**Speech of Mr. Plutarchos Sakellaris**
**Vice President of the EIB**

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Excellencies, Ladies and Gentlemen,

It gives me great pleasure to be here today at the Commonwealth Finance Ministers meeting, together with almost one-third of the world's Finance Ministers. The meeting comes at a crucial moment for the global economy and for the nations of the Commonwealth.

I would like to thank Minister Stavrakis and Secretary General Kamalesh Sharma for their invitation. As Vice-President of the European Investment Bank, responsible among others for our operations in Cyprus and the African, Caribbean and Pacific States, I would like to focus today on our operations in the ACP countries which represent the vast majority of the Commonwealth countries.

The EIB is the lending arm of the European Union. Its main role is to provide loans in support of sound investment projects in order to contribute to the development of the EU.

Outside the EU, the EIB operates on the basis of region-specific "mandates", each with its own objectives and instruments. In so doing, the EIB is expected to further the objectives of the EU in a broad range of partner countries.

The ACP mandate was the first to be established back in 1963. The range of countries covered by the mandate has been gradually extended and now includes all 80 countries that are members of the ACP group.

Under the ACP-EC Cotonou Partnership Agreement, the EIB operates in ACP countries both with its own resources and as manager of the Investment Facility. With these two windows, the Bank is in a position to meet the financing needs of investment projects with a broad range of instruments. These range from senior loans to subordinated loans to equity.

The EIB's main objective is to contribute to private sector development, both through direct support for private investments and through support for infrastructure on which the private sector relies. The Bank therefore works with public sector as well as private sector clients as long as the underlying projects generate revenues and can afford to bear debt servicing costs or can offer a sufficient return on investment.

Since its launch in April 2003, the Investment Facility has provided 2.3 billion EUR of funding to 118 projects in 46 countries. Approximately:

- 27% of that amount went to infrastructure projects,
- 17% to industry or services and
- 56% to financial intermediaries.

Under its "own resources" window, the Bank has provided 1.1 billion EUR of loans to 31 projects in 20 countries, of which:

- 41% to infrastructure,
- 38% to industry and services and
- 21% to financial intermediaries.

These figures show that infrastructure and financial sector have been the focal sectors of EIB operations. They are also our core strategic priorities. With about 700 million EUR of new lending per annum, the EIB remains a modest but nevertheless significant financier in the ACP economies. 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.

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

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 it intends to invest.

The EIB has an obligation to manage the Investment Facility in a responsible way. The Member States of the EU, who provided the funding for the Investment Facility in the first place, expect the Facility to become a revolving fund. This requires the Bank to be risk conscious; risk must be properly assessed and mitigated or priced in a reasonable manner.

However, the Bank is present in ACP countries not to make a short term profit but to contribute to development in the long run. The Bank has sound risk management guidelines, but its policy is not to avoid risk. On the contrary, the Bank stands ready to support good projects even in difficult environments, where institutions may be weak and risk is high. This is because the EIB, as the Bank of the EU, truly has a long term interest in the development of ACP countries and wants to make a contribution in the areas where it has the remit, the expertise and the appropriate instruments to operate.

This is particularly relevant in the present context where no country in the world is immune from the impact of the financial crisis. This is not the time for an institution like the EIB to withdraw its support. On the contrary, we must be able to step in and support good projects when commercial lenders are not forthcoming.

In many ACP countries, the impact of the crisis has probably not been as deep as it has in the developed world or in some emerging markets. This is because most ACP countries and their banking sectors are fortunately much less exposed to the high-risk financial products that the crisis turned into so called “toxic assets”. As a result, the credit crunch has probably remained more limited in many ACP countries than it has been in the US, Europe or Japan. This is not to say however that banking sectors in ACP countries are not vulnerable; they have typically experienced very rapid credit growth to the private sector in the past, resulting in exposure levels that might prove dangerous in case of a significant economic slowdown.

But many ACP countries are already suffering from the crisis. First of all, even a limited down turn is more harmful in low income countries where many people live below the poverty line and social safety nets are weak. In more advanced economies social safety nets are often well established. The downturn was difficult to escape, even when the banking sector remained healthy. Three important factors have been at work: (i) the global economic slowdown, which itself has had a negative impact on commodity prices as well as export volumes, (ii) the reduction in capital flows (FDI and debt) which puts a constraint on investment, and (iii) the contraction in domestic credit; due to the behaviour of foreign-owned banks but also the negative impact on the liquidity of local banks which reduced trade and investment opportunities.

Obviously not all countries are affected in the same way or to the same extent. For example, commodity exporters, particularly oil exporters, have been particularly affected. By the same token, countries with stronger fiscal positions are better placed to weather the storm than those with high levels of public debt and deficits.

Another noteworthy feature is that the crisis has affected or is affecting many ACP countries with a time lag. Some countries will probably feel the impact later than others. This also means that the impact of the crisis has not yet been felt to the full extent and that more pain will probably come before the situation improves.

Before I go on to describe some of the actions we have taken or are currently preparing, allow me to say a few words about the constraints within which we operate. First of all, the Bank has a specific remit, which requires in particular that EIB finance (whether from the Investment

Facility or from the “own resources” window) be used to support long-term capital investments. So, unlike some other international financing institutions, we cannot provide short-term credit, e.g. to support trade. Second, the Bank operates with a predetermined amount of financial resources, set in the relevant financial protocol of the Cotonou Agreement. This means that any increase in lending volumes in the short run will have to be offset by a corresponding reduction in the longer run. Third, while the EIB actively looks for the best projects to finance, it cannot be the promoter of new projects. Any 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.

This has two main implications: (i) it takes time to develop a project and bring it to a stage where it can be considered as bankable and (ii) the current crisis and the heightened uncertainty it generates may result in certain projects being delayed or even set aside. Finally, it is important to realise that the EIB is a lean institution, which delivers substantial lending volumes with relatively limited human resources.

The factors I just outlined largely explain why we do not expect to see a significant increase this year in the volume of our commitments and disbursements. Many projects are being revised or delayed and new initiatives only come to maturity gradually. Some new initiatives have been taken over the past few months, but their impact will only be seen over time. A very significant development is the decision recently made by the European Commission, with the support of EU Member States, to substantially increase by 200 million EUR the amount of grant resources allocated to the EU-Africa Infrastructure Trust Fund (ITF). The Department for International Development has also announced a 15 million EUR participation in the ITF, which we really welcome. The ITF is managed by the EIB and provides concessional funding to support much needed regional or cross-border infrastructure projects in Africa. Discussions are also underway to broaden eligibility to national projects of regional significance. In addition to managing the Trust Fund, the EIB has been able to draw on the ITF to support a number of important projects. This is an area in which we cooperate very closely with other development institutions, notably KfW and AFD. We also expect the African Development Bank to soon join the group of IFIs that cooperate on the implementation of the ITF. A similar initiative is currently under discussion for the Caribbean. Other important Commission-sponsored instruments are the EU Water and Energy Facilities, which play an essential role in providing technical assistance or grant finance to important projects in their respective sectors. However, as mentioned before, new projects take time to come to fruition and the level of uncertainty that currently prevails may cause further delays. This means that the concrete impact of increased funding for initiatives such as the EU-Africa ITF will only become visible over time.

Of course, the EIB has been actively seeking to step up its activities in the crisis. In a number of cases (telecoms in Senegal, toll roads - two projects - in the Caribbean), the Bank has been able to step in to make up for the contraction in commercial lending, thus allowing these projects to go ahead. In another case (a mining project in Mozambique), the Bank’s presence helped the project sponsor mobilise from the markets additional funding required partly because of the withdrawal of support by a commercial bank.

In Nigeria, a country with considerable needs, we are working on a novel approach to infrastructure finance through our first ever “framework loan” in Africa. Working with some local banks, we hope to speed up the funding of much needed infrastructure by relying on the market presence and knowledge of the local banks. We will also share the financial burden and the risks with them.

In the financial sector, we have noted that the traditionally highly liquid position of many commercial banks has been partly reversed as a result of the crisis. In that context, we feel that the lines of credit we extend to provide funding to SMEs have become even more important. And indeed, the take up on our lines of credit in some countries (e.g. Rwanda) has increased recently. A new line of credit was actually signed with several banks in Niger at the end of 2008, right at the peak of the financial crisis. By the same token, we are looking into the possibility of strengthening the capital base of one large African bank, together with other financial partners. Very recently, we were called upon to provide a significant capital injection to a number of important banks. This funding request was in the context of a major thenking sector overhaul launched by the Governor of one country’s central bank.

In the area of microfinance, the EIB in 2009 approved some 90 million EUR of new investments in ACP countries. The largest initiative was a 50 million USD contribution to the Microfinance Enhancement Facility (MEF) which was created by IFC and KfW to support commercially viable microfinance institutions (MFIs) facing temporary refinancing difficulties because of the crisis. The Bank's specific value added was to direct its funding at microfinance institutions operating in ACP countries, a region previously not actively targeted by this Fund.

Another significant multi-donor initiative, in which the EIB is a major technical partner and contributor, is the Regional Fund for Sub-Saharan Africa (REGMIFA) which was originally conceived as a source of medium to long-term funding in Africa. As a result of the financial crisis, the concept of REGMIFA was adjusted to accommodate new financial and economic realities, for example a stronger local currency component, Technical Assistance (TA) support, and the local presence of the manager. The EIB has approved a 15 million EUR investment in REGMIFA, as well as 70,000 EUR to finance the FX study. In addition, the EIB plans to provide up to 2 million EUR in TA support for capacity building activities undertaken by REGMIFA.

The withdrawal of private sources of funding, especially commercial banks and specialized private equity funds, meant that microfinance holding companies could no longer rely on private investors to support their growth and expansion in developing markets. As part of a joint effort of international donors and funders, the Bank responded to the withdrawal of private sources of funds by actively contributing additional capital to three important microfinance holding companies. The aim was to help them expand existing operations and launch new activities of microfinance holding companies across sub-Saharan Africa, including DRC, Ghana, Senegal, Tanzania, Madagascar, Liberia, Nigeria, and Cameroon.

As part of its continuous support for successful microfinance operations, EIB is also making a 15 million USD investment in a specialized private equity fund. The fund targets microfinance institutions and SME banks in Africa and Asia and the Bank´s contribution is earmarked for sub-Saharan Africa. A first investment was also made this year into a micro-insurance fund.

Last but not least, the, EIB has also put in place this year substantial amounts of TA support for capacity building activities of microfinance institutions in sub-Saharan Africa.

I would like to underline that in many if not most of the activities I just described we are working very closely with other financial partners. I mentioned the European Commission, which has been the main driving force behind the creation and further development of some key initiatives in infrastructure, notably the EU-Africa ITF. But we also cooperate consistently with the major multilateral and bilateral Development Finance Institutions and Agencies that are active in ACP countries. It is in that context that we joined forces with several institutions, notably AfDB, IFC, AFD and KfW, to support a Joint Action Plan for Africa that was announced at the annual meetings of the AfDB last May in Dakar.

With the crisis hitting ACP countries later than most advanced economies, I am convinced that there will be scope for the EIB to further step up its support in the coming months. We stand ready to support our ACP partner countries and our clients there with the full range of resources and instruments at our disposal. We are prepared to innovate and adjust our financial products and we will continue to operate in this new, riskier environment in a true spirit of cooperation and solidarity with our ACP partners.

Thank you very much.

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