

**IMF/WB Annual Meetings
Lisboa 4th October
20th “Lisbon Meeting”**

“Development financing instruments of the EIB”
Presentation by Vice-President Plutarchos Sakellaris

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Honourable Minister and Governors, Ladies and Gentlemen, it is a real pleasure to be here with you today.

On the eve of the Annual Meetings of the International Monetary Fund (IMF) and World Bank (WB), I am thrilled to see so many of you gathered to take stock of the recent economic developments in the PALOPs, Portugal and Timor Leste, as well as to contemplate further cooperation opportunities.

My intervention will touch upon development-related issues. More specifically, I will describe initiatives that

support the emergence of a conducive investment and business climate on the African continent.

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In my presentation, I will describe how the EIB promotes sustainable private sector development and how, ultimately, it supports your countries.

From the outset, I want to reiterate that in the aftermath of the financial crisis, this is not the time for an institution like the EIB to withdraw its support. Quite on the contrary, in a context where commercial lenders are no longer forthcoming, we have stepped in to support good projects.

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Ladies and Gentlemen, the EIB's overarching mandate could be summed-up in three words, namely: to *“Promote EU objectives”*

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The EIB was established in 1958 as the “house bank” of the European Union, offering long-term lending to finance investments promoting EU policy objectives.

Through the projects it finances, the Bank aims to support the integration, balanced development and economic and social cohesion of its Member States, adapting its lending activity in line with shifting EU priorities.

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The bulk of our lending activity is focused on the EU. However, the EIB also supports the EU’s development and cooperation policies outside the European Union, notably in the pre-accession countries, the Mediterranean and eastern neighbourhood countries, Asia and Latin America and, of course, the regions that bring us together

today, the Africa, Caribbean and Pacific countries (ACPs¹).

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Sub-heading: The EIB in the ACP Countries

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Since 2003: the EIB operates in 77 ACP countries under the “Cotonou Partnership Agreement”, an international treaty setting out in detail the objectives and modalities of the EU’s support to the ACPs.

EIB builds on the *acquis* of over 45 years of experience under the successive Yaoundé/Lomé Conventions.

EIB’s role focuses on the Financial Cooperation – management of the Investment Facility alongside lending from its own resources

¹ *N.B.: ACP is a developmental mandate, whilst SA and ALA are mandates for the EIB to support Foreign Direct Investment and projects with mutual benefits for the EU.*

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The EIB's overriding aim in these regions is to support private-sector led initiatives that promote economic growth and have a positive impact on the wider community and region. The Bank also supports public sector projects that are critical for private-sector development and the creation of a competitive business environment.

Since the inception of its successive development mandates in the ACPs², the EIB has provided over EUR 11.5 billion of funding.

Since 2003- the inception of the Cotonou Agreement-, the Bank provided EUR 3.94 bn of funding in the ACPs³, supporting 154 projects in 50 countries⁴.

About 40% of this amount was directed to financial intermediaries, 34% to infrastructure projects and 26% to industry & services.

² RSA excluded (IF & OR)

³ IF & OR

⁴ Countries and regional groupings

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Over the years, the EIB has particularly demonstrated its ability to support:

- (i) infrastructure projects and
- (ii) the development of the financial and private sector; notably small businesses which are at the heart of economic growth. These sectors remain our core strategic priorities.

We also value projects that foster regional integration and trigger cooperation with private sector stakeholders, as well as international and development financial institutions.

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Sub-title: Our guiding principles:

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The EIB manages funds derived from both its own resources but also resources allocated by the EU Member States.

Through these two parallel channels, the Bank provides financial instruments tailored to the specific needs of each individual investment project. They range from: senior secured loans to flexible risk-bearing mechanisms such as junior loans, equity, quasi-capital, guarantees and, in particular cases, interest rate subsidies.

The instruments can be denominated in euro, widely-traded foreign currencies but also, increasingly, in certain local currencies.

A recent but important addition to the Bank's product range is the availability of technical assistance grants, which can be used to support or improve projects in which we intend to invest

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Irrespective of the sources of funding; the EIB manages its operations in a responsible way, balancing the long-term financial sustainability of projects with the risks entailed by any operation carried out in this part of the world. With this objective in mind, a huge chunk of the financial envelope entrusted to the EIB is managed as a revolving fund. Risks are properly assessed and mitigated or priced in a reasonable manner.

Indeed, the EIB operates on market terms, implying that pricing must reflect cost and risk, and subsidies are only available in specific cases, notably for public infrastructure projects in low-income countries.

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To be eligible for EIB financing, projects must be:

- technically sound,
- financially viable,
- show an acceptable economic return, and
- comply with environmental protection, procurement regulations and prevailing social legislations and norms.

While the EIB actively looks for the best projects to finance, it cannot be the promoter of new projects. Therefore, all project must be fully supported and prepared by an acceptable sponsor (a public or private entity), which stands behind the project and can provide a reasonable share of own funds.

All projects are appraised from EIB headquarters in Luxembourg. The Bank also relies on the support of external offices, bearing an important representation role, in all sub-regions. The broad range of products on offer, the efficient processing and the expertise of its appraisal

teams makes the EIB an attractive source of funds as well as a real catalyst in mobilising complementary support from other development finance institutions. Through each operation, we strive to share our expertise with the promoters, transferring our technical and economic know-how.

Adding value to projects is a cornerstone of our lending policy. When considering a project, the Bank carefully balances financial and economic considerations with the project's expected social and development impact.

The “Economic and Social Impact Assessment Framework (ESIAF)”, concurs to this objective, helping to identify-from the outset- the economic, financial and environmental sustainability of operations, as well as other qualitative elements. Promoters working with the EIB benefit from a thorough appraisal of their project, including compliance with Environmental and Procurement Procedures. The Bank's staff commit themselves to provide – throughout the project cycle – all the required assistance to ensure the successful unwinding of operations financed.

With about 700 m EUR of new lending per annum, the EIB remains a modest but significant player in the ACP market.

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Let's shift from theory to practice and focus on concrete project, located in Portuguese-speaking African countries.

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In 2008, the Bank extended its support to the renovation and expansion of two of Cape Verde's main ports (EUR 47m- Own resources); Palmeira and Praia.

Port facilities are the main point of entry in the country, both for merchandise and people. Currently there is congestion due to domestic, inter-island and international

traffic increases and therefore the adaptation of the ports to increased needs is a priority for the Government.

The loan will help- amongst other- generate additional berth capacity and increase their competitiveness, contributing to creating a favourable environment for the country's economic development (facilitating the growth of the tourism sectors, as well as daily consumption on the islands).

EIB's involvement has also contributed to enhance the environmental sustainability of the projects.

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The Bank relies on innovative and flexible risk bearing financial instruments to support its operations.

The EIB participates- with significant amounts- in the equity raising of a number of Africa-focused investment funds.

By providing long-term capital in the form of equity to Africa's growing private sector, the Bank supports the region's economic growth and development, contributing to: developing local financial markets, professionalising businesses (encouraging transfers of skills and expertise and good corporate governance), diversifying economies, generating employment and tax revenue for governments and last but not least, delivering healthy market returns to investors.

Signed in 2009, the FIPA project (EUR 5m IF), Angola's first private equity fund provides a good illustration of the IF's equity portfolio.

The fund focuses on established and start-up SMEs. By moving away from the capital-intensive oil sector, the fund, managed by Angola Capital Partners, will play a part in diversifying the economy and stimulating private sector activity and contributing to reducing poverty.

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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 countries' natural wealth and resources.

The Bank is about to sign in Cape Verde the first infrastructure private-public partnership based solely on renewable energy (EUR 30m, IF Resources, approved on 11th May 2010).

The project covers the installation of 27 MW of wind turbines in four islands of the archipelago and is cofinanced with the African Development Bank (EUR 30m). This project will bring Cape Verde to 30% of electricity generation from renewables from 2012.

The operation could become a model for similar transactions in the future, not only in West Africa, but also elsewhere, for instance in the Pacific & Caribbean

where there are many island economies facing the same constraints.

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We work hand in hand with other institutions and catalyse partnerships.

Earlier this year, the Bank started disbursing funds for the Maputo Water Supply project in Mozambique. The project will improve and expand the water supply services for the Greater Maputo Metropolitan area.

The project brings together the national water agency (FIPAG), the Mozambican Government, along with a group of development finance institutions such as the AFD, FMO and ORET (the Netherlands). The project is also jointly financed by the EU-ACP Water Facility.

Day to day management of the project is contracted to a private sector operator and water distribution in the

poorest peri-urban areas will be entrusted to selected community based organisations and NGOs.

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This project also highlights that the benefits of EIB operations in the ACPs also relate to the fact that we can offer innovative financing deals (in this case, a mix of grants and EIB subsidised loan) and very long maturities at competitive interest rates...thus supporting borrowers in countries suffering from scarcity of long term funding on the local capital markets and limited access to international capital markets.

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Mozambique provides yet another example of such efforts. The Bank signed earlier this year a grant (EUR 700 000 m from the ACP-EU Africa Infrastructure Trust Fund) to carry out a Strategic Regional Environmental and Social Assessment under the CESUL project...a key

study for the implementation of the country's , electricity national backbone (the CESUL project.)

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To conclude this presentation, let's revert to the current financial doldrums and to touch upon the future...to where the EIB is heading...

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There is ground for optimism! Given the wealth of interesting investment opportunities, the region's natural and human resources and the ambitious policy and institutional reforms undertaken in recent years, we believe that the African, Caribbean and Pacific economies will recover quickly.

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For over four decades the ACP region has been high on the EIB's agenda and, in the face of the current risky investment climate, we are determined to maintain this focus.

In the coming months, we will consolidate our strategy, building on what we do best, namely: supporting key infrastructure undertakings and the financial sector. In doing so, we intend to work along the following motto: “more, better and faster”!

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In a true spirit of cooperation and solidarity with our ACP partner's countries, we will increasingly rely on innovative financial products, encourage flexibility and responsiveness to promoters' needs and prioritise projects that “make a difference”, insisting on the development impact.

This implies managing the investment facility in a responsible way...i.e.: striking the right balance between:

- taking on more risks;
- coming up with innovative solutions and flexible responses; and
- ensuring adequate control/monitoring and reasonable pricing of operations: always perfecting financial deals, contributing to enhancing the quality of operations, their effectiveness and impact.

More than ever, we remain determined to make a difference in the areas where we have the remit, expertise and appropriate instruments to operate.

Slide 25 – THANK YOU