b>
<b>EQUITY</b>			
Facility Member States Contribution called	18	845 000	830 000
Retained earnings		50 858	77 167
Fair value reserve		15 122	19 312
<b>Total Equity</b>		<b>910 980</b>	<b>926 479</b>
<b>Total Liabilities and Equity</b>		<b>1 144 922</b>	<b>1 077 418</b>

The accompanying notes form an integral part of these financial statements.

## Statement of changes in equity

As at 31 December 2008 (in EUR '000)

	Issued capital	Retained earnings	Other reserves	Total equity
<b>At 1 January 2008</b>	830 000	77 167	19 312	926 479
Net changes in equity investments - available-for-sale	-	-	- 4 190	- 4 190
Facility Member States contribution called during the year	15 000	-	-	15 000
Loss for the year	-	- 26 309	-	- 26 309
Changes in contributors' resources	15 000	- 26 309	- 4 190	- 15 499
<b>At 31 December 2008</b>	<b>845 000</b>	<b>50 858</b>	<b>15 122</b>	<b>910 980</b>
<b>At 1 January 2007</b>	515 000	41 184	9 997	566 181
Net changes in equity investments - available-for-sale	-	-	9 315	9 315
Facility Member States contribution called during the year	315 000	-	-	315 000
Profit for the year	-	35 983	-	35 983
Changes in contributors' resources	315 000	35 983	9 315	360 298
<b>At 31 December 2007</b>	<b>830 000</b>	<b>77 167</b>	<b>19 312</b>	<b>926 479</b>

The accompanying notes form an integral part of these financial statements.



## Cash flow statement

As at 31 December 2008 (in EUR '000)

	2008	2007
<b>OPERATING ACTIVITIES</b>		
Profit / Loss for the financial year	- 26 309	35 983
Adjustments		
Impairment on equity investment available-for-sale	1 725	366
Impairment on loans	52 675	2 770
Interest capitalised	- 12 022	- 6 747
Increase in deferred income	162	4 150
Profit on operating activities before changes in operating assets and liabilities	16 231	36 522
Net loan disbursement	- 176 614	- 286 028
Repayments	73 748	34 214
Fair value movement on derivatives	31 689	- 15 965
Increase in equity investments available-for-sale	- 41 641	- 43 143
Proceeds from equity investments available-for-sale	15 005	8 248
Increase / Decrease in other assets	3 369	- 2 456
Increase / Decrease in other liabilities	3 361	- 518
Net cash flows from operating activities	- 74 852	- 269 126
<b>FINANCING ACTIVITIES</b>		
Paid in by Facility Member States	15 000	315 000
Increase / Decrease in amount receivable from contributors	115 292	- 77 271
Net increase / decrease in amount payable from interest subsidies	59 596	- 3 273
Increase / Decrease in amount payable to third parties	2 985	- 538
Net cash flows from/(used in) financing activities	192 873	233 918
<b>Net increase in cash and cash equivalents</b>	<b>118 021</b>	<b>- 35 208</b>
Cash and cash equivalents at beginning of financial year	184 772	190 780
Effect of exchange rate changes on cash and cash equivalents	- 9 377	29 200
<b>Cash and cash equivalents at end of financial year</b>	<b>293 416</b>	<b>184 772</b>

The accompanying notes form an integral part of these financial statements.

## Notes to the financial statements

### 1. General information

The Investment Facility (the "Facility") has been established within the framework of the Cotonou Agreement (the "Agreement") on co-operation and development assistance negotiated between the African, Caribbean and Pacific Group of States (the "ACP States") and the European Union and its Member States on 23 June 2000 and revised on 25 June 2005.

Financing under the Agreement is provided from EU Member States' budgets and is disbursed according to financial protocols defined for successive five- to six-year periods. Within the framework of the Agreement and following the entry into force of a second financial protocol on 1st July 2008 (covering the period 2008-2013), referred to as the 10th European Development Fund (EDF), the European Investment Bank (the "EIB" or "the Bank") is entrusted with the management of:

- the ACP Investment Facility (IF), a EUR 3 137 m risk-bearing revolving fund geared to fostering private sector investment in ACP countries;
- grants for the financing of interest rate subsidies worth EUR 400 m, of which up to EUR 40 m can be used to fund project-related technical assistance. In view of the phasing out of the EU-ACP sugar protocol, up to EUR 100 m can be allocated to assist ACP sugar producers in adapting to changing world market conditions.

### 2. Significant accounting policies

#### 2.1. Basis of preparation

In line with the Investment Facility Management Agreement the preparation of the financial statements of the Facility is guided by International Public Sector Accounting Standards or International Financial Reporting Standards, as appropriate. The Facility's financial statements have been prepared on the basis of the following significant accounting principles:

#### 2.2. Significant accounting judgments and estimates

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Investment Facility's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed.

#### The most significant use of judgments and estimates are as follows:

##### *Fair value of financial instruments*

Where the fair values of financial assets and financial liabilities recorded on the balance sheet cannot be derived from

active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include considerations of liquidity and model inputs such as correlation and volatility for longer dated derivatives.

##### *Impairment losses on loans and receivables*

The Investment Facility reviews its problem loans and receivables at each reporting date to assess whether an allowance for impairment should be recorded in the income statement. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of allowance required. Such estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance. In addition to specific allowance against individually significant loans and receivables, the Investment Facility also makes a collective impairment allowance against exposures which, although not specifically identified as requiring a specific allowance, have a greater risk of default than when originally granted.

This collective allowance is based on any deterioration in the internal rating of the loan or investment since it was granted or acquired. These internal ratings take into consideration factors such as any deterioration in country risk, industry, and technological obsolescence, as well as identified structural weaknesses or deterioration in cash flows.

In principle, a loan is considered as non performing when payment of interest and principal are past due by 90 days or more and, at the same time, management considers that payment will be completely unlikely.

##### *Valuation of unquoted available-for-sale equity investments*

Valuation of unquoted available-for-sale equity investments is normally based on one of the following:

- recent arms length market transactions;
- current fair value of another instrument that is substantially the same;
- the expected cash flows discounted at current rates applicable for items with similar terms and risk characteristics; or
- other valuation models.

The determination of the cash flows and discount factors for unquoted available-for-sale equity investments requires significant estimation. The Investment Facility calibrates the valuation techniques periodically and tests them for validity using either price from observable current market transac-



tions in the same instrument or from other available observable market data.

#### *Impairment of available-for-sale financial investments*

The Investment Facility treats available-for-sale equity investments as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is "significant" or "prolonged" requires judgment. The Facility treats "significant" generally as 30% or more and "prolonged" greater than 12 months. In addition, the Facility evaluates other factors, including normal volatility in share price for quoted equities and the future cash flows and the discount factors for unquoted equities.

### **2.3. Change in accounting policies**

The accounting policies adopted are consistent with those used in the previous financial years.

### **2.4. Summary of significant accounting policies**

The balance sheet represents assets and liabilities in decreasing order of liquidity and does not distinguish between current and non-current items.

#### **2.4.1. Foreign currency translation**

The Investment Facility uses the Euro (EUR) for presenting its financial statements, which is also the functional and presentational currency.

Foreign currency transactions are translated at the exchange rate prevailing on the date of the transaction.

Monetary assets and liabilities denominated in currencies other than in Euro are translated into Euro at the exchange rate prevailing at the balance sheet date. The gain or loss arising from such translation is recorded in the income statement.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Exchange differences arising on the settlement of transactions at rates different from those at the date of the transaction, and unrealized foreign exchange differences on unsettled foreign currency monetary assets and liabilities, are either recognized in the income statement or within the equity reserve.

The elements of the income statement are translated into Euro on the basis of the exchange rates prevailing at the end of each month.

#### **2.4.2. Cash and cash equivalents**

The Investment Facility defines cash equivalents as current accounts or short-term deposits with original maturities of three months or less.

#### **2.4.3. Financial assets other than derivatives**

Financial assets are accounted for using the settlement date basis.

#### *Loans*

Loans originated by the Investment Facility are recognized in the assets of the Investment Facility when cash is advanced to borrowers. They are initially recorded at cost (net disbursed amounts), which is the fair value of the cash given to originate the loan, including any transaction costs, and are subsequently measured at amortized cost, using the effective yield method, less any provision for impairment or uncollectability.

#### *Available-for-sale financial investments*

Available-for-sale financial investments are those which are designated as such or do not qualify to be classified as designated at fair value through profit or loss, held-to-maturity or loans and receivables. They include equity instruments, investments in venture capital funds and other debt instruments.

After initial measurement, available-for-sale financial investments are subsequently carried at fair value. Note the following details for the fair value measurement of equity investments, which can not be derived from active markets:

##### *a. Venture capital funds*

The fair value of each venture capital fund will be based on the latest available Net Asset Value (NAV), reported by the fund, if calculated based on international valuation standards. The Investment Facility may however decide to adjust the NAV reported by the fund if there are issues that may affect the valuation.

If no internationally recognized fair valuation standard is applied, the valuation will be conducted on the basis of the underlying portfolio.

##### *b. Direct equity investments*

The fair value of the investment will be based on the latest set of financial statements available, re-using, if applicable, the same model as the one used at the acquisition of the participation.

Unrealized gains or losses on equity investments are reported in equity until such investments are sold, collected or disposed of, or until such investment are determined to be impaired. If an available-for-sale investment is determined to be impaired, the cumulative unrealized gain or loss previously recognized in equity is included in the income statement.

For unquoted investment, the fair value is determined by applying recognized valuation technique. These investments are accounted for at cost when the fair value cannot be reliably measured.

#### *Guarantees*

Financial guarantees are initially recognized at fair value in the balance sheet under item "Financial guarantees". Subsequent to initial recognition, the Investment Facility's liabilities under each guarantee are measured at the higher of the amortized premium and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee.

Any increase in the liability relating to financial guarantees is taken to the income statement under item "Impairment charge for credit loss". The premium received is recognized in the income statement under item "Net fee and commission income" using the effective interest rate method over the life of the guarantee.

#### 2.4.4. Impairment of financial assets

The Investment Facility assesses at each balance sheet date whether there is any objective evidence that a financial asset is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For the loans outstanding at the end of the financial year and carried at amortized cost, impairments are made when presenting objective evidence of risks of non recovery of all or part of their amounts according to the original contractual terms or the equivalent value. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured according to internal models used by the Bank to approximate the likely loss or the loan recovery, which among other things evaluate the difference between the loans' carrying amounts and the fair value of estimated futures cash flows of these loans. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the income statement. Interest income continues to be accrued on the reduced carrying amount based on the effective interest rate of the asset. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account.

For the available-for-sale financial investments, the Investment Facility assesses at each balance sheet date whether there is objective evidence that an investment is impaired. Objective evidence would include a significant or prolonged decline in the fair value of the investment below its costs. Where there is evidence of impairment, the cumulative loss (measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognized in the income statement) is removed from equity and recognized in the income statement. Impairment losses on available-for-sale financial investments are not reversed through the income statement; increases in their fair value after impairment are recognized directly in equity.

For held-to-maturity investments the Investment Facility assesses individually whether there is objective evidence for impairment. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows. The carrying amount of the asset is reduced and the amount of the loss is recognised in the income statement. If, in a subsequent year, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognised, any amount formerly charged are credited to the "Net result on financial operations".

The European Investment Bank's Risk Management reviews financial assets for impairment at least once a year. Resulting adjustments include the unwinding of the discount in the income statement over the life of the asset, and any adjustments required in respect of a reassessment of the initial impairment.

#### 2.4.5. Derivative financial instruments

Derivatives include cross currency swaps, cross currency interest rate swaps, currency forwards and warrants.

In the normal course of its activity, the Investment Facility may enter into swap contracts with a view to hedge specific lending operations or into currency forward contract with a view to hedge its currency positions, denominated in actively traded currencies other than in Euro, in order to offset any gain or loss caused by foreign exchange rate fluctuations.

However, the Investment Facility has not entered into any hedge accounting transactions as at 31 December 2008. Therefore, all derivatives are measured at fair value through the income statement. Fair values are derived primarily from discounted cash-flow models, option-pricing models and from third party quotes.

Warrants have been received by the Investment Facility as ancillary fees in the context of a lending operation.

Derivatives are recorded at fair value and carried as assets when their fair value is positive and as liabilities when their fair value is negative. Changes in the fair value of derivative financial instruments are included in "Net result on financial operations".

#### 2.4.6. Contributions

Contributions from Member States are recognized as receivable in the balance sheet on the date of the Council Decision fixing the financial contribution to be paid by the Member States to the Investment Facility.

#### 2.4.7. Interest income on loans

Interest on loans originated by the Investment Facility is recorded in the income statement ("Interest and similar income") and on the balance sheet ("Loan and receivables") on an accrual basis using the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the loan to the net carrying amount of the loan. Once the recorded value of a loan has been reduced due to impairment, interest income continues to be recognized using the original effective interest rate applied to the new carrying amount.





#### 2.4.8. Interest subsidies

As part of its activity, the Investment Facility manages interest subsidies on behalf of the Member States.

The part of the Member States contributions allocated to the payment of interest subsidies is not accounted for in the Investment Facility's equity but is classified as an amount owed to third parties.

#### 2.4.9. Interest income on treasury

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

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

#### 2.4.10. Fees, commissions and dividends

Fees received in respect of services provided over a period of time are recognized as income as the services are provided. Commitment fees are deferred and recognized in income using the effective interest method over the period from disbursement to repayment of the related loan.

Dividends relating to available-for-sale equity investments are recognized when received.

#### 2.4.11. Taxation

The Protocol on the Privileges and Immunities of the European Communities, appended to the Treaty of 8 April 1965 establishing a Single Council and a Single Commission of the European Communities, stipulates that the assets, revenues and other property of the Institutions of the Union are exempt from all direct taxes.

#### 2.4.12. Reclassification of prior years figures

Where necessary, certain prior years figures have been reclassified to conform to changes to the current year's presentation for comparative purpose.

## 3. Risk management

### 3.1. Credit risk

This section presents financial information about the investments made by the Facility.

#### 3.1.1. Exposure disbursed by nature of borrower (in EUR '000)

The table hereafter analyses the Investment Facility exposure disbursed by nature of borrower.

	2008	2007
Banks/ Financial Institut.	255 152	190 218
Proj. Fin. / Struct. Op.	309 276	320 670
Sovereign	74 458	58 852
Venture Capital Fund	102 976	65 583
Corporates	23 296	35 791
<b>Total</b>	<b>765 158</b>	<b>671 114</b>

#### 3.1.2. Exposure disbursed by nature of instrument (in EUR '000)

The table hereafter analyses the Investment Facility exposure disbursed by nature of investment instrument used.

	2008	2007
Senior Loans (exposure disbursed)	515 214	409 765
of which Global Loans	202 142	144 265
Subordinated Loans and Quasi Equity	120 798	151 986
Equity	129 146	109 363
<b>Total</b>	<b>765 158</b>	<b>671 114</b>

**3.1.3. Risk concentrations of the exposure disbursed to credit risk** (in EUR '000)

The table below analyses the Investment Facility exposure disbursed by sector.

	2008	2007
Global loans	202 142	144 265
Energy	150 920	107 096
Industry	152 737	233 916
Services	240 586	165 689
Transports	9 056	9 199
Water, sewerage	2 521	2 000
Agriculture, fisheries, forestry	7 196	8 949
<b>Total</b>	<b>765 158</b>	<b>671 114</b>

**3.2. Liquidity risk and funding management****3.2.1. Analysis of financial liabilities by remaining contractual maturities** (in EUR '000)

The table below sets out the Facility's assets and liabilities by relevant maturity groupings based on the remaining period to the contractual maturity date.

	Up to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
<b>ASSETS</b>					
Cash and cash equivalents	293 416	-	-	-	293 416
Derivative financial instruments	- 356	251	6 223	2 377	8 495
Loans and receivables	6 325	5 117	55 601	580 406	647 449
Financial investments - available-for-sale					
Equity investment - available-for-sale	-	-	-	129 146	129 146
Amounts receivable from contributors	65 891	-	-	-	65 891
Other assets	-	-	-	525	525
<b>Total assets</b>	<b>365 276</b>	<b>5 368</b>	<b>61 824</b>	<b>712 454</b>	<b>1 144 922</b>
<b>LIABILITIES</b>					
Derivative financial instruments	1 518	84	1 089	13 055	15 746
Deferred income	-	-	-	20 186	20 186
Amount owed to third parties	193 733	-	-	-	193 733
Other liabilities	3 323	429	-	525	4 277
<b>Total liabilities</b>	<b>198 574</b>	<b>513</b>	<b>1 089</b>	<b>33 766</b>	<b>233 942</b>
<b>Net liquidity position at 31 December 2008</b>	<b>166 702</b>	<b>4 855</b>	<b>60 735</b>	<b>678 688</b>	<b>910 980</b>
<b>Net liquidity position at 31 December 2007</b>	<b>245 381</b>	<b>3 510</b>	<b>96 673</b>	<b>580 914</b>	<b>926 479</b>



### 3.3. Market risk

#### 3.3.1. Interest rate risk (in EUR '000)

The table below summarizes the Investment Facility's exposure to interest rate risk through its investments.

	2008	2007
Fixed rate interest	294 647	291 468
Floating rate interest	341 365	270 283
<b>Total</b>	<b>636 012</b>	<b>561 751</b>

#### 3.3.2. Currency risk (or Foreign exchange risk) (in EUR '000)

	EUR	USD	CAD	ACP/OCT Currencies	Total
<b>ASSETS</b>					
Cash and cash equivalents	267 381	26 035	-	-	293 416
Derivative financial instruments	8 495	-	-	-	8 495
Loans and receivables	275 248	313 279	-	58 922	647 449
Financial investments - available-for-sale					
Equity investment - available-for-sale	16 812	103 007	2 171	7 156	129 146
Amounts receivable from contributors	65 891	-	-	-	65 891
Other assets	-	-	-	525	525
<b>Total assets</b>	<b>633 827</b>	<b>442 321</b>	<b>2 171</b>	<b>66 603</b>	<b>1 144 922</b>
<b>LIABILITIES</b>					
Derivative financial instruments	15 746	-	-	-	15 746
Deferred income	20 186	-	-	-	20 186
Amount owed to third parties	193 733	-	-	-	193 733
Other liabilities	3 751	-	-	526	4 277
<b>Total liabilities</b>	<b>233 416</b>			<b>526</b>	<b>233 942</b>
<b>Equity</b>					
Facility Member States Contribution called	845 000	-	-	-	845 000
Retained earnings	50 858	-	-	-	50 858
Fair value reserve	- 8 562	23 854	-	- 170	15 122
<b>Total equity</b>	<b>887 296</b>	<b>23 854</b>		<b>- 170</b>	<b>910 980</b>
<b>Currency position as at 31 December 2008</b>	<b>- 486 885</b>	<b>418 467</b>	<b>2 171</b>	<b>66 247</b>	<b>-</b>
<b>Currency position as at 31 December 2007</b>	<b>- 371 311</b>	<b>333 168</b>	<b>- 3 460</b>	<b>41 603</b>	<b>-</b>
<b>COMMITMENTS</b>					
Undisbursed loans and equity investments	680 763	284 893	-	-	965 656
Guarantees drawn	-	-	-	11 800	11 800
<b>CONTINGENT LIABILITIES</b>					
Guarantees undrawn	105 000	-	-	-	105 000

## 4. Segment information

The primary segment of the Investment Facility is business operation and the secondary segment is geographical..

### 4.1. By business segment (in EUR '000)

The activity of the Investment Facility is divided into two main business segments on a worldwide basis:

- Banking operations – incorporating investments in projects which are made with the purpose of supporting investments of private and commercially run public sector entities. The main investment products are loans, available-for-sale equity investments and financial guarantees.
- Treasury activities – including investing surplus liquidity and managing the Investment Facility foreign exchange risk.

At 31 December 2008	Treasury	Banking	Total
Revenue from segments	14 979	48 767	63 746
Expenses and charges from segments	- 17 787	- 54 398	- 72 185
Unallocated expenses	-	-	- 17 870
<b>Loss for the year</b>			<b>- 26 309</b>
Segment assets	301 911	777 120	1 079 031
Unallocated assets	-	-	65 891
<b>Total assets</b>			<b>1 144 922</b>
Segment liabilities	54 235	21 715	75 950
Unallocated liabilities	-	-	157 992
<b>Total liabilities</b>			<b>233 942</b>
<b>Other segment information</b>			
Commitments		1 082 456	1 082 456
At 31 December 2007	Treasury	Banking	Total
Revenue from segments	5 365	43 638	49 003
Expenses and charges from segments	- 9 442	- 3 578	- 13 020
<b>Profit for the year</b>			<b>35 983</b>
Segment assets	213 436	682 798	896 234
Unallocated assets	-	-	181 184
<b>Total assets</b>			<b>1 077 418</b>
Segment liabilities	1 241	18 546	19 787
Unallocated liabilities	-	-	131 152
<b>Total liabilities</b>			<b>150 939</b>
<b>Other segment information</b>			
Contingent liabilities and commitments		881 312	881 312



#### 4.2. By geographical segment (in EUR '000)

The Investment Facility's activities are divided into five regions for internal management purposes.

At 31 December 2008	Revenues <sup>(*)</sup>	Total assets	Total liabilities	Commitments
Caribbean and Pacific	3 694	116 572	-	146 588
Central and Eastern Africa	8 666	152 838	18 222	498 066
Regional Africa and ACP states	1 094	115 534	-	231 628
Southern Africa and Indian ocean	- 31 571	206 744	554	108 892
West Africa and Sahel	11 574	182 160	2 427	97 282
Others <sup>(**)</sup>	-	371 074	212 739	-
<b>Total</b>	<b>- 6 543</b>	<b>1 144 922</b>	<b>233 942</b>	<b>1 082 456</b>

At 31 December 2007	Revenues <sup>(*)</sup>	Total assets	Total liabilities	Commitments
Caribbean and Pacific	4 881	63 089	-	102 658
Central and Eastern Africa	4 560	114 401	15 837	414 592
Regional Africa and ACP States	4 253	77 923	-	163 377
Southern Africa and Indian Ocean	16 787	216 175	707	82 803
West Africa and Sahel	9 631	187 602	2 003	117 882
Others <sup>(**)</sup>	-	418 228	132 392	-
<b>Total</b>	<b>40 112</b>	<b>1 077 418</b>	<b>150 939</b>	<b>881 312</b>

<sup>(\*)</sup> Revenues represent the net profit on the Investment Facility's operational activity (i.e. interest and similar income, interest subsidies, net fee and commission income, credit loss expense and impairment losses on financial investments).

<sup>(\*\*)</sup> Under geographical segment "Others" are considered the amount payable to or receivable from the Member States or the European Investment Bank and the Investment Facility cash and cash equivalent.

#### 5. Net interest income (in EUR '000)

The main components of interest and similar income are as follows:

	2008	2007
Cash and short term funds	12 452	5 755
Loans and receivables	43 966	40 192
Interest subsidies	1 242	633
Derivative financial instruments	3 437	-
<b>Total interest and similar income</b>	<b>61 097</b>	<b>46 580</b>

The main components of interest and similar expense are as follows:

	2008	2007
Due to banks	-	- 441
Derivative financial instruments	-	- 738
Remuneration paid to EC	- 68	- 39
<b>Total interest and similar expense</b>	<b>- 68</b>	<b>- 1 218</b>

## 6. Net fee and commission income (in EUR '000)

The main components of net fee and commission income are as follows:

	2008	2007
Loans and receivables	2 340	1 136
Financial guarantees	292	260
<b>Total fee and commission income</b>	<b>2 632</b>	<b>1 396</b>

## 7. Net result on financial operations (in EUR '000)

The main components of net result on financial operations are as follows:

	2008	2007
Fair value movement on derivatives	- 31 689	15 965
Foreign exchange	13 972	- 24 631
Dividend income from financial investments		
Equity investments – available-for-sale	17	24
- Quoted	-	-
- Unquoted	17	24
Gains less losses from financial investments		
Equity investments – available-for-sale	- 1 725	637
<b>Net result on financial operations</b>	<b>- 19 425</b>	<b>- 8 005</b>

## 8. General administrative expenses (in EUR '000)

General administrative expenses represent the actual costs incurred by the EIB for managing the Investment Facility less income generated from standard appraisal fees directly charged by the EIB to clients of the Investment Facility.

	2008	2007
Actual cost incurred by the EIB	- 36 766	- 34 260
Income from appraisal fees charged to clients of the Facility	1 025	1 504
<b>General administrative expenses</b>	<b>- 35 741</b>	<b>- 32 756</b>

Under Council Decision of 8 April 2003, the Member states agreed to cover in full the expenses incurred by the EIB for the management of the Investment Facility for the first 5 years of the 9th European Development Fund.

Following the entry in force of the revised Cotonou Partnership Agreement on the 1st of July 2008, general administrative expenses are not covered anymore by the Member States. As a consequence, for the year 2008, the contribution from the Member States to the general administrative expenses covers only 50% of the total incurred during the year, representing KEUR 17.87.

## 9. Cash and cash equivalent (in EUR '000)

For the purposes of the cash flow statement, cash and cash equivalents comprise the following balances with less than three months maturity from the date of acquisition.

The cash and cash equivalents can be broken down between the funds received from the Member States and not yet disbursed and the funds from the Investment Facility's operational and financial activities.

	2008	2007
Member States contributions received and not yet disbursed	9 028	23 566
Funds from the Facility's financial and operational activities	284 388	161 206
<b>Cash and cash equivalents</b>	<b>293 416</b>	<b>184 772</b>



## 10. Derivative financial instruments (in EUR '000)

At 31 December 2008	Assets	Liabilities	Notional amount
Cross currency swaps	8 045	- 947	104 446
Cross currency interest rate swaps	450	- 13 305	109 739
FX forwards	-	- 1 494	211 000
Warrants	-	-	719
<b>Total</b>	<b>8 495</b>	<b>- 15 746</b>	

At 31 December 2007	Assets	Liabilities	Notional amount
Cross currency swaps	16 433	- 729	114 124
Cross currency interest rate swaps	8 176	- 112	137 261
Warrants	670	-	679
<b>Total</b>	<b>25 279</b>	<b>- 841</b>	

## 11. Loans and receivables (in EUR '000)

	Global loans	Senior loans	Subordinated loans	Total
<b>At 1st January 2008</b>	<b>144 265</b>	<b>265 500</b>	<b>151 986</b>	<b>561 751</b>
Impairment	- 2 996	- 17 507	- 29 826	- 50 329
Change in amortised cost	- 269	- 415	71	- 613
Disbursement	82 696	92 992	926	176 614
Repayments	- 25 282	- 31 322	- 17 144	- 73 748
Interest capitalised	-	676	11 346	12 022
Foreign exchange difference	3 728	3 148	3 439	10 315
<b>At 31st December 2008</b>	<b>202 142</b>	<b>313 072</b>	<b>120 798</b>	<b>636 012</b>
Accrued interest income and interest receivable				13 783
Impairment on accrued interest and receivable on loans				- 2 346
<b>Loans and receivables at 31st December 2008</b>				<b>647 449</b>
<b>At 1st January 2007</b>	<b>96 840</b>	<b>129 550</b>	<b>108 823</b>	<b>335 213</b>
Impairment	-	- 549	- 2 221	- 2 770
Change in amortised cost	- 22	- 731	- 269	- 1 022
Disbursement	72 714	163 489	49 825	286 028
Repayments	- 13 310	- 15 405	- 5 499	- 34 214
Interest capitalised	-	-	6 747	6 747
Foreign exchange difference	- 11 957	- 10 854	- 5 420	- 28 231
<b>At 31st December 2007</b>	<b>144 265</b>	<b>265 500</b>	<b>151 986</b>	<b>561 751</b>
Accrued interest income and interest receivable				11 176
<b>Loans and receivables at 31st December 2007</b>				<b>572 927</b>

## 12. Financial investments

### 12.1. Equity investments – available-for-sale (in EUR '000)

The main components of available-for-sale equity investments are as follows:

Equity investments available-for-sale	2008	2007
<b>At 1st January 2008</b>	<b>109 363</b>	<b>66 449</b>
Movement in fair value	- 4 190	9 315
Impairment	-1 725	- 366
Disbursement	41 641	43 143
Repayments	- 15 005	- 8 248
Foreign exchange difference	- 938	- 930
<b>At 31st December 2008</b>	<b>129 146</b>	<b>109 363</b>

## 13. Amounts receivable from contributors (in EUR '000)

The main components of amounts receivable from contributors are as follows:

	2008	2007
Contribution called but not paid	48 020	148 427
Special contribution to general administrative expenses	17 871	32 756
<b>Total amounts receivable from contributors</b>	<b>65 891</b>	<b>181 183</b>

## 14. Other assets (in EUR '000)

The main components of other assets are as follows:

	2008	2007
Amounts receivable from EIB	-	3 386
Financial guarantees	525	508
<b>Total amount of other assets</b>	<b>525</b>	<b>3 894</b>

## 15. Deferred income (in EUR '000)

The main components of deferred income are as follows:

	2008	2007
Deferred interest subsidies	19 962	17 947
Deferred commissions on loans and receivables	224	83
<b>Total deferred income</b>	<b>20 186</b>	<b>18 030</b>





## 16. Amount owed to third parties (in EUR '000)

The main components of amount owed to third parties are as follows:

	2008	2007
Net general administrative expense payable to EIB	35 741	32 756
Interest subsidies not yet disbursed	157 992	98 396
<b>Total amount owed to third parties</b>	<b>193 733</b>	<b>131 152</b>

## 17. Other liabilities (in EUR '000)

The main components of other liabilities are as follows:

	2008	2007
Remuneration repayable to the Commission with regard to the Contribution account	-	27
Amount repayable to EIB	2 257	-
Financial guarantees	525	508
Other	1 495	381
<b>Total amount of other liabilities</b>	<b>4 277</b>	<b>916</b>

## 18. Investment Facility Member States Contribution called (in EUR '000)

Member States	Contribution to the Facility	Contribution to interest subsidies	Total contributed	Called and not paid <sup>(*)</sup>
Austria	22 393	5 035	27 428	1 457
Belgium	33 124	7 448	40 572	2 156
Denmark	18 083	4 066	22 149	1 177
Finland	12 507	2 812	15 319	814
France	205 335	46 170	251 505	13 365
Germany	197 392	44 384	241 776	12 848
Greece	10 562	2 375	12 937	687
Ireland	5 239	1 178	6 417	341
Italy	105 963	23 826	129 789	6 897
Luxembourg	2 450	551	3 001	160
Netherlands	44 109	9 918	54 027	2 871
Portugal	8 196	1 843	10 039	534
Spain	49 348	11 096	60 444	3 212
Sweden	23 069	5 187	28 256	1 501
United Kingdom	107 230	24 111	131 341	-
<b>Total at 31 December 2008</b>	<b>845 000</b>	<b>190 000</b>	<b>1 035 000</b>	<b>48 020</b>
<b>Total at 31 December 2007</b>	<b>830 000</b>	<b>120 000</b>	<b>950 000</b>	<b>148 427</b>

<sup>(\*)</sup> On the 10 November 2008, the Council fixed the amount of financial contributions to be paid by each Member State by 21st January 2009.

## 19. Contingent liabilities and commitments (in EUR '000)

	2008	2007
<b>Commitments</b>		
Undisbursed loans	777 597	669 117
Undisbursed commitment in respect of equity investments	188 059	88 204
Guarantees drawn	11 800	10 116
<b>Contingent liabilities</b>		
Guarantees undrawn	105 000	113 875
<b>Total</b>	<b>1 082 456</b>	<b>881 312</b>

## 20. Subsequent events

There have been no material post balance sheet events which could require disclosure or adjustment to the 31 December 2008 financial statements.

On a proposal from the Management Committee of the Bank, the Board of Directors of the Bank reviewed these financial statements on 12 March 2009 and decided to submit them to the Board of Governors of the Bank for approval at their meeting to be held on 9 June 2009.



## Independent Auditor's Report

To the chairman of the Audit Committee of  
EUROPEAN INVESTMENT BANK  
Luxembourg

We have audited the accompanying financial statements of the Investment Facility, which show a loss of EUR 26,309,000 and a total balance sheet of EUR 1,144,922,000 and which comprise the balance sheet as at 31 December 2008, the income statement, the statement of changes in equity, the cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

### Management Committee's responsibility for the financial statements

The Management Committee of the European Investment Bank is responsible for the preparation and fair presentation of these financial statements in accordance with the measurement and recognition principles as described in Note 2 of the accompanying financial statements. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### Responsibility of the "Réviseur d'Entreprises"

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing as adopted by the Luxembourg "Institut des Réviseurs d'Entreprises". Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the judgment of the "Réviseur d'Entreprises", including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the "Réviseur d'Entreprises" considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Management Committee, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Investment Facility as of 31 December 2008, of its financial performance, of its changes in equity and of its cash flows for the year then ended in accordance with the measurement and recognition principles as described in Note 2 of the accompanying financial statements.

Luxembourg, 12 March 2009

ERNST & YOUNG

Société Anonyme

Réviseurs d'Entreprises

Alain KINSCH

Bernard LHOEST

## Statement by the Audit Committee

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

### Statement by the Audit Committee on the Investment Facility financial statements

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

- designated Ernst & Young as external auditors, reviewed their audit planning process, examined and discussed their reports,
- noted that the opinion of Ernst & Young on the financial statements of the Investment Facility for the year ended 31 December 2008 is unqualified,
- convened on a regular basis with the Heads of Directorates and relevant services, and studied the documents which it deemed necessary to examine in the discharge of its duties,
- received assurance from the Management Committee concerning the effectiveness of the internal control structure and internal administration,

and considering

- the financial statements for the financial period ending on 31 December 2008 as drawn up by the Board of Directors at its meeting on 12 March 2009,
- that the foregoing provides a reasonable basis for its statement and,
- Articles 22, 23 & 24 of the Rules of Procedure,

to the best of its knowledge and judgement:

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

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

confirms that the financial statements, comprising the balance sheet, the income statement, the statement of changes in equity, the cash flow statement and the notes to the financial statements give a true and fair view of the financial position of the Investment Facility as at 31 December 2008 in respect of its assets and liabilities, and of the results of its operations for the year then ended.

Luxembourg, 12 March 2009

The Audit Committee



C. KARMIOS



O. KLAPPER



G. SMYTH

<sup>(1)</sup> The Financial Regulation applicable to the 10th European Development Fund in Article 134 with regard to the operations managed by the European Investment Bank states that these operations shall be subject to the audit and discharge procedures laid down in the Statute of the Bank for all of its operations. On this basis, the Audit Committee issues the above statement.



## ⇒ 6. Glossary

<b>A</b>		<b>IDA:</b>	International Development Agency
ACP:	Africa, Caribbean and Pacific	<b>IF:</b>	Investment Facility
ACPs:	Africa, Caribbean and Pacific countries	<b>IFC:</b>	International Finance Corporation
ADEMI:	Banco de Ahorro y Credito Ademi	<b>IFIs:</b>	International financial institutions
ADB:	Asian Development Bank	<b>IMF:</b>	International Monetary Fund
AFD:	Agence Française de Développement	<b>J</b>	
AfDB:	African Development Bank	Jirama:	Jiro sy rano Malagasy
AfDF:	African Development Bank	<b>K</b>	
AIB:	Aruban Investment Bank	KfW:	Kreditanstalt für Wiederaufbau
ADOPEM:	Banco de Ahorro y Credito Adopem	<b>M</b>	
Approvals:	Projects approved for financing by the EIB's decision-making bodies	MDBs:	Multilateral development banks
<b>B</b>		MDGs:	Millennium Development Goals
BIO :	Belgian Investment Company for Developing Countries	MDRI:	Multilateral Debt Relief Initiative
<b>C</b>		MFIs:	Microfinance institutions
CDB:	Caribbean Development Bank	MFW4A:	The Making Finance Work for Africa Partnership
CDC:	Capital for Development Group Plc	<b>N</b>	
CDM:	Clean Development Mechanism (Kyoto Protocol)	NEPAD:	New Partnership for Africa's Development
CGAP:	The Consultative Group to Assist the Poor	NFC:	New Forests Company (Uganda)
COMESA:	Common Market for Eastern and Southern Africa	NGOs:	Non-governmental organisations
Commitments:	Signed loans, equity, quasi-equity investment, agency and guarantee agreements	NMIA:	Norman Manley International Airport
Corvinus:	Corvinus International Investment Ltd.	<b>O</b>	
CRPGs:	Credit Risk Policy Guidelines	OBNA:	Development Bank of the Netherlands Antilles
<b>D</b>		OCTs:	Overseas Countries and Territories
DBE:	Development Bank of Ethiopia	ODA:	Official development assistance
DBIs:	Doing Business Indicators (World Bank)	OR:	Own resources
DFIs:	Development finance institutions	OPEC:	Organization of the Petroleum Exporting Countries
DFL:	Development Finance Limited	<b>P</b>	
DIGICEL:	Digicel Pacific Limited	PROPARCO:	Société de Promotion et de Participation pour la Coopération Economique
Disbursements:	Loans and investments paid out	<b>Q</b>	
DRC:	Democratic Republic of Congo	Quasi-equity:	Instruments incorporating both loans and equity features
<b>E</b>		<b>S</b>	
EC:	European Commission	SADC:	Southern African Development Community
EDF:	European Development Fund	SAPP:	South Africa Power Pool
EDFIs:	European development finance institutions	SIFEM:	Swiss Investment Fund for Emerging Markets
EFFP:	European Financing Partner	SMEs:	Small and medium-sized enterprises
EIB:	European Investment Bank	SNEL:	Société National d'Electricité (DRC)
EITI:	Extractive Industries Transparency Initiative	SPGS:	Sawlog Production Grant Scheme
EPA:	Economic Partnership Agreement	SPM:	Société des Plantations de Mbanga (Cameroon)
ESIAF:	Economic and Social Impact Assessment Framework	SSA:	Sub-Saharan Africa
EU:	European Union	<b>T</b>	
EUR:	The euro	TA:	Technical Assistance
<b>F</b>		<b>U</b>	
FDI:	Foreign direct investment	UN:	United Nations
FinnFund:	Finnish Fund for Industrial Cooperation Ltd	U.S./U.S.A.:	United States of America
FMO:	Netherlands Development Finance Company	USD:	U.S. dollar
<b>G</b>		<b>W</b>	
GDP:	Gross domestic product	WB:	World Bank
GSM:	Global system for mobile communications	WF:	Water Facility
<b>H</b>		<b>Z</b>	
HIPC:	Heavily Indebted Poor Countries	ZAR:	South African Rand
<b>I</b>			
ICA:	Infrastructure Consortium for Africa		
ICT:	Information and Communication Technologies		

# EIB Addresses



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Layout: EIB Graphics Workshop.

Printed by Imprimerie Jouve on MagnoSatin paper using vegetable oil-based inks. Certified in accordance with Forest Stewardship Council (FSC) rules, the paper consists of 100% virgin fibre (of which at least 50% from well-managed forests).





# Investment Facility Report 2008



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