COMMISSION OF THE EUROPEAN COMMUNITIES

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REPORT FROM THE COMMISSION TO THE COUNCIL AND THE EUROPEAN PARLIAMENT

European Community Investment Partners (ECIP)

Progress Report 1998

EXECUTIVE SUMMARY

ECIP - European Community Investment Partners - was the first EU economic cooperation tool. It was conceived in 1988 at the initiative of the Commission with the support of the European Parliament for the mutual interest and advantage of the developing countries of Asia, Latin America and the Mediterranean, and of European industry wishing to invest in them. Subsequently ECIP was extended to South Africa, and it also inspired the creation of the JOP scheme for the Phare and Tacis countries.

ECIP aims to encourage joint ventures between European partners and local partners in the developing countries. Joint ventures are:

– highly favoured by the developing countries to whom they bring capital, technology, know-how and integration into international networks of production and trade;

– very risky, since they combine two difficulties: those inherent in the creation of a new enterprise, and those involved in an installation in a cultural, economic and political environment less sure and less predictable than that in Europe.

It is this double characteristic which justifies the financial intervention of the EU which works in close cooperation in particular with the development banks of the EU Member States who also work on the same task (EDFI).

The principal traits of the ECIP scheme are as follows:

– it replies exclusively to initiatives coming from enterprises (demand-driven);

– it is accessible to these enterprises - local or European - via a network of over one hundred financial institutions - local and European of which about twenty are very active. The scheme is highly decentralised at two levels. The Commission provides advances to the ECIP financial institutions who in turn, and after the green light from the Commission, attribute these funds in the form of grants, financial participations (risk capital) or interest-free advances which can be either reimbursed in cases of success or converted into grants (see below) to the final beneficiaries;

– ECIP covers all the phases of the putting into place of a joint-venture:

  * partner search (grants);

  * feasibility studies by the enterprise (interest-free advances reimbursable by the enterprise in case of success, or converted into grant in the case of a non-success);

  * capital participation in the equity capital of the joint venture;

  * grants for SMEs, and interest-free reimbursable advances for larger enterprises, to finance training in the case of technology transfer.

From 1988 to end-1998 the Commission has received 3711 formal requests for ECIP financing of which 2534 have been approved for MEURO 286,3 of ECIP financing. In 1998 the number of requests for ECIP financings decreased by 39% to 396 and their EURO value also declined by 25% to MEURO 53,9. In 1998 ECIP consumed 57% (MEURO 28,4) of the total MEURO 52,6 1998 budgetary credits available to it having approved 264 actions for MEURO 29,8 finance in 1998. 1998 was the first year that ECIP failed to consume the total available budgetary credits.

According to the final beneficiaries and financial institutions who have received funds ECIP's reported positive impact is impressive. On the basis of detailed analysis of eight "on the ground" country inspections, and of 1.312 of the individual detailed Final Reports received from the beneficiaries of ECIP actions, the Commission's services estimate that each EURO of ECIP financing is associated with over 16 EURO of investments in the developing countries. The MEURO 240 of ECIP actions already executed are reported by the beneficiaries to be associated with about EURO 3,5 Billions (=3,561 millions) of private investment projects in the developing countries of Asia, Latin America, the Mediterranean, and the Republic of South Africa. The final beneficiaries also report that over 34.000 EU and local firms have been involved as partners in these actions, that some 1.362 joint ventures are created, and that over 42.000 jobs are reported to have been generated directly by these joint ventures. According to the reports received from the final beneficiaries and the financial institutions, since 1988 ECIP has proven to be an effective joint venture creation, investment and development promotion instrument. And it enhanced the Commission's development policy and reputation both within and outside the EU.

The Commission still maintains a critical reserve on these reports and has, in December 1998, placed a contract with Deloitte and Touche (after open international tender) for the third "Independent Appraisal of ECIP" foreseen in Article 10 para 2 of the ECIP Regulation. This study's purpose is to evaluate the results. The "Independent Appraisal" report is due early in 2000 and will be sent to the Council and Parliament then.

Initiated originally as a pilot project, ECIP has been the object of two successive Council Regulations approved in cooperation procedure by the European Parliament and the Council - after several independent evaluations of the instrument have been established and published:

- Regulations:

    * Regulation (EEC) 319/92 of 3 February 1992;

    * Regulation (EEC)213/96 of 29 January 1996.

- Independent evaluations (sent to the Council and Parliament and available on request):

    * 1990 Touche Ross;

    * 1994 SEMA Group;

    * 1999/2000 Deloitte & Touche (in progress).

– Financial audits:

a) Court of Auditors: 1993

b) Independent Financial Audits: 1996 Coopers & Lybrand

1997 Price Waterhouse Coopers

The management of ECIP was from the start intended to be as “business-friendly” as possible: rapid decisions, transparency, flexibility, rapid payments. This approach, specific to ECIP, gave the scheme a good reputation with the financial institutions and prevailed until 1996. Since then the management of ECIP has become progressively more bureaucratic and heavier due to three factors:

– ECIP, because it is principally oriented towards small and medium-sized enterprises is very “labour intensive”, and the rapid growth in the number of projects came up against the limited personnel resources available to the Commission to manage them. These insufficiencies of staff were progressively but only partly relieved by recourse to a Technical Assistance Unit (1997) and then to a Financial Assistance Unit (1999);

– the reinforcement of the Commission’s financial procedures following observations by the Court of Auditors, led on the one hand to delays in procedures (decision by full Commission Written Procedure instead of habilitation), and, on the other hand to a separation of the technical functions (DG IB) from the financial functions (Common Service Relex) in virtue particularly of the SEM 2000 (1996), although qualified personnel was not available in sufficient number, particularly in the financial sector.

– when the period for a reimbursable (facility 2) advance, fixed at 5 years by the ECIP Regulation, ends the financial institution is required, by its contract with the Commission, to recover the funds for the Commission. These recoveries thus form a routine part of the financial operations of ECIP. Nevertheless these financial closures and recoveries require a great deal of precise, careful administrative work for which an insufficient number of staff was available. Nevertheless by the end of 1999, 1398 individual action files had been financially audited.

These difficulties had two consequences:

a) the accumulation of a backlog of payments to which the Commission’s services decided to give priority, and which should be largely addressed by the end of the year 1999. In the meantime, despite the continued demand for finance, ECIP has been put on hold as regards new activities in 1999. The Commission services have decided that in 1999 the exclusive priority for the financial services must be the financial completion and closure of the existing ECIP contractual files and the recovery of unused and reimbursed ECIP funds.

b) increasing discontent among Financial Institutions and enterprises frustrated by the delays in decisions, contracts and in payments has been evidenced.

The ECIP regulation expired on 31 December 1999. Until now the Commission has left open the questions in the long term:

– of the continuation, or not, of the instrument;

– of its fundamental redesign including a possible eventual “outsourcing”.

The Commission services received at end-December 1999 the final draft by Deloitte & Touche of their independent evaluation report on ECIP for which they were selected after open international tender. The definitive version of this report will be submitted to the Commission and thereafter will be communicated to the Parliament, Council and the public in parallel to this report.

At this stage, the opinion of the services managing ECIP is that:

1. ECIP replies to a real need;

2. ECIP must be rendered:

   * less costly in internal management;

   * more rapid in its decision, payment and recovery procedures;

   * better articulated with other complementary economic cooperation programmes (such as Al-Invest, Asia-Invest, Meda and others);

   * possibly enlarged to include operations of a larger scale;

   * probably “outsourced” in a form which remains to be determined.

In the meantime during the year 2000, the absolute priority of the Commission’s services is to solve the delays in contracts, payments and recoveries of the advances resulting from the past financial operations of ECIP.

The Commission hereby presents its progress report on ECIP in respect of 1998. The report comprises five detailed sections. <u>Part One</u> is an introduction that rehearses the background to the instrument, how the instrument works and the general policies adopted by the Commission in operating the programme. <u>Part Two</u> describes major developments in ECIP that occurred in 1998 and analyses ECIP actions in 1998 (and over the period 1988 – 1998) by sector, geographical region, facility and financial institution. <u>Part Three</u> contains a set of estimates and analyses as regards the economic impact of ECIP. <u>Part Four</u> provides a description of the ongoing measures introduced by the Commission 1998 to reinforce financial management of ECIP. Finally, <u>Part Five</u> provides detailed statistical annexes and other information.

ECIP PROGRESS REPORT 1998

CONTENTS

Part One

1. THE ROLE OF FOREIGN DIRECT INVESTMENT (FDI) AND ECIP IN THE DEVELOPMENT PROCESS

1.1. Development finance and Foreign Direct Investment (FDI): the role of the private sector in the development process.

The 1990's have seen a huge increase in the net financial flows to the developing countries from US$ 101 billions in 1990 to US$ 275 billions in 1998. All of this major increase has been in the flows of private resources. While public Official Development Assistance (ODA) from developed governments has declined from ±US$ 60 billions each year in 1990 to ±US$50 billions in 1998, private flows have increased more than five fold in that period to total over US$ 227 billions in 1998. Of these US$ 227 billions of private flows in 1998 US$ 155 billions represented Foreign Direct Investment and US$ 72 billions capital market flows. In 1990 total private capital flows were less than public ODA flows, but by 1998 they represented nearly five times ODA. (Source: World Bank. Global Development Finance 1999).

Net long-term resource flows to developing countries, 1990-98

(billions of U.S. Dollars)

	1990	1991	1992	1993	1994	1995	1996	1997	1998[1]
Net long-term resource flows	100.8	123.1	152.3	220.2	223.6	254.9	308.1	338.1	275.0
Official flows	56.9	62.6	54.0	53.3	45.5	53.4	32.2	39.1	47.9
Private flows	43.9	60.5	98.3	167.0	178.1	201.5	275.9	299.0	227.1
From international capital Markets	19.4	26.2	52.2	100.0	89.6	96.1	149.5	135.5	72.1
Private debt flows	15.7	18.6	38.1	49.0	54.4	60.0	100.3	105.3	58.0
Commercial banks	3.2	4.8	16.3	3.3	13.9	32.4	43.7	60.1	25.1
Bonds	1.2	10.8	11.1	37.0	36.7	26.6	53.5	42.6	30.2
Others	11.4	3.0	10.7	8.6	3.7	1.0	3.0	2.6	2.7
Portfolio equity flows	3.7	7.6	14.1	51.0	35.2	36.1	49.2	30.2	14.1
Foreign direct investment	24.5	34.4	46.1	67.0	88.5	105.4	126.4	163.4	155.0

Note: Net long-term resource flows are defined as net liability transactions of original maturity greater than one year (see box 2.1).
1. Preliminary.
(Source: World Bank Debtor Reporting System. World Bank, Global Development Finance, 1999.)

In the same period there has also been a remarkable broadening in the composition of private capital flows to developing countries. Whereas previously commercial bank lending used to account for more than 65 percent of all private flows, Foreign Direct Investment (FDI) has now emerged as the most important, and, in particular, the most steady and least volatile component of private capital flows. Portfolio flows - both bonds and equities - had increased sharply 1990-1997 when they accounted for more than a third of total private capital flows, but are more volatile and declined severely in 1998 in the context of the Asian and Brazilian crises.

A factor encouraging the increase and diversification of Foreign Direct Investment (FDI) has been the sustained improvement in the domestic economic fundamentals in many developing countries following their shift towards more free market and liberal economic policies. The resulting growing capital requirements for privatisation, private investment, and private infrastructure financing cannot be met from official development finances sources, and private financial markets have attempted to meet these demands. Private financial flows are at the leading edge of the trend towards globalisation of trade and production.

Private capital flows and the FDI component of them are highly concentrated on a few large developing countries. During the early nineties (1990-95) just a dozen countries (China, Mexico, Brazil, Korea, Malaysia, Argentina, Thailand, Indonesia, Russia, India, Turkey and Hungary) accounted for over three quarters of net private flows, and the majority (140) of the 166 developing countries have accounted for less 5% of private capital net flows to developing countries.

The destination for the private capital flowing to the developing economies has shifted away from governments to the private sector. The bulk of capital flows to developing countries is passing through market channels to private investments which represent an increasingly dominant proportion of net investment in the developing countries as the roles of both the state and of Official Development Assistance (ODA) decline both in relative and in absolute real terms. It is in this context that the role of ECIP is particularly important to improve the developmental quality of these private Foreign Direct Investment flows.

1.2. ECIP - A European Union response to the needs of private sector investors.

ECIP provides co-financing to help develop mutually beneficial private investment actions in which EU and local operators are cooperating through in particular the establishment of joint ventures in developing countries. ECIP acts as a catalyst to improve the quality and the volume of Foreign Direct investment (FDI) in the developing countries of Asia, Latin America, the Mediterranean and South Africa (the ALAMEDSA countries).

ECIP has been designed to provide support to EU/ALAMEDSA joint ventures at all stages of their development through five financing facilities each targeting a different stage in the creation and the early life of a joint venture (see next section for details of the facilities).

ECIP has two distinctive features which are particularly appropriate to private investors. It is a decentralised instrument offered as a financial product through a network of Financial Institutions (FIs). And it is a market demand-driven instrument since no priority sectors or regions are “a priori” earmarked. Allocation of funds is on the basis of the quality of applicants and the positive development impact of their proposed investments. There are no programmed quotas by facility nor by country.

The Commission started implementing ECIP in 1988. The original ECIP scheme was for a three year trial period (1988-1991). Then the geographical scope of the instrument was limited to 28 countries in Asia, Latin America and the Mediterranean, with a MEURO 30 budget for a three-year period. The success of ECIP during that trial period led to the scheme being given a formal legal and budgetary basis by the Council of Ministers in February 1992 with Regulation (EEC) No. 319/92. This provided for a further three-year trial period (1992-94). Increased budgetary resources were made available by the budgetary authority (MEURO 31,4 for 1992 and MEURO 39 for each of 1993 and 1994). This Regulation expired in December 1994. From December 1994 until January 1996, ECIP continued to work on the basis of an extension of the 1992 Regulation. The second ECIP Regulation was finally adopted by the Council on 29 January 1996. This new ECIP regulation is valid for five years and includes an indicative financial reference amount of MEURO 250 for the five years (1995 to end-1999). 57 ALAMEDSA countries are presently beneficiaries of the scheme being the countries of Asia, Latin America, and the Mediterranean which presently "benefit from Community development cooperation measures." (List in annex). South Africa has been included in ECIP since 1994.

1.3. Procedures and policies: How ECIP works.

1.3.1. Procedures

ECIP support is provided by five financing facilities each targeting a different stage in the creation and early life of a joint venture. The terms and conditions of the financing available vary between facilities, as the table below shows as regards the ECIP facilities available in 1998. Total financing under Facilities 2, 3 and 4 for any given project is limited to EURO 1M.

<u>Table of ECIP financing facilities</u>

(see following page)

E C I P

EUROPEAN COMMUNITY INVESTMENT PARTNERS

<table>
<tr><th></th><th>Facility
1</th><th>Facility
2</th><th>Facility
3</th><th>Facility
4</th><th>Facility
1B</th></tr>
<tr><td>Type of operation</td><td>Identification of potential joint venture projects and partners</td><td>Feasibility studies or pilot projects</td><td>Joint Venture capital requirements</td><td>Training, technical or management assistance</td><td>Preparation of a privatisation or a Build Operate Transfer (BOT) or a Build Operate Own (BOO) scheme in private infrastructure, utilities or environmental services</td></tr>
<tr><td>Beneficiaries</td><td>Chambers of commerce, professional associations and ECIP Financial Institutions representing a group of companies

Individual companies may not benefit from this facility</td><td>Companies wishing to undertake a Joint Venture, a privatisation or a private infrastructure project</td><td colspan="2">Joint Ventures established in the ALAMEDSA countries with locals by EU partners, or local companies which operate under a licensing and technical assistance agreement with an EU company</td><td>ALAMEDSA governments and public agencies</td></tr>
<tr><td rowspan="2">Type of ECIP finance</td><td rowspan="2">Grant of up to 50% of the eligible costs</td><td rowspan="2">Interest-free advance of up to 50% of the eligible costs</td><td>Equity holding or equity loan of up to 20% of the incremental capital of the joint venture</td><td>Interest-free loan for large companies, or a grant for small and medium-sized companies, of up to 50% of the eligible costs</td><td rowspan="2">Grant of up to 100% of the eligible costs</td></tr>
<tr><td colspan="2">The Financial Institution must cofinance the project</td></tr>
<tr><td rowspan="2">Maximum amount available</td><td rowspan="2">100,000 €</td><td>250,000 €

(within this amount 50% of pre-feasibility travel costs may be financed up to € 10,000)</td><td>1,000,000 €</td><td>250,000 €</td><td rowspan="2">200,000 €</td></tr>
<tr><td colspan="3">The maximum total support per project is 1,000,000 €</td></tr>
<tr><td>Access</td><td>The beneficiary may apply either directly to the EC or through an ECIP Financial Institution</td><td colspan="3">Application must be made through an ECIP Financial Institution</td><td>The beneficiary may apply either directly to the EC or through an ECIP Financial Institution</td></tr>
<tr><td>How to apply</td><td colspan="5">1. Use of the ECIP application forms is required.
2. Obtain application form and latest list of Financial Institutions from EC (Brussels fax: 32-2-299.02.04) or an ECIP Financial Institution.
3. Complete the application form including all required annexes and explanations.
4. For facility 1 and 1B apply directly to the Commission or through an ECIP Financial Institution.
5. For facilities 2, 3 and 4 it is required that all applications are channelled through an ECIP Financial Institution. The European Commission will not deal with Fac. 2, 3 or 4 applications which are not channelled through an ECIP Financial Institution.</td></tr>
</table>

1 € = approx. $ 1.28, April 1996

The Facilities are managed in a decentralised way through a network of financial institutions and investment promotion bodies. Applications for financing under Facilities 2, 3 and 4 must be made through one of the financial institutions (hereinafter referred to as "FIs") in the ECIP network (see annexes for the latest list). The FIs are commercial, merchant or development banks. For example, all the EU member states' development banks are in the ECIP network and they play a key role in running the scheme, but membership of the network is open to any bank, subject to the opinion of the ECIP Committee in Brussels. The network of FIs represents one of the distinctive features of the ECIP scheme: namely, its decentralised mode of operation which emphasises subsidiarity. The FIs operate the scheme in accordance with their usual procedures within overall controls set out in a Framework Agreement signed between each FI and the Commission. The system enables the Commission to ensure a consistency in delivery of the instrument while profiting from the FIs' financial expertise and local knowledge. In addition, the local presence of FIs in the eligible (ALAMEDSA) countries ensures that local businesses seeking to attract foreign investment can gain access to ECIP through an institution close to their place of business.

Applications for financing under Facility 1 may be made either directly by the eligible applicant organisation to the Commission, or through an FI the same way as for Facilities 2, 3 and 4.

Applications for the new Facility 1B for "Preparation of Privatisation of Private Infrastructure" studies must come from the eligible country (ALAMEDSA) government or public authority applying to the Commission.

The Commission retains the final decision on each action financed. All proposals received by the Commission are discussed at the monthly ECIP Steering Committee in Brussels, an internal Commission working Committee which comprises members of the relevant Commission services. So every month the Steering Committee delivers an opinion on the basis of which the Commission takes a position on each financing request and informs the beneficiaries.

The practice followed once funding has been approved depends on the type of case:

> (i) Where an application has been made directly to the Commission by an eligible body under Facility One such as a Chamber of Commerce of investment promotion agency, or by an ALAMEDSA government or public agency in the case of Facility 1B, the Commission concludes a financing agreement directly with them that provides for the moneys to be disbursed by the Commission in instalments.
>
> (ii) Where an application has come through an FI (i.e. in all other cases), a financing agreement is signed with the FI. This sets out the conditions under which the Commission wishes the FI to disburse the funds to the final beneficiary (usually in instalments). The total amount of the ECIP contribution is then transferred by the Commission to the FI. The FI then enters into a "back to back agreement" with the final beneficiary, and disburses the ECIP contribution to the final beneficiary according to the agreed schedule and conditions.

Where the case is under Facility 3, the EC funds will be disbursed by the FI to the joint venture beneficiary in exchange for share certificates or other documents evidencing the participation taken in the capital of the joint venture in question. These certificates will normally be in the name of the FI, and held by the FI on behalf of the EC (called "indirect participation"). In certain cases, statutory consents may prevent such indirect participation via the FI. The ECIP Committee approved guidelines in 1992 allowing the EC to take a direct participation in the joint venture in such cases (see also below).

The Commission services have established ECIP as an ongoing continuous financial instrument. From 1988 to end-1998, 3711 separate individual financing requests have been received and processed in this way. The ECIP Steering Committee meets monthly and the Commission approves them in monthly batches in order to give a continuous and relatively rapid service (although delays built up in 1997-1998 - see section 2.2 below) to the FI and so to the private investors who are the final beneficiaries.

1.3.2. Policies

As provided for in the ECIP Regulation, the Commission has two essential conditions which must be met before an action is approved. First, the action should, given reasonable expectations, have a chance to be financially viable. Secondly, the action should contribute to local economic development. In meeting these conditions, the instrument is intended to be as flexible and as market-driven as possible. Formal restrictions placed upon the instrument are those in the ECIP Regulation (213/96) excluding large multinational firms from the benefit of ECIP, giving some preference to SMEs (small and medium-sized enterprises) and the condition that actions must relate to joint ventures with at least one European partner and one partner from the eligible country. ECIP does not exclude large companies since their stronger management and financial capacities mean that they can invest in more difficult situations with a positive impact on the development of least developed regions. In addition, projects approved by the Commission have to be compatible with overall Community policy and with the developmental criteria set out in the Regulation.

The Commission has continued the approach noted in the previous reports of facilitating implementation of the scheme by avoiding unnecessary constraints. For example, no priority sectors are identified, there are no geographical quotas, nor are there quotas limiting the number of actions per Facility. Each project is judged on its own merits in accordance with the Regulation.

In 1998 the Commission implemented the following specific operational policies:

i) The Commission has not continued its previously active promotion programme for the instrument since it has had doubts about its own capacity to manage increased volumes of contractual and financial transactions. The Commission's services have therefore limited their information programme to distribution of the basic information to all FI and companies which ask for it, but has not actively promoted ECIP demand.

ii) In addition, in accordance with the Council’s wishes, the Commission, while preserving the essentially market driven nature of the instrument, tries to ensure a wide and balanced geographical spread of active FIs in its network. This helps ensure that firms' access to ECIP is not impeded by a lack of representation, or inadequate representation, in any given region. Therefore, while the Commission does not require banks to join the network, it has given priority attention to applications from new FIs in countries or regions, in both the member states and the eligible countries, where representation has to date been limited. The Commission has also kept the quality and performance of the existing FIs under continuous review, to ensure that all FIs are effective in offering ECIP to their local business communities. 54 new FI were admitted to the ECIP network and 24 inactive FI were asked to leave the network in 1998.

iii) The Commission has reinforced the orientation of the scheme towards small and medium-sized enterprises ("SMEs"). By their very nature all the Facility One actions are oriented towards SMEs. And over 80% of all the Facility Two, Three and Four actions approved since 1988 have concerned beneficiary SME firms. This reflects the provisions of the Regulation, which provides for SME applications to have a priority status but without excluding larger firms, most notably in cases concerning particular development benefits such as technology transfer which larger firms are better equipped to deliver. However, large multinational undertakings are expressly excluded by the Regulation.

Furthermore since January 1996 under the new Council regulation (213/96) SMEs benefit from two additional specific financial advantages under ECIP. Firstly, under Article 4, para 3 an increase of Facility 2 financing for feasibility studies and pilot actions above 50% is provided for and limited to SMEs. And, secondly, under Article 4 para 5 SMEs can obtain Facility 4 funds as a grant - while larger companies can only obtain an interest-free advance.

iv) As in previous years, the Commission continued to focus ECIP activities on Facility 1, 2 and 4 actions. This does not mean that Facility 3 was discarded in 1998. Indeed the high success rate and high financial multiplier effect of the Facility 3 actions implemented 1988-98 suggest that the emphasis on Facility 3 should be reinforced in future. A specific section on Facility Three actions is provided later in this report. The Commission's main objective is to use ECIP funds in ways that best encourage joint venture creation with a maximum multiplier effect where other sources of financing are least available. The results achieved to date indicate that more accent on Facility 3 in the future could reinforce the effectiveness of ECIP, and in particular its development impact on the ground.

v) The new grant Facility 1B of ECIP has been introduced after 1996 to help governments and public agencies in the developing economies of Asia, Latin America, the Mediterranean and in South Africa to prepare privatisation and private infrastructure (PPI) projects and to improve their local development effects. By providing front-end grant finance at the preparation stage, the EC aims to improve the changes for successful completion of the PPI project, reduce costly duplication of preparatory steps and to expand the opportunities for European businesses to participate in the PPI process.

During 1997 a MEURO 1 grant allocation had been approved for the Philippines to assist in privatising local water supplies, and a set of actions (MEURO 1) for “Preparation of Privatisation and private Infrastructure” in Vietnam was also committed in 1997 as well as 2 small studies for a possible privatisation in Brazil were approved in principle for EURO 200.000. The Philippines and Vietnam actions continued under negotiation in 1998, and the Brazil actions were cancelled.

The 1B facility has shown slow implementation for a variety of reasons: i) the large multinational companies which execute most of these projects are excluded from ECIP; ii) the amount EURO 200.000 is too small vis à vis the cash needs of most major privatisation projects; and iii) the Commission has been particularly careful to make sure that the local policy and institutional frameworks justify this 100% grant financing and this policy analysis and dialogue delays and complicates implementation. The Commission is studying these problems, and seeking solutions. If they cannot be resolved the Commission may have to consider abandoning this facility.

Overall ECIP remains a comprehensive and integral scheme and now also encompasses privatisation and private infrastructure. It covers all stages in the process of creating a joint venture, from identification of projects through feasibility studies to equity funding and ongoing training. This is an important and unique feature of ECIP which is maintained and indeed reinforced in the Council’s 1996 regulation for the continuation of the instrument until end-1999. But during 1998 the Commission's services encountered serious procedural difficulties to maintain the ECIP service (which are explained in the next section).

Part Two

2. ECIP ACTIVITY REPORT FOR 1998

2.1. ECIP Regulation 213/96 approved on 29th January 1996

The approval by the Council on 29th January 1996 of the ECIP Council Regulation (EC) N° 213/96 (O.J. L.28/2 of 6.2.1996, see annex) allowed the Commission to begin to implement further improvements to ECIP during 1996 and to consolidate them in 1997 and 1998. The new Regulation carried forward the main features of the previous ECIP Regulation and also incorporated:

a) improvements to the detailed conditions of the existing financial facilities;

b) the new Facility 1B ECU 200.000 grant for preparation of privatisation and private infrastructure projects;

c) provisions for significant measures to reinforce ECIP's management (technical assistance unit), financial audit (the independent financial audit), and reinforced anti-fraud provisions; and

d) provisions for reinforced information, and for coordination with other EU investment promotion actions such as the JOP, ALINVEST, MEDA, ASIA-INVEST, the South Africa Business Council, the systems managed by DG XXIII (BCNET, BRE, Euro-info Centres etc.) as well as with the European Investment Bank's risk capital activities.

Since the new ECIP Regulation was approved just at the beginning of 1996 (29.1.96) the new financing conditions (and other changes) of Regulation 213/96 have been applied to all new ECIP actions approved for finance in 1996 and thereafter in 1997 and 1998.

At the initiative of the Council, the ECIP Regulation 213 /96 includes a financial reference amount of EURO 250 millions for the five-year period 1995-1999 inclusive.

The validity of the Regulation is for a four year period until end-1999 allowing the Commission thoroughly to implement the reinforcements foreseen for financial management which are described in later sections of this report (especially Part Four).

2.2. Financing requests, approvals and contracts

The following sections provide a strategic commentary on the detailed statistical tables in the annexes to this report (see Part Five).

<u>Financing Requests</u>

During 1998 the Commission did not actively promote demand for ECIP - it limited its information efforts to replying to FI and potential beneficiary requests for information.

In 1998 the Commission's services focused even more than in previous years on improving management follow-up capacities to reinforce financial management, audit, reporting and anti-fraud measures as regards ECIP funds. Following the consolidation by Technical Assistance of the Commission's capacity to manage the increased volumes, despite over 200 expressions of interest from new Financial Institutions (FIs) the Commission recruited only 54 new FIs to the ECIP network in 1998 and some 150 FIs outside the ECIP network who had applied were not admitted. 24 inactive FIs were requested to leave the ECIP network. At the end of 1998, 142 FIs were in the ECIP network.

The management of ECIP was from the start intended to be as "business-friendly" as possible: rapid decisions, transparency, flexibility, rapid payments. This approach, specific to ECIP, gave the scheme a good reputation with the financial institutions and prevailed until 1996. Since then the management of ECIP has become progressively more bureaucratic and heavier due to three factors:

– ECIP, because it is principally oriented towards small and medium-sized enterprises is very "labour intensive", and the rapid growth in the number of projects came up against the limited personnel resources available to the Commission to manage them. These insufficiencies of staff were progressively but only partly relieved by recourse to a Technical Assistance Unit (1997) and then to a Financial Assistance Unit (1999);

– the reinforcement of the Commission's financial procedures following observations by the Court of Auditors, led on the one hand to delays in procedures (decision by full Commission Written Procedure instead of habilitation), and, on the other hand to a separation of the technical functions (DG IB) from the financial functions (Common Service Relex) in virtue particularly of the SEM 2000 (1996), although qualified personnel was not available in sufficient number, particularly in the financial sector.

– when the period for a reimbursable (facility 2) advance, fixed at 5 years by the ECIP Regulation, ends the financial institution is required, by its contract with the Commission, to recover the funds for the Commission. These recoveries thus form a routine part of the financial operations of ECIP. Nevertheless these financial closures and recoveries require a great deal of precise, careful administrative work for which an insufficient number of staff was available. Nevertheless by the end of 1999, 1398 individual action files had been financially audited.

These difficulties had two consequences:

a) the accumulation of a backlog of payments to which the Commission's services decided to give priority, and which should be largely addressed by the end of the year 1999. In the meantime, despite the continued demand for finance, ECIP has been put on hold as regards new activities in 1999. The Commission services have decided that in 1999 the exclusive priority for the financial services must be the financial completion and closure of the existing ECIP contractual files and the recovery of unused and reimbursed ECIP funds.

b) increasing discontent among Financial Institutions and enterprises frustrated by the delays in decisions, contracts and in payments has been evidenced.

From 1988 to end-1998 the Commission has received 3711 formal requests for ECIP financing of which 2534 have been approved for MEURO 286,3 of ECIP financing. In the year 1998 compared to 1997 the number of requests for ECIP financings decreased by 39% to 396, and their EURO value also declined by 25% to MEURO 53,9. In 1998 ECIP consumed

57% (MEURO 28,4) of the total MEURO 52,6 1998 budgetary credits available to it having approved 264 actions for MEURO 29,8 finance in 1998 and committing the balance on contracts for actions carried over from 1997. 1998 was the first year that ECIP failed to consume its total available budgetary credits.

In 1998 in comparison to the previous year (1997) the number of Facility 1 requests declined by 34 %, the number of Facility 2 requests by 45 %, the Facility 3 requests by 31 % and requests for Facility 4 by 14 %.

Number of ECIP Financings requested

Year	1997	1998
Facility 1	153	101
Facility 2	403	223
Facility 3	26	18
Facility 4	63	54
Facility 1B	4	-
Total	649	396

Approvals

During 1998, 264 new ECIP financing actions were approved bringing the total cumulative number of individual ECIP actions approved for financing 1988-98 to 2534. This represents a significant decline in 1998 vis à vis 1997 being less 32 % by number of approvals, and less 20 % in MEURO volume of ECIP financing.

ECIP actions approved (All regions)

	ANNUAL All Regions 1998		CUMULATIVE All Regions 1988-1998	
Facility	N° of Approvals	Approved amounts in EURO	N° of Approvals	Approved amounts in EURO
1	56	4.090.812	729	42.264.393
2	162	16.878.216	1502	158.370.392
3	10	4.162.754	157	65.425.899
4	36	4.689.575	142	18.006.420
1B	0	0	4	2.200.000
TOTALS	264	29.821.357	2534	286.267.104

Facility One, probably because most of the requests do not benefit from the management filter and the assistance of the FI, and because a grant is being requested, has had the lowest approval rate of all four facilities at 55 %, also because the Commission is careful to avoid overlapping ECIP finance with similar ALINVEST, ASIAINVEST and MEDA actions. The Facility Two approval rate having declined from 74% in 1994 down to 68% in 1995, and to 63% in 1997, has gone up to 73 % in 1998. Facility Three still exhibits a low approval rate of 56 % for 1998, which reflects the Commission’s particularly careful policy as regards Fac 3 financings and the rigorous application of the principles of financial additionality, and of the required matching financial contribution from the FI before approving any facility 3.

It is significant to note that demand for Facility Four quadrupled between 1995 and 1998 – probably due to the introduction of grant financing conditions after 1995.

Contracts signed

All ECIP "approvals" issued by the Commission require the Financial Institution (FI) and the Final Beneficiary (FB) to accept stringent financial, economic, technical and developmental conditions and to sign specific contract agreements committing them to respect these conditions. That 20% by EURO volume and 11% by numbers of the final beneficiaries either do not accept these conditions or, after signature of the contract, decide that they cannot fulfil them and so renounce the financing is a reflection of the "due diligence" during implementation by all parties. In this context it should not be forgotten that in all cases the Final Beneficiaries have to cofinance at least 50% (Fac 1,2 and 4) of the action costs, and in the case of Facility 3 at least 60%. Furthermore for Facilities 3 and 4 the Financial Institution must also provide funds to match the cofinance from the ECIP funding.

Given these factors, combined with practical difficulties for ECIP Final Beneficiaries to execute ECIP actions and to invest in developing countries it is normal that the overall rate of execution of ECIP contracts is not 100%.

87 % of the actions by the end of 1998 had been the subject of specific signed contracts. And a large part of the 13 % "approved but not signed" represents the over 200 contracts which were in the process of signature as at 31.12.98.

ECIP actions approved and contracted (1988-98)

Facility	Actions approved up to 31.12.98	Contracts signed	Contracts as a % of Approvals
1	729 (100%)	675	93 %
2	1502 (100%)	1310	87 %
3	157 (100%)	85	54 %
4	142 (100%)	123	87 %
1B	4 (100%)	0	0
Totals	2534 (100%)	2193	87 %

Facility 3 is quite different from the other facilities in that only about a half of the approved actions eventually lead to a contracted disbursement. This one half rate of signature and disbursement is normal for development risk capital actions. (More detailed information on Facility 3 is provided in Section 3 below).

2.3. Geographical distribution

Detailed information on ECIP actions broken down by region and country appears in full in the Annexes (Part Five). Herewith please find some strategic comments on these trends.

1998
Approvals by region

	N° of Projects approved	% of projects approved	Amount in EURO	% of amounts approved
Asia	117	44 %	12.563.707	42 %
Latin America	93	35 %	9.552.316	32 %
Mediterranean	41	16 %	5.976.037	20 %
South Africa	9	3 %	1.156.662	4 %
Multiregional	4	2 %	572.635	2 %
Total	264	100 %	29.821.357	100 %

Asia, as in previous years, in 1998 remained the lead region for ECIP actions albeit with a marginal decline. Asia accounted for 44 % of projects approved, and 42 % of amounts approved. The 1998 results show an increase in the share for Asia compared to 1997, when Asia accounted for 38 % of approved projects and 44 % of amounts committed. Asia accounts for over three-quarters of the population of the ALAMEDSA countries and around two fifths of the GNP.

1988 – 1998
Cumulative approvals by region

	N° of Projects Approved	% of projects Approved	Amount in EURO	% of amounts Approved
Asia	1.104	44 %	132.287.701	46 %
Latin America	819	32 %	86.709.712	30 %
Mediterranean	509	20 %	55.347.894	19 %
South Africa	61	2 %	9.920.808	4 %
Multiregional	41	2 %	2.000.989	1 %
Total	2.534	100 %	286.267.104	100 %

Latin America accounted in 1998 for 35 % of the number of projects approved and 32 % of the ECU value of ECIP financing. On a cumulative basis 1988-98 it absorbed 32% of the numbers approved and 30% of the value of ECIP financings. Latin America accounts for 12% of the population and about one third of the GNP of the ALAMEDSA countries as a whole.

The Mediterranean countries by the end of 1998 accounted on a cumulative basis (1988-98) for 20 % of the number of ECIP actions approved and 19% of the ECU volume of financings although this region accounts for only 8% of the population and less than 20% of the GNP of the ALAMEDSA countries as a whole. ECIP's activity there is also complemented by that of the European Investment Bank (EIB).

Although South Africa only became eligible for ECIP in mid-1994 already by 31.12.1998 EURO 10 Mio of ECIP financing had been committed for 61 specific actions approved, and three major local banks integrated into the ECIP FI network.

Despite the tendency for Foreign Direct Investment (FDI) to focus mainly on a few large developing countries (See Part One above) ECIP has itself contributed towards a more widespread geographic distribution of FDI. The geographical distribution of ECIP financings has been widespread with less concentration on the major countries. From 1988 to 1998 only 55% of the total ECIP budget went towards the 7 largest ALAMEDSA economies (Argentina, Brazil, China, India, Indonesia, Mexico and Turkey) although these 7 countries took three quarters of all the ALAMEDSA Foreign Direct Investment in the period 1988-1998. So ECIP has encouraged a wider geographic spread of FDI towards smaller and less developed countries.

2.4. Breakdown by facility

1998
Approvals by facility

	N° of Approvals	% of N° of Approvals	Approved amounts in EURO	% of Approved amounts in EURO	Average ECIP financing in EURO
Facility 1	56	21	4.090.812	14	73.050
Facility 2	162	61	16.878.216	57	104.187
Facility 3	10	4	4.162.754	14	416.275
Facility 4	36	14	4.689.575	15	130.266
Facility 1B	0	0	0	0	0
Total	264	100	29.821.357	100	112.960

The emphasis placed by the Commission on Facilities 1, 2 and 4 and not on Facility 3 (referred to in section 1.2 above) is confirmed in 1998, as in previous years, from the figures shown above and in Annex (Part Five). Facilities 1, 2 and 4 accounted for 96 % of the number of approvals in 1998. This increases on the situation in the previous year (1997) when Facilities 1, 2 and 4 accounted for 95 % of approvals.

During 1998 the average EURO amounts of each Facility approved were as follows: -

Average ECIP financing per action in 1998

	1998
	EURO
Facility One	73.050
Facility Two	104.187
Facility Three	416.275
Facility Four	130.266
Overall average	112.960

The trend for higher use of Facility 4, noted in the 1996 and 1997 progress reports has continued in 1998. Facility 4 approvals increased from under 3% of total numbers approved in 1995, to 9% in 1997 and to 14 % in 1998. This increase in Facility 4 is probably due to the changed financial conditions in the new Regulation, which since 1996 allow SMEs to obtain grant finance under Facility 4 for human resource development. In EURO amounts this increase in approvals for Facility 4 consumed 15 % of the ECIP budget for 1998 as opposed to only 3.6% in 1995.

2.5. Sectoral analysis

The breakdown of ECIP approvals by detailed Standard Industrial Classification sector is provided in the annexes.

The summary breakdown by major sector is as follows : -

Sectoral breakdown of ECIP approvals 1988-98

SECTOR	%
Manufacturing	63
Agriculture and agri-food	17
Services	7
Multisector	5
Mining and energy	3
Transport and communications	2
Construction and Engineering	3
TOTAL	100

Manufacturing, with 63 % of approved funding from 1988 to 1998, has been lead sector for ECIP financings. Machinery, electronics and chemicals are the most important manufacturing sub-sectors. ECIP financings for Asia show a higher concentration on manufacturing with 71 % of all ECIP funding for Asia. On the other hand the Mediterranean countries had only an average of 41% manufacturing-related actions from 1988 to 1998.

The agriculture and agri-food sector (including fishing) share of ECIP approvals from 1988 to 1998 has been overall 17 %. In the agricultural sector specific project content has, since 1996, continued moving away from agricultural production towards food-processing and agri-food related activities. Overall ECIP has been involved in less and less agricultural production projects over the years.

The service industries (including financial services) share of ECIP has slowly decreased, from an average 15 % from 1988 to 1994, 13 % in 1995, 9 % in 1997 to only 7 % in 1998.

Activities in the mining, energy, transport and construction sectors have only taken 8 % of approved amounts up to the end of 1998.

2.6. The network of ECIP financial institutions (FI) and their activities

One of the key features of the ECIP instrument is its decentralised management with much of the implementation being undertaken by the FIs (Financial Institutions) in the network. All the FIs sign a standard "Framework Agreement" contract with the EC which sets out the legal relationship between them and the Commission, and the procedures to be followed. The Commission has over the years provided for the FIs to take an increasing role in the management of ECIP.

Given that all proposals submitted under Facilities 2,3 and 4 <u>must</u> come through an FI, it is essential that the FI network should cover the EU member states and as many as possible of the eligible countries. So, already in 1995 banks from Austria, Finland, and Sweden had been incorporated into the network following the favourable opinion of the ECIP Committee, as a result ECIP has active FIs in all member states of the EU. Similarly, the inclusion of three banks from South Africa had been completed early in 1995, and the Austrian state development bank FGG joined the network in 1996.

The ECIP Council Regulation (EC) n° 213/96 foresees that : *quote art. 3, para 1* - " The Financial Institutions shall be selected by the Commission, further to the opinion of the Committee, defined in art. 9, from among development banks, commercial banks and investment promotion bodies" *unquote,* and *quote art. 9, para 3, 1°* - " The following shall be adopted …: - the choice of Financial Institutions in the light of their experience and aptitude for making a preliminary selection of the projects in accordance with the criteria set out in art. 6 " *unquote.*

On 20 May 1998, the Commission has decided, by written procedure, to adopt a modification to the ECIP network of Financial Institutions. The Commission decision furthermore specifies that it is not possible to maintain in the ECIP network those Financial Institutions who were inactive in the network or who were not able to generate ECIP actions over the last 2 years. The ECIP network of Financial Institutions has thus been modified accordingly by including 54 new FI and inviting 24 to leave the network, and the distribution of FIs by type and region is now as follows :

ECIP FI network end 1998

	Asia	**LA**	**MED**	**South Africa**	**Multiregional (Worldwide)**	**EC**	**Total**
Development Banks	6	8	8	0	2	15	39
Commercial/Merchant Banks	12	15	16	4	0	56	103
Totals	18	23	24	4	2	71	142

LA = Latin America
MED = Mediterranean

Annex 9 in Part Five of this document lists these institutions.

During 1998, 86 % (EURO 25,7 Mio) of ECIP actions approved were channelled through EU FI. Local ALAMEDSA FI accounted for EURO 2,8 Mio (9 %) of ECIP approvals. And EURO 1,3 Mio (5 %) of the actions approved were directly (Facility 1) for chambers of commerce and industry associations. Care should be taken in interpreting these figures. It cannot be assumed, for instance, that the amounts approved for FIs of any one EU member state represent the total ECIP support flowing to companies solely from that member state. ECIP allows applications to be made by one of the several partners in the joint venture. ECIP allows applicants to use any FI in the network, they are not restricted to FI only in their own country. Approvals for an FI in one country may often therefore involve a beneficiary (or several) from another country. The figures therefore do not represent ECIP financing benefiting companies from a country. For example, most of the finance via Luxembourg FIs is due to a German bank (EUROPA Bank – which is part of the Dresner Bank Group) based there, the majority of whose clients are German.

Factors which affect distribution between FIs and between the various countries relate to the willingness of FIs in a given country to become members of the ECIP network; the type of bank; the way in which FIs promote the instrument once accepted into the network. Wider factors for each country also include: the presence of strong industrial associations to diffuse information about ECIP in the country in question; the availability of other local publicly funded investment promotion programmes and the attractiveness of their terms and conditions relative to ECIP; the division of FDI between large firms and SMEs; and historical and commercial links with the ALAMEDSA eligible countries.

The Commission's objective is that as many business operators as possible undertaking a profitable and developmentally beneficial joint venture investment in an eligible country should be aware of the support that ECIP can offer them and should be able to access the scheme. To achieve this objective and to reduce the influence of the factors noted above, the Commission undertakes information and promotional activities, and has introduced incentives to encourage effective promotion of the instrument by all the FIs throughout the EU member states and the eligible ALAMEDSA countries.

2.7. Information, awareness and promotion

During 1998 the Commission did not actively promote demand for ECIP since it focused its efforts on the management of the existing contracts and the ongoing flow of requests and contracts. It limited its information efforts to replying to all FI and beneficiary's requests for information.

2.8. Facility 1B for privatisation and private infrastructure (PPI)

Privatisation and private participation in infrastructure ("PPI") has increased rapidly in recent years as some developing countries have opened up their infrastructure sectors to finance and management by the private sector. PPI may be the only way for a developing country to meet the often huge growth in infrastructure needed to keep pace with its development. PPI can bring with it increased efficiency in construction and operation. PPI can also reduce financing and management burdens on public sector institutions. PPI may also have other indirect benefits for the host country. A successful PPI project can strengthen the local financial sector, act as a valuable demonstration project for other PPI initiatives in the country or region, and create domestic constituencies for further liberalisation.

The grant Facility 1B of ECIP introduced in the new ECIP Regulation has been designed to help governments and public agencies in the developing economies of Asia, Latin America, the Mediterranean and in South Africa to prepare PPI projects and to improve their local development effects. Facility 1B has been developed in recognition of the fact that PPI projects are complex, and that many public agencies have limited experience in this new and fast developing technique. By providing front-end grant finance at the preparation stage, the Facility 1B aims to improve the changes for successful completion of the PPI project, reduce costly duplication of preparatory steps and expand the opportunities for European Businesses to participate in the PPI process. ECIP Facility 1B can provide up to 100% grant support for eligible expenditure with a maximum of ECU 200 000 per action. The Discussions by the Commission with contractors, consultants, financial institutions and governments had allowed the Commission during 1996 to develop the general guidelines for ECIP Facility 1B. (These are provided in detail in Annex 11, Part Five.)

As a result of the complexity and political and economic importance of PPI actions, and because the funding is as a 100% grant, the Commission has been particularly selective in approving and managing ECIP Fac 1B actions. During 1996 one set of actions (MECU 1) for "Preparation of Privatisation and Private Infrastructure" in Vietnam was approved in principle but only committed in 1997 since the implementation of this action is to be assisted and monitored by the putting into place of a full-time Build Operate and Own / Build Operate and Transfer Technical Assistance in Vietnam (funded by the EU Budget Line for Economic Cooperation with Asia EUROTAPVIET project). During 1997 a MECU 1 grant allocation was approved for the Philippines to assist in privatising local water supplies. And 2 small studies for a possible privatisation in Brazil were approved in principle for ECU 200.000 but later abandoned.

None of these actions has yet led to contracts and payments. The 1B facility has shown slow implementation for a variety of reasons: i) the large multinational companies which execute most of these projects are excluded from ECIP; ii) the amount ECU 200.000 is too small vis à vis the cash needs of most major privatisation projects; and iii) and the Commission has been particularly careful to make sure that the local policy and institutional frameworks justify this 100% grant financing and this policy analysis and dialogue delays and complicates implementation.

2.9. Relations with the EIB and coordination with other EC instruments

The Commission continued operational coordination of ECIP with other investment promotion instruments managed at EU level. The cooperation and coordination with the European Investment Bank (EIB) as regards operations in the Mediterranean was facilitated by the continued operation of the "Gentleman's Agreement" concluded in 1992 between the EIB and ECIP in 1992. The EIB has written to the Commission stating that "…there now exists a satisfactory complementary and equilibrium between ECIP and EIB operations".

In addition to the internal and operational coordination within the Commission's services as regards the respective individual actions to be financed under ECIP and other EC economic cooperation programmes, the Commission is studying the setting up of specific arrangements to diffuse and exploit the information, partner lists, and studies financed under Facilities 1 and 2 of ECIP through the networks and outlets and information systems in the AL-INVEST focal points, the EU/Mediterranean Business Centres, the Asia/EC Business info Centres (EBICs) and the networks and systems managed by DG XXIII and III within the EC and elsewhere such as BCNET and BRE which will allow further to improve the effective access to the benefits of ECIP, especially for SMEs.

A basic review of these various different instruments is necessary in order to reinforce their coherence and complementarity. Most of the newer programmes provide "softer" grant money with less rigorous eligibility criteria than ECIP's strict and conservative banking approach. Avoidance of overlaps and greater coordination could be achieved by a detailed review and comparison of all these instruments. An encouraging development has been the tendency of other donors and EU policy areas to copy the ECIP instrument, adapted to local needs and circumstances. For example, an ACIP – Asian Community Investment Programme – now exists with four financing facilities to encourage Asian investors to invest in India; and a J.E.V. Joint European Venture programme has been introduced with EU funding to promote cross-border SME joint ventures between EU member states.

Part Three

3. THE ECONOMIC IMPACTS OF ECIP FINANCINGS

3.1. Reporting of ECIP actions

In the context of total private capital flows of over EURO 227 billions to the developing world in 1998 the annual available ECIP funding of EURO 39,75 millions (1998) remains modest. But the focus of ECIP on match-making and project identification (Facility 1), feasibility studies (Facility 2), and on training and management (Facility 4) enhances ECIP's financial multiplier effect and orients ECIP towards upgrading the developmental quality and the economic impact of the flow of private investments to developing countries.

Because of the limited staff resources available to it the Commission is obliged to rely on the FI and Final Beneficiary reports on the actions. The global estimates below are based on a detailed economic impact reporting system which analyses the results of every ECIP action on the basis of written reports from the beneficiaries. The economic impact of ECIP is estimated by the Commission's services by assessing the detailed written Final Report on each individual action. Up to the end of 1998, 2534 actions have been approved, resulting in 2193 contracted ECIP actions. 1353 Final reports had been received and 1312 of those had been technically assessed and 1398 audited financially by the time of writing this report.

On the basis of detailed analysis of 1312 of these individual detailed Final Reports on 1312 individual ECIP actions the Commission estimates that each EURO of ECIP financing is associated with over 16 EURO of investments in the developing countries. EURO 240 millions of ECIP actions executed are reported to be associated with about EURO 3,5 Billions (=3.561 millions) of private investment projects. Over 34.000 EU and local firms have been involved as partners in the 2193 actions contracted to 31.12.98. 1362 joint ventures are reported to have been created, and over 42.000 jobs are reported to have been created in these joint ventures.

ECIP actions approved, contracted, assessed (1988-98)

Facility	Approved	Contracts already signed	Final Reports assessed
1	729	675	513
2	1502	1310	710
3	157	85	47
4	142	123	42
1B	4	0	0
Totals	(100%) 2534	(87%) 2193	(51%) 1312

There is a substantial time lag between the approval of an action, contract signature, execution, and then its written report. The facilities take between 18 months (Facility 1), 24-36 months (Facility 4), 3 years (Facility 2), and up to 10 years (Facility 3) on average to be completed and to present their Final Report. As a result, at the time of writing, 1181 of the 2534 actions approved until 31.12.98 were still in progress and their final reports awaited.

The Commission has been conservative in compiling the reported results of completed actions. Only if the Final Report has been received and a joint venture has been reported to have been created, are investment, resulting employment and other development factors taken into the reported impact totals. All other actions, where the final outcomes of an action are not available have not been included in the economic impact data analysed below.

Throughout this report the economic impact of ECIP is measured on the basis of the 1312 action reports analysed in detail and then calculated on the basis of success rates per facility. The tables included in this chapter each have one column of actual results relating to the 1312 researched actions (*1312 Reports Evaluated*) and another column with the (*Estimates for all 2193 contracted)* results for the total 2193 actions contracted.

Annex 5.2 contains more details of the data for each facility and a detailed explanation of the methodology and analysis used to arrive at the data.

3.2. Joint venture creation

Based on the 1312 completed and reported actions ECIP has helped to create 893 reported joint ventures. Based on the same rates of success the 2534 actions approved 1988-98 would lead to the establishment of 1362 joint ventures. The breakdown of these figures by facility is shown below:

Number of Joint Ventures created (1988-98)

Facility	1312 Reported and Evaluated	Estimates for all 2193 actions contracted
1	624	821
2	183	338
3	44	80
4	42	123
Totals	893	1362

The nature and quality of the results of each facility differs as follows :

Facility One assists Chambers of Commerce, industry associations, and FIs with matching activities. Based on the 513 Final Reports evaluated, around 624 joint ventures are reported to follow from these 513 Facility One actions. On that basis it can be estimated that some 821 joint ventures might be expected to follow the total of 675 Facility One actions contracted to end-1998. These Facility One numbers represent the reported (rather than the realised) intentions to create joint ventures. Many will take some years to be actually realised. For this reason the Commission has not included their investment or employment creation projections in its overall estimates for the economic (investment and jobs) impact of ECIP, and double-counting does not occur of Facility One with other facilities.

Reported Facility 1 Results (1988-98)

	Actions reported and evaluated	Actions contracted
Number of actions	513	675
Results	**For reported actions**	**Estimated for all actions contracted**
Firms involved	17.400	22.900
Resulting joint ventures claimed to be created	624	821

513 Facility One Final Reports show an involvement of over 17.400 companies, so on the same basis an estimated 22.900 companies should benefit from ECIP support under the 675 Facility One actions approved. On average 34 companies are involved in each Facility One, so that it costs on average of EURO 1680 to ECIP for each company involved.

On the basis of 710 written Final Reports analysed Facility Two is reported to have a one in four JV creation success rate since 183 out of the 710 actions are reported to have led to a joint venture. On that basis the total 1310 actions contracted 1988-98 could lead potentially to 338 joint ventures.

Facility 2 Results (1988-98)

	Actions reported and evaluated	Actions contracted
Number of actions	710	1310
Results	**For reported actions**	**Estimated for all actions contracted**
Number of joint ventures resulting	183	338

Facility Three is very different from Facility Two measured at the contractual level since the ECIP funding goes to the establishment of the joint venture itself which must be established for the contract to be signed. As a result there is (and has to be) a nearly 100% success rate at contractual level. 91% of these represent fully subscribed and disbursed equity and equity loan participations and the remaining 9% represent those cases for which contracts are signed and the Financial Institution is still in the process of completing the financial and legal "due diligence" before subscribing the ECIP funds for equity or an equity loan.

Facility Three exhibits a low (54 %) rate of contracts signature following in principle approval by the Commission. This is normal since the various partners in the joint venture and the FI are obliged actually to agree complex legal contracts and to subscribe cash to the JV before the ECIP Facility Three contract can be signed and disbursed. This 1 in 2 signature and disbursement rate is to be expected in development risk capital financing and reflects the

Commission’s (and the FIs’) conservative and careful financial management as regards Facility Three before disbursing ECIP funds.

Facility 3 Results (1988-98)

	Actions reported and evaluated	Actions contracted
Number of actions	47	85
Results	**For reported actions**	**Estimated for all actions contracted**
Number of joint ventures created	44	80

Accordingly, of 157 Facility Three actions approved 1988-98, 85 have been the subject of full contracts signature and 80 of those have actually been totally “executed” and ECIP funds have been disbursed to the joint venture.

A particularly interesting statistic is that one third of Facility Three actions follow a Facility Two preparation study and financing.

<u>Facility Four</u> finances training, management and technical assistance for joint ventures. As such, since the JV must be created to apply for and to receive the ECIP funds it has a 100% JV creation rate, since the contracts cannot be signed and disbursed until the JV exists.

Facility 4 Results (1988-98)

	Actions reported and evaluated	Actions contracted
Number of actions	42	123
Results	**For reported actions**	**Estimated for all actions contracted**
Number of joint ventures	42	123

The real measure of Facility Four’s impact is the number of persons trained, its qualitative support to the human resources, and to the management of each JV (see section 3.5 below).

3.3. Investment

The 2193 ECIP actions contracted 1988-98 will, on the basis of the written reports and the Commission's conservative analysis of them, be associated with EURO 3,5 Billions (=3.561 millions) of joint venture investments :

ECIP Investment Creation in Mio € (1988-98)

Facility	1312 Reports evaluated		Estimated for all 2193 contracts signed	
1		*PM		*PM
2	€ Mio	1506	€ Mio	2779
3	€ Mio	204	€ Mio	369
4	€ Mio	141	€ Mio	413
Totals	€ Mio	1851	€ Mio	3561

* (Remark: The Commission has not taken intentions resulting from Facility One meetings into these totals.)

Since Facility One results in terms of joint ventures created are always sometime after the closure and Final Report of the action, so the Commission's files only contain reports on intended future investment and the Commission is conservative in not quoting any “investment creation” effect from Facility One. Nevertheless many of the 624 reported JVs from Facility One should certainly have an important additional investment effect eventually which would add to the above totals.

Only the investment effects of Facilities Two, Three and Four are discussed here. Of the 1312 action specific reports analysed 269 JVs created report EURO 1851 millions invested. For the total 1518 actions contracted (Facs Two, Three and Four) EURO 3561 millions investment total is estimated to be in the pipeline relating to 541 joint ventures.

The average total investment per successful ECIP joint venture is 6,5 million EURO. 95 % of all ECIP’s successful JVs involve less than MEURO 27 total investment each and can hence be considered SMEs according to the relevant SME definition:-

Total investment in ECIP-supported Joint Ventures

	Less than MEURO 5 Investment	MEURO 5 to 27 investment	More than MEURO 27 investment
% of JVs by number	70 %	25 %	5 %

A reported ECIP funding-investment multiplier of 16 times has been calculated as a ratio of all the ECIP funding approved and contracted for all facilities and the investments generated through successful joint ventures resulting from all the facilities (not including reimbursements).

Facility Two has a reported funding-investment multiplier of 19, the result of the one in four actions success rate, an average ECIP cost of EURO 115.000 per action (1988-1998), and an average of EURO 8,2 millions per successful Facility Two joint venture. This multiplier of 19 does not include repayments to the EC budget. If repayments of successful Facility 2 actions are considered as reductions in the net funds provided by ECIP, the Facility Two funding multiplier goes up from 19 to 27.

Facility Three with an average ECIP financing of EURO 330.000 (1988-1998) has a funding-investment multiplier of 14. This facility generally requires a larger amount of ECIP funding per action. The resulting multiplier is corrected upward because all Facility Threes which are contracted succeed in the sense that the JV is created. However, a more representative multiplier should take account also of reimbursements. The 13 actions closed and reimbursed to date have led to a 101 % rate of reimbursement, leading in the long run to a potentially significantly positive multiplier calculation (after repayments) since Facility 3 so far has led to a small profit to the EU budget (see Section below).

The Facility Four has an average cost to ECIP per action of EURO 131.000 (1988-1998). And Facility Four is associated with a lower average total investment per joint venture of MEURO 2,8 since it is particularly oriented towards SMEs by the conditions defined in the ECIP Regulation.

3.4. Analysis of facility 3 actions

The ECIP facility 3 equity and equity loans disbursed are particularly indicative of ECIP results since each and every action disbursed concerns a joint venture realised on the ground. Accordingly this section provides more detail on them.

The Commission's conservative financial management means that only about one third of applications received lead eventually to a contract and a disbursement. 157 (68%) of the 230 applications received have been approved for financing and only 80 (about half) of these are signed and disbursed. This attrition rate is normal for three important reasons: (i) the various cofinanciers (EU partner, local partner, and FI) are all required actually to provide proof of their cash commitment; (ii) the legal documentation is costly and often difficult to agree; and (iii) the Commission and the FI are particularly diligent as regards fulfilment of all the technical, economic, legal and financial conditions for Facility 3 actions. A low rate of signature and disbursement is normal for development risk capital actions.

The majority (80 %) of ECIP Facility 3 financings are executed by the EU member state development finance companies which are grouped in EDFI (European Development Finance Institutions). 19 of the ECIP Financial Institutions have executed Facility 3 financings. 8 of these FI are members of the EDFI (European Development Finance Institutions), 5 non-EU development finance institutions, and 6 are European commercial banks.

The wide geographical spread of these actions is as below: -

Facility 3 projects carried out by country

Country	Number of projects
China	13
Mexico	11
South Africa	10
Argentina	7
Morocco	6
Thailand	5
Turkey	5
India	4
Brazil	3
Sri Lanka	3
Egypt	2
Indonesia	2
Tunisia	2
Uruguay	2
Bangladesh	1
Bolivia	1
Cambodia	1
Chile	1
El Salvador	1
Maldives	1
Malta	1
Peru	1
Venezuela	1
Algeria	1
Total:	85

For the actions already closed the average timelapse from the signature of the contracts and disbursement until the closure and reimbursement is 7½ years. So by 31.12.98 only 13 Facility 3 financings had been completed, closed and reimbursed as follows:

Facility 3 reimbursed projects as at end-1998

Joint Venture project	EURO Amount disbursed	EURO Amount reimbursed	Profit/Loss	% reimbursed/ disbursed
Dairy production in Mexico	350.000,00	420.000,00	+70.000,00	120,00%
Plastics manufacturing in Bolivia	215.000,00	211.678,00	-3.322,00	98,45%
Hotel services in Thailand	254.983,00	258.725,00	+3.742,00	101,47%
Machine-tools manufacturing in Turkey	500.000,00	500.000,00	0,00	100,00%
Hotel group in Egypt	562.052,00	1.082.187,00	+520.135,00	192,54%
Food production in Morocco	144.000,00	4.350,00	-139.650,00	3,02%
Wind energy park in Argentina	120.000,00	156.617,00	+36.617,00	130,51%
Goods handling and services in India	316.700,00		-316.700,00	0,00%
Meat production in Mexico	1.000.000,00	282.912,00	-717.088,00	28,29%
Eggs production in Turkey	264.831,00	101.759,00	-163.072,00	38,42%
Manufacturing of industrial goods in Mexico	156.152,00	184.459,00	+28.307,00	118,13%
Manufacturing of food products in China	551.161,00	646.157,00	+94.996,00	117,24%
Toll highway in Argentina	800.000,00	1.445.291,00	+645.291,00	180,66%
Total	5.234.879,00	5.294.135,00	59.256,00	101,13%

This table show how these projects are very varied in their nature, location and their financial results. Such a small sample does not have statistical validity leading to generalisations. Nevertheless, the profile of their financial reimbursement is indicative of the wide variety of financial outcomes ranging from 80 to 90% profits realised, to total losses.

The impact in terms of incremental investments is also very varied. Several of the actions have been closed down at a loss, while others are highly successful with much larger investments generated than originally expected. Overall (for the small group of 13) these EURO 5,2 ECIP Facility 3 financings have been totally reimbursed with a 1% profit and are associated with over EURO 150 millions of confirmed ongoing investment projects. While this small sample should not be extrapolated to refer to the whole of ECIP - it is nevertheless indicative and positive.

3.5. Employment and training

Specific Final Reports already received for the 269 JVs reported to be created following Facilities Two, Three and Four show 21.400 jobs created. On that basis the 541 JVs expected to be created after all Facilities Two, Three and Four are all completed are estimated to involve approximately 42.400 jobs.

Employment (1988-98) number of jobs created

Facility	1312 Reports	Estimated for 2193 contracted actions
1	PM*	PM*
2	15.500	28.600
3	3.100	5.600
4	2.800	8.200
Totals	21.400	42.400

* (no job creation estimate is made for Facility One).

The average joint venture created after ECIP support involves about 80 employees. 92% of the JVs created employed less than 250 persons and can therefore be classified as SMEs on that basis:

Number of employees per joint venture created

	Less than 10	10-50	51-250	More than 250
% of JVs created	7 %	40 %	45 %	8 %

Under Facility Four, in addition to the management and technical assistance provided, some 2200 employees are calculated to have, or still be receiving training funded by ECIP.

3.6. Other development factors (environment, technology transfer)

The Commission assesses the environmental impact and risks of each ECIP action before approving each action. 8% of the Facility Two approvals were required to include an environmental assessment in their feasibility study in order to clarify, address and mitigate the risks. 12% of the actions were considered to have a potentially significant positive impact on the environment (such as cleaner diesel engines production unit, wind energy project, etc.). 80% of the actions were considered to have an acceptable impact and level of risks for the environment.

95% of ECIP-supported actions which resulted in a joint venture show positive elements of transfer of know-how, profitable to both partners in the enterprise. All ECIP actions involve some sort of technology and know-how exchanges. 5% of the cases approved concern projects with appropriate technologies, such as artisan or handicraft-type production units using local resources.

3.7. Assessment and follow-up of ECIP actions

ECIP is a decentralised programme without direct contractual contact between the final beneficiaries and the Commission's services, and with standardised written reporting procedures on projects executed by the FI. For the impact assessment the Commission relies on the end-of action written reports, the so-called *Final Report*, which each beneficiary has to make available through its Financial Institution and which the Financial Institution assesses and comments upon, before making the last disbursement to the beneficiary. As the ECIP instrument matured and as more and more Final Reports were available in 1997 and 1998 the Commission has executed a programme of eight on-the-ground inspections by independent consultants (see Section 3.8 below). Furthermore the Independent Appraisal Study foreseen in Article 10 para 2 of the ECIP Regulation provides for inspection and independent reporting of all these results. And at the time of writing (September 1999) that report was still awaited after the placement in February 1999 of the contract with Deloitte S.A. (see Section 3.9 below).

3.8. Eight ECIP country project inspection studies

During 1998 the Commission completed its programme of rigorous on-the-ground inspections of the ECIP projects realised in eight eligible countries. The eight countries were chosen in order to give a representative sample from all four continents concerned and to represent a wide range of types and levels of development. These countries: Chile, China, Indonesia, India, Morocco, Mexico, Tunisia and South Africa account for more than half of all the ECIP actions requested, approved and implemented and therefore already represent a substantial and representative sample. The terms of reference of these 8 separate studies (see Annex 5.3) were identical to ensure cross-country comparisons, and to enable aggregation of the results found to compare them to the aims of the ECIP regulation.

In conformity with standard EC procurement procedures via the framework contract procedure eight individual consultants have been contracted for the eight studies which cost a total of EURO 355.100 (or EURO 44.875 on average for each contract/study). These contracts were financed out of the ECIP Budget in accordance with Article 10 of the ECIP Regulation. Considering that these consultants reviewed 1.132 individual approved actions their work cost EURO 312 per action – a minimal cost. They also visited and interviewed many ECIP beneficiaries, financial institutions, government officials and chambers of commerce. 93 of ECIP's successful joint ventures investments have been visited by these consultants and they have provided detailed individual reports on these 93 investments which confirm the written Final Reports already held by the Commission. 20 of these project visits were witnessed by Commission officials as a sample check on the work.

These eight country inspections have therefore served to verify and confirm the reality on-the-ground as regards over half of the ECIP economic impact results which are quoted in this report. All these detailed on-the-ground findings have been made available to the independent appraisers whose recommendations for the future of ECIP are awaited before the end of 1999. The country- and project-specific studies do not replace the formal “Independent Appraisal” of ECIP foreseen in Article 10.2. of the Regulation which has been initiated in 1998 (see below).

3.9. The independent appraisal study

The ECIP Council Regulation 213/96 of 6.2.96 provides at Article 10 para 2 that the Commission shall forward the results of an independent appraisal of the instrument to the European Parliament and the Council and that this report must permit an assessment of the implementation of the principles of good financial management, economy and a cost/benefit analysis of the instrument.

Accordingly the Commission's services initiated in May 1998 the international tender procedure to procure this study. This tender was published in September 1998, adjudicated in December and the contract was signed in February 1999 with Deloitte S.A.

The full terms of reference of this study contract are reproduced in Annex 5.4 to this report. In summary it is to describe and assess to what extent each ECIP facility as well as the instrument as a whole since 1988 has achieved the objectives laid down in the ECIP Regulation particularly as regards total investments promoted, the number of joint ventures and jobs created, as well as the development contributions listed in Article 6 para 2 of the ECIP Regulation as regards the ALAMEDSA countries.

The consultant must also:

– Estimate quantitatively the financial multiplier effect of net ECIP fundings vis à vis investments created and the average costs of these investments per joint venture and per job created.

– It is also foreseen that an assessment will be made of the operations of the instrument particularly to analyse the criteria and the procedures for the ex ante appraisal and eligibility of ECIP financing and for the follow-up, reporting and evaluation of these actions ex post.

– Make recommendations for improvement in these systems including suggestions as regards the criteria and procedures including the periods necessary for follow-up and reporting.

– Describe and assess how the ECIP procedures, and the financial and contractual procedures of the Commission's services fit the requirements of a user-oriented investment promotion instrument for private sector operators.

– Describe what impact the Commission's Sound and Efficient Management (SEM 2000) procedures introduced from 1996 onwards have had on the above.

- Describe and assess the role and the coordination of ECIP vis à vis other EU instruments with similar related purposes.

- Make suggestions to address any problems identified.

Deloitte is expected to provide their report in early 2000 which will be sent to the Parliament and Council after the Commission's Approval.

Part Four

4. FINANCIAL MANAGEMENT

4.1. Sound and efficient financial management

In the framework of the Commission's Sound and Efficient Management Programme (SEM 2000) during 1998 the Commission continued to implement the major reinforcements to its financial management and audit capabilities which had been proposed in 1994 to the Council and Parliament and approved as a part of the new ECIP Regulation N° 213/96 Council of 29th January 1996. These measures were:-

– an Independent Financial Audit;

– anti-fraud measures; and

– a Technical Assistance Unit;

as provided for in Article 10 para 3 and 4 of the ECIP Regulation (See Annex 11).

The management of ECIP was from the start intended to be as "business-friendly" as possible: rapid decisions, transparency, flexibility, rapid payments. This approach, specific to ECIP, gave the scheme a good reputation with the financial institutions and prevailed until 1996. Since then the management of ECIP has become progressively more bureaucratic and heavier due to three factors:

– ECIP, because it is principally oriented towards small and medium-sized enterprises is very "labour intensive", and the rapid growth in the number of projects came up against the limited personnel resources available to the Commission to manage them. These insufficiencies of staff were progressively but only partly relieved by recourse to a Technical Assistance Unit (1997) and then to a Financial Assistance Unit (1999);

– the reinforcement of the Commission's financial procedures following observations by the Court of Auditors, led on the one hand to delays in procedures (decision by full Commission Written Procedure instead of habilitation), and, on the other hand to a separation of the technical functions (DG IB) from the financial functions (Common Service Relex) in virtue particularly of the SEM 2000 (1996), although qualified personnel was not available in sufficient number, particularly in the financial sector.

– when the period for a reimbursable (facility 2) advance, fixed at 5 years by the ECIP Regulation, ends the financial institution is required, by its contract with the Commission, to recover the funds for the Commission. These recoveries thus form a routine part of the financial operations of ECIP. Nevertheless these financial closures and recoveries require a great deal of precise, careful administrative work for which an insufficient number of staff was available. Nevertheless by the end of 1999, 1398 individual action files had been financially audited.

These difficulties had two consequences:

a) the accumulation of a backlog of payments to which the Commission's services decided to give priority, and which should be largely addressed by the end of the year 1999. In the meantime, despite the continued demand for finance, ECIP has been put on hold as regards new activities in 1999. The Commission services have decided that in 1999 the exclusive priority for the financial services must be the financial completion and closure of the existing ECIP contractual files and the recovery of unused and reimbursed ECIP funds.

b) increasing discontent among Financial Institutions and enterprises frustrated by the delays in decisions, contracts and in payments has been evidenced.

4.2. Independent financial audit

During 1998 "…the independent financial audit of the financial institutions and of the Facility 1 beneficiary organisations, as regards the ECIP funds they received." unquote (Article 10 para 3 of ECIP Regulation 213/96) as at 31.12.96 had been completed by Coopers & Lybrand Reviseurs d'Entreprises (Belgium). Then in 1998 into 1999 Price Waterhouse Coopers (the successor of Coopers & Lybrand) produced the subsequent audit situation of ECIP accounts as at 31.12.1997. The contract with Coopers & Lybrand (succeeded by Price Waterhouse Coopers) had been placed after an open international tender in conformity with Council Directive 92/50/EC of 18th June 1992 relating to the coordination for the award of public service contracts. The contract includes the following elements: (i) visits and specific audit reports of the ECIP accounts of ECIP financial institutions and Facility 1 beneficiaries located in EU and ALAMEDSA states were executed and delivered; and (ii) an overall audit report was produced. In this way two independent financial audits of the contractual and financial records relating to ECIP transactions have been completed and 1398 individual action accounts have been financially audited.

4.3. Anti-fraud measures

As required by Article 10 para 3 of the new ECIP Regulation the Commission "…made specific provision in the framework and the specific financing agreements for anti-fraud measures, in particular a mechanism for the recovery of advances which are not justified after audit" unquote by including strong contractual provisions in all ECIP contractual agreements (see Annex 5.10 for full text thereof).

4.4. Technical and Financial Assistance Units

As provided for in Article 10 para 4 of the ECIP Regulation (213/96) the Commission launched open international tenders in 1996 (in accordance with Council Directive 92/50/EC) and after a further invitation to tender (in accordance with Article 11.3. of the Council Directive 92/50/EC) a contract was signed in July 1997 with GOPA-Consultants (D) for a total amount of EURO 1.167.920 for 12 months' TAU service from 1st August 1997 to 1st August 1998. In order to ensure the continuity of the offer of ECIP and after another open international tender this contract was continued with GOPA (D) for a six month period from 1st August 1998 to 31st January 1999 for an amount of EURO 787.434. At the time of writing that Technical Assistance Unit (TAU) run by GOPA (D) Consultants was still operating and contributing significantly to the improved management of ECIP.

The role of this Technical Assistance Unit can be summarised, non-exhaustively, as follows:

– To deal with all requests from the public for information on ECIP, primarily by dispatch of ECIP information materials.

- To evaluate and process requests for ECIP funding.
- To follow-up and manage all dossiers on a continuing basis.
- To maintain correct and up-to-date files on all ECIP transactions – past, present and future.
- To maintain a complete accounting record of all commitments, contracts, payments, reimbursements and due dates, and on a six monthly basis produce a balance sheet and revenue and expenditure account for ECIP reconciled with the Commission's SINCOM accounts or equivalent.
- To maintain and update computerised records of ECIP transactions to ensure timely availability of correct management information.

In January 1999 in order to respect the SEM 2000 (Sound and Efficient Management) guidelines the Commission decided to divide these TAUnit tasks into a) a Technical Unit (still run by GOPA under their original tender), and b) separately a Financial Assistance Unit run by PB Auditores (ES) from 1 February 1999 also on the basis of an international tender. Accordingly from 1 February 1999 PB Auditores took over the financial management tasks. In accordance with the B7-872 1999 budgetary commentary the Commission's decision of 29 January 1999 provided EURO 1.590.000 for these costs in 1999.

The two Assistance Units provide these services under the control of the Commission's services but the Commission retains control and signature as regards all decisions to finance, contracts, commitments and payments.

4.5. Budgetary appropriations

The 1998 budgetary appropriations for ECIP under budget line B7-8720 were as follows:-

Consumption of ECIP B7-8720
Budgetary credits 1998

	MEURO	**%**
Commitment credits available originally	50,0	100,00%
+Credits from "reemploi"	+2,6	+5,20%
Total credits available for commitment	52,6	105,20%
Total commitments made	28,4	56,80%
Payments credits available	45,0	100,00%
Payments accounted for	22,0	48,89%

During the last few days of 1998 actions for a total amount of MEURO 4,2 was approved in principle by the Commission but their budgetary commitment was carried over to 1999 for formal approval and commitment against the ECIP B7-8720 credits for 1999.