



COMMISSION OF THE EUROPEAN COMMUNITIES

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REPORT FROM THE COMMISSION TO THE COUNCIL
AND THE EUROPEAN PARLIAMENT

regarding the European Investment Bank (EIB) lending in Central and Eastern Europe, the Mediterranean countries, Asia and Latin America and the Republic of South Africa pursuant to Council Decision 97/256/EC of 14 April 1997

1. Introduction

1.1. This report is submitted to the European Parliament and the Council in accordance with Articles 2 and 4 of the above-mentioned Council Decision and covers the period from the beginning of the mandate to 30 June 1998. As requested in the Council Decision, it includes information on "the situation regarding loans signed and progress made on risk sharing".

2. Legal and institutional framework

2.1. The legal and institutional framework of the mandate given to the EIB is laid down in:

a) **Council Decision 97/256/EC of 14 April 1997** (published in Official Journal L 102 of 19 April 1997) granting a Community guarantee to the Bank against losses under loans for projects in the Central and Eastern Europe countries, in the Mediterranean countries, in the Latin American and Asian countries, and in the Republic of South Africa. The guarantee is restricted to 70% of the aggregate amount of the credits opened, plus all related sums. The overall ceiling of the credits opened is equivalent to ECU 7 105 million, broken down as follows:

• Central and Eastern Europe countries (CEEC)	ECU 3 520 million
• Mediterranean countries (MED)	ECU 2 310 million
• Asian and Latin American countries (ALA)	ECU 900 million ¹
• Republic of South Africa (RSA)	ECU 375 million

and covers a period of three years beginning on 31 January 1997 for Central and Eastern Europe, Mediterranean and Asian and Latin American countries, and on 1 July 1997 for the Republic of South Africa, all subject to an automatic extension of six months if, at the end of three years, the loans granted by the Bank have not attained the overall ceilings referred to above;

- b) **Decision by the Board of Governors of 6 June 1997** authorising the Bank to lend on the basis of the Council Decision of 14 April 1997;
- c) **Contract of guarantee** signed by the Commission and the EIB on 25 July and 29 July 1997;
- d) **Council Decision 98/348/CE of 19 May 1998** (published in Official Journal L 155 of 29 May 1998) granting a Community guarantee to the EIB against losses under loans for projects in the Former Yugoslav Republic of Macedonia (FYROM) and amending Decision 97/256/EC of 14 April 1997 (see point 2.1 (a) above). The overall ceiling of

¹ In addition, loans amounting in total to ECU 122 million in the framework of the interim mandate of ECU 275 million for Asia and Latin America, approved by the Bank's Board of Directors during the time between the publication of the above-mentioned Council Decision in the Official Journal (on 19 April 1997) and 30 June 1997, are guaranteed by the Community under the terms of the Council Decision.

the credits opened is ECU 150 million, covering a period of three years from 1 January 1998. During the reference period, the Bank did not sign any finance contracts in FYROM.

3. Results and assessment of the Bank's operations as at 30 June 1998

3.1. This chapter gives a summary and general assessment of all loans signed as at 30 June 1998 pursuant to the Council Decision of 14 April 1997. The results of the operations are presented separately for CEEC, MED, ALA and RSA in Annexes 1 to 4.

3.2. At 30 June 1998, almost half of the duration of the CEEC, MED and ALA lending mandates and one third of the duration of the RSA mandate have elapsed².

3.3. Table 1 below shows that loan signatures at this date represent 49% of the overall lending ceiling of ECU 7 105m. The Bank is slightly ahead of schedule although it was unable to sign any loan contracts before the decision by its Board of Governors of 6 June 1997 authorising the Bank to lend on the basis of the Council Decision of April 1997. The rhythm of loan signatures has slowed down during the first semester of 1998. Of the 61 loans granted during the reference period (ECU 3 497.5m in total), only 17, amounting to ECU 935m, were signed between 1 January and 30 June 1998.

3.4. If account is taken of projects identified or approved but not yet signed, the Bank has a pipeline which covers the full lending envelope under the overall mandate. The present report refers only to loan signatures.

Table 1 Loans Signed as at 30.6.1998

Mandate		Signatures			
Region	Ceiling (ECUm)	Total (ECUm)	As % of ceiling	Number of loans	Average loan size (ECUm)
CEEC	3 520	1 948.0	55%	29	67
MED	2 310	1 292.0	56%	26	50
ALA	900	212.5	24%	5	43
RSA	375	45.0	12%	1	45
TOTAL	7 105	3 497.5	49%	61	57

3.5. The sectoral breakdown in Table 2 below shows that infrastructure (the Transport, Energy and Telecommunications sectors) accounted for more than half of total lending. The Water and Miscellaneous sector (25% of total lending) absorbed an untypically high share of the total during the period under review, because of the influence of exceptional lending for flood damage reconstruction in the Czech Republic and Poland. This sector accounted for more than one-quarter of lending in the Mediterranean countries, highlighting the importance of water management in that part of the world. It also includes important projects in Indonesia and South Africa.

3.6. Financing projects aimed at environmental protection and improvement is a constant priority for the EIB. Furthermore, the Bank is careful to take account of environmental factors in all the projects it appraises and finances. The granting of any EIB

²

Without taking into consideration the automatic extension of six months if, at the end of the three-year period, the loans granted by the Bank have not attained the lending ceilings mentioned under point 2.1 above.

loan is conditional upon compliance with current environmental standards and implementation of the most appropriate environmental protection measures.

3.7. Outside the Union, the EIB also supports the Mediterranean Environmental Technical Assistance Programme (METAP), in cooperation with the World Bank, the European Commission and the United Nations Development Programme (UNDP); and the Baltic Sea Joint Comprehensive Environmental Action Programme, under the aegis of the Helsinki Commission.

3.8. Almost all projects financed, in particular in CEEC but also in other regions, have some environmental aspect or component.

3.9. The operations in the CEEC reflect the European Union's pre-accession strategy. With a view to the preparation of the countries concerned for future EU membership, the Bank has, for example, granted significant loans for Trans-European networks (TENs), such as the ECU 165m loan for the Prague-Nuremberg motorway. In addition to its activities under mandate, the Bank has established a Pre-Accession Facility for lending from its own resources without budgetary guarantee.

3.10. The weight of global loans (4%), which normally is relatively high, is quite low because substantial facilities have either been put in place – and are still available – in the framework of the previous mandate or are presently awaiting signature.³ The global loan instrument continues to be an essential component of the Bank's activity outside the Union.

Table 2 Sectoral breakdown of loans signed as at 30.6.1998

Region	Energy (ECUm) (%)		Transport (ECUm) (%)		Telecom (ECUm) (%)		Water & Miscell. (ECUm) (%)		Industry & Services (ECUm) (%)		Global loans (ECUm) (%)		TOTAL (ECUm) (%)	
	Value	%	Value	%	Value	%	Value	%	Value	%	Value	%	Value	%
CEEC	70	4%	864	44%	357	18%	425	22%	177	9%	55	3%	1 948	100%
MED	389	30%	300	23%			345	27%	178	14%	80	6%	1 292	100%
ALA			25	12%	100	47%	55	26%	32.5	15%			212.5	100%
RSA							45	100%					45	100%
Total	459	13%	1 189	34%	457	13%	870	25%	387.5	11%	135	4%	3 497.5	100%
Of which during 1.1-30.6.98	160	17%	362	39%	50	5%	125	14%	228	24%	10	1%	935	100%

Cooperation with multilateral and bilateral financial institutions

3.11. The Bank cooperates with multilateral and bilateral financial institutions whenever possible and appropriate. In Central and Eastern Europe, the Bank continues to cooperate with the World Bank and the EBRD. It is also actively developing its cooperation with the PHARE Programme in order to achieve optimum interplay between PHARE's budgetary and the Bank's lending resources. During the period under review, assistance from PHARE has been significant – it cofinanced 5 projects in the transport sector. In the Mediterranean, there was substantial cofinancing with multilateral and bilateral financial institutions, including the World Bank, the IFC and the Islamic Fund, involving 11 projects. Projects in

³ The so-called global loans to banks and financial institutions operating on a local or regional level are, in effect, credit lines for set amounts and periods. The EIB offers these indirect financing facilities to support the activities of smaller businesses and for the development of smaller-scale infrastructure.

Asia and Latin America and in South Africa also involved cofinancing. Details of such cooperation are given for each of the geographical regions in the annexes.

Progress towards the risk-sharing objective

3.12. The Council Decision invites the Bank "to aim to cover the commercial risk on 25% of its lending under this Decision from non-sovereign guarantees to be expanded upon whenever possible insofar as the market permits on an individual mandate basis". In his reply to the letter from the Council inviting the Bank to lend in accordance with the Decision, the Bank's President noted the Council's request regarding risk sharing and confirmed that the Bank would seek to reach an overall level of 25%, while also reiterating his previous statement to the effect that the Bank could not commit itself to achieving targets for the use of non-sovereign guarantees on an individual mandate basis but would nevertheless do its best in this respect.

3.13. During the reference period, risk sharing in respect of EIB lending pursuant to the Council Decision reached an overall total of ECU 817.5m, or 11.5% of the overall mandate (ECU 7 105m) and 23.4% of lending to date (ECU 3 497.5m). This means that, at roughly half way through the mandate, the Bank has made progress on reaching the 25% risk-sharing target on an overall mandate basis. As anticipated by the Bank, the 25% risk-sharing target is unlikely to be reached on an individual mandate basis, although the Bank has had substantial success in two geographical regions (CEEC and ALA), as shown in Table 3 below, and prospects for reaching the risk-sharing target in those regions appear to be good. It is noteworthy that, even in those regions, the availability of the Union guarantee has proven to be useful. The low level of risk sharing operations in the Mediterranean countries illustrates the very nature of the EUROMED Partnership mandate, which calls for particular assistance to public-sector reform projects with governments or public bodies as main borrowers. Full details for each region are given in annexes 1 to 4.

Table 3 Loans signed as at 30.6.1998: Risk sharing/not risk sharing, by region

Mandate	Ceiling	Risk sharing			Non-risk sharing		
		Region	No. of loans	ECUm	% of ceiling	No. of loans	ECUm
	ECUm						
CEEC	3 520	11	564	16.0%	18	1 384	39.3%
MED	2 310	3	66	2.9%	23	1 226	53.1%
ALA	900	4	187.5	20.8%	1	25	2.8%
RSA	375	0	0	0	1	45	12.0%
Total	7 105	18	817.5	11.5%	43	2 680	37.7%
Of which during 1.1-30.6.98		4	190	2.7%	12	745	10.5%

EIB lending activity in Central and Eastern European countries

Objectives and priorities

1. The Bank's activity in the Central and Eastern European countries is part of the wider pre-accession strategy of the European Union and is pursued with a view to bringing these countries closer together and preparing them for accession. Loans are used in order to facilitate and accelerate progress in all sectors normally eligible for EIB financing (see Table 2 below). The Bank continues to give priority to integration and to the adoption of Community regulations, particularly in terms of extending **transport, communications and energy transfer networks**, including Trans-European Networks (TENs), fostering **industrial competitiveness** and promoting **regional development**. In addition, the Bank promotes **environmental aspects** whenever possible. It is recalled that, at the request of the Council, the Bank has set up a substantial **Pre-Accession Facility** for lending from its own resources, to help those countries that have applied for EU membership.

Results and assessment of the operations as at 30 June 1998

2. During the reference period, the Bank signed 29 loan contracts in Central and Eastern Europe for an aggregate amount of ECU 1 948m. There was a strong concentration of lending in a few countries: Loans in the Czech Republic and Poland accounted for more than half of EIB lending in the region; lending in Romania and the Slovak Republic accounted for another 30%. The remaining seven countries (Albania, Bulgaria, Estonia, Hungary, Latvia, Lithuania, Slovenia) together accounted for the remaining 20% (see Table 1):

Table 1 Geographical breakdown of EIB lending as at 30.6.1998

Loans Signed (ECUm)			
Country	Number of loans	ECUm	%
Albania	1	22	1.1%
Bulgaria	2	100	5.1%
Czech Rep.	4	540	27.8%
Estonia	2	20	1.0%
Hungary	2	95	4.9%
Latvia	1	20	1.0%
Lithuania	2	47	2.4%
Poland	5	465	23.9%
Romania	5	332	17.0%
Slovak Rep.	4	262	13.5%
Slovenia	1	45	2.3%
Total	29	1 948	100.0%
Of which during 1.1-30.6.98	7	482	24.7%

3. Table 2 below shows that **transport** (ECU 864m) and **telecommunications** (ECU 357m) together absorbed more than 60% of total lending. The extension and improvement of the transport networks and efficient communications are recognised as basic prerequisites for economic revitalisation and successful integration into the EU.

Table 2 Breakdown by country and sector of EIB lending in the CEEC

Country	Energy		Transport		Telecom		Water & Miscellaneous		Industry & Services		Global loans		Total loan signatures	
	ECUm	%	ECUm	%	ECUm	%	ECUm	%	ECUm	%	ECUm	%	ECUm	%
Albania			22	100.0%									22	100%
Bulgaria			100	100.0%									100	100%
Czech Rep.			240	44.5%	100	18.5%	200	37.0%					540	100%
Estonia			10	50.0%							10	50.0%	20	100%
Hungary	35	36.8%	60	63.2%									95	100%
Latvia			20	100.0%									20	100%
Lithuania			40	85.1%	7	14.9%							47	100%
Poland			75	16.1%			225	48.4%	130	28.0%	35	7.5%	465	100%
Romania	35	10.5%	200	60.2%	40	12.1%			47	14.2%	10	3.0%	332	100%
Slovak Rep.			97	37.0%	165	63.0%							262	100%
Slovenia					45	100.0%							45	100%
Total	70	3.6%	864	44.4%	357	18.3%	425	21.8%	177	9.1%	55	2.8%	1 948	100%
Of which during 1.1-30.6.98			362	75.1%					110	22.8%	10	2.1%	482	100%

4. Loans in the **Water and Miscellaneous** sector, in Poland and the Czech Republic, were for emergency flood damage reconstruction in those countries. Large industrial enterprises in Poland and Romania were supported by direct loans (**Industry and Services** sector).

5. Finally, the Bank's continuing commitment to the **energy** sector and to **SMEs** is demonstrated by the signature of loans to the energy sector in two countries – thus continuing the Bank's substantial investment in that sector in recent years – and of global loans in three countries.

6. With regard to **environmental benefits**, a recent study carried out by the Bank estimates that some 14% of the overall total cost of EIB projects financed in the CEEC are devoted to environmental measures. This estimate is based on prudent assumptions regarding the "fixed share" of environmental content (6.5% in the transport sector, 5% in the energy sector). In terms of total lending the relevant proportion of environment-related activity should actually be higher than 14%, since the Bank often directly finances the environmental components of projects. For example:

- The **Katowice Municipal Infrastructure** project in Poland is fully related to environmental improvement;
- The **Flood Damage Reconstruction** projects in the Czech Republic and in Poland have a significant environmental component;
- The **Bucharest District Heating Rehabilitation** project will bring significant environmental benefits;

- Transport projects may also bring significant benefits to the environment, particularly in the railways sector and in the case of urban by-passes, although the primary objective of such projects is transport;
- Allocations from the Bank's global loans signed during the reference period (in Poland, Estonia, Romania) may also be made for environmental initiatives.

7. The Bank is taking concrete action to accelerate the development of environmental projects in the CEEC and a number of possible projects have been identified. In this context, particular efforts are being devoted to coordination with PHARE on environmental matters and these efforts should show tangible results in the 1998-2000 period.

8. Table 3 below gives details of the loan contracts signed, indicating whether projects are risk sharing or not. It is clear that substantial progress towards the risk sharing objective has been made in Central and Eastern Europe, with 11 of the 29 loans signed falling within that category.

Table 3 EIB loans signed as at 30 June 1998 in Central and Eastern Europe

COUNTRY	PROJECT	DESCRIPTION	LOAN (ECUm)	RISK SHARING
Albania			22	
5/2/98	DURRES-VLORE HIGHWAY	Construction of a dual 2-lane carriageway road section between the port of Dürres and Tirana	22	No
Poland			465	
24/10/97	VEREINSBANK POLSKA Global Loan	For financing small and medium-scale environmental, energy saving, infrastructure, industrial and tourism projects, and SME projects in general	35	Yes
1/12/97	FLOOD DAMAGE RECONSTRUCTION - A	Emergency programme for reconstruction and restoration of basic infrastructure following flood damage	225	No
1/12/97	FLOOD DAMAGE RECONSTRUCTION - B	Emergency programme for reconstruction and restoration of railway infrastructure following flood damage	75	No
10/12/97	KATOWICE MUNICIPAL INFRASTRUCTURE	Improvements to the urban infrastructure (roads, sewage and municipal landfill) of Katowice	20	No
7/4/98	ISUZU DIESEL ENGINE PLANT	Construction of a diesel motor factory at Tichy (Silesia)	110	Yes
Hungary			95	
18/12/97	MVM LÖRINCI POWER PLANT	Construction and operation of a gasoil-fired open-cycle combustion turbine to supply peak load power and increase Hungary's secondary reserve capacity	35	Yes
23/2/98	RAILWAYS I	Improvement of the efficiency and competitiveness of the Hungarian railways	60	No
Estonia			20	
23/10/97	TALLINN AIRPORT	Upgrading of Tallinn International Airport	10	No
22/12/97	UNION BANK OF ESTONIA Global Loan	For financing small and medium-scale environmental, energy saving, infrastructure, industrial and tourism projects, and SME projects in general	10	Yes
Lithuania			47	
10/12/97	TELECOM. II	Development of the second phase of mobile (GSM) telecommunications network	7	Yes
19/6/98	ROADS	Construction of about 900 km of gravel roads	40	No
Latvia			20	
24/7/97	VENTSPILS PORT	Improving port channel access and reconstruction and strengthening of quays	20	No

COUNTRY	PROJECT	DESCRIPTION	LOAN (ECUm)	RISK SHARING
Czech Rep. 30/6/97 30/10/97 2/10/97 30/10/97	RAIL CORRIDOR BERLIN-VIENNA - B	Upgrading of the Czech section of the Berlin-Prague-Vienna railway line	540 75	No
	SPT TELECOM. II - A	Modernisation of the telecommunications network	100	Yes
	D5 MOTORWAY PRAHA-NÜRNBERG	Construction of the section Plzen-Rozvadov of the D5 Prague-Nürnberg Motorway	165	No
	FLOOD DAMAGE RECONSTRUCTION	Emergency programme for reconstruction and restoration of basic infrastructure following flood damage	200	No
Slovak Rep. 18/7/97 11/12/97 3/12/97 29/12/97	EUROPEAN ROADS II	Construction of 18 km of trunk roads (D2/D61) from Bratislava to the Austrian border and the Hungarian border	262 25	No
	GLOBTEL	Development of a mobile (GSM) telecommunications network	65	Yes
	TELECOM. II	Modernisation of the Slovakian telecommunications network	100	Yes
	EUROPEAN ROADS III	Construction of a new by-pass extension of the D61 motorway around the centre of Bratislava	72	No
Romania 14/11/97 14/11/97 22/12/97 26/3/98 30/6/98	TELECOM.	Expansion and modernisation of the Romanian telecommunications network	332 40	No
	BUCHAREST DISTRICT HEATING REHABILITATION	Rehabilitation of district heating transmission and distribution facilities	35	No
	MDF PRODUCTION PLANT	Construction of a medium density fibreboard (MDF) and special resins plant facility in the city of Sebes	47	Yes
	ABN-AMRO BANK GLOBAL LOAN	Investments in industry, services and municipal infrastructure undertaken by private and public sector promoters	10	Yes
	RAILWAYS MODERNISATION	Rehabilitation of the Romanian railway network and modernisation of the Bucharest-Brasov railway line on the Pan-European Transport Corridor IV	200	No
Bulgaria 9/9/97 12/2/98	SOFIA AIRPORT	Modernisation and upgrading of Sofia Airport	100 60	No
	CROSS-BORDER/TENS CORRIDORS ROAD	Priority road investments along a cross-border TEN corridor	40	No
Slovenia 19/12/97	MOBITEL GSM	Construction of the first GSM network in Slovenia	45 45	Yes
Total			1 948	

Cooperation with multilateral and bilateral institutions

9. The Bank's activities in the region, conducted within the framework of EU policy, form part of a concerted approach that is being pursued in close cooperation with the Commission and, as appropriate, with other international financial institutions – including the EBRD and the IBRD - including through cofinancing operations.

Cooperation with EBRD

10. EBRD and EIB are not identical but complementary. Their mandates are different, they operate with different instruments and in different sectors, and yet they can meet on many grounds, each institution bringing a specific element to the solution of the question.

11. EIB, as the financing arm of the Union having its main activity within the Union, must be regarded outside the Union as the EU's financial institution contributing to the implementation of EU policies and objectives. This applies in particular to preparing applicant countries for membership, which is one of the EIB's main objectives in the CEEC. EIB can lend, as it sees fit, to governments and state-owned entities as well as the private sector.

12. The EBRD, as an institution specifically established for the countries of the former Eastern block, sees its major role as supporting the transition from centrally-planned to market economies operating in a democratic political environment. Its area of operation is much larger, the risks can be quite different and the difficulties of a wider range. EBRD has a statutory obligation to maintain a balanced split between operations in the public sector and operations in the private sector. -10-

13. Cooperation between EIB and EBRD does not necessarily mean to cofinance a large number of projects. An important objective of cooperation is to avoid overlaps through regular reciprocal information about respective project pipelines and appropriate, complementary, use of the different instruments that each institution can make available, in order to reach a common view on the most suitable form of financing from the client's perspective.

Cooperation with IBRD

14. The above-mentioned features of cooperation apply also to the IBRD, which is concentrating on the Health, Education and Agriculture sectors.

15. Cooperation between the Bank and other international financial institutions will continue to be close and systematic, as appropriate, although the lending activities of other institutions in the region are declining, in line with their graduation policy and market developments.

Cooperation with PHARE

16. The Bank cooperates closely with the PHARE Programme, with which it has developed a close and fruitful relationship, much appreciated by the beneficiary countries. This relationship is being reinforced in the context of the accession process.

17. In addition to frequent PHARE assistance during the pre-investment phase to ensure that the necessary studies and technical assistance are implemented in support of EIB projects, the Bank also cooperates with PHARE in cofinancing infrastructure projects.

Cofinancing with other institutions

18. The contributions of PHARE and other IFIs and bilateral institutions to projects financed by the EIB are shown in table 4, below. It is noteworthy that PHARE has contributed to 5 projects, all in the transport sector, thus underscoring PHARE's commitment to the improvement of Trans European Networks.

Table 4

Cofinancings in 1997 and the first semester of 1998

COUNTRY	PROJECT	COST	EIB	MULTILATERAL INSTITUTIONS	BILATERAL INSTITUTIONS	PHARE	OTHER ⁴
Albania	DURRES-VLORE HIGHWAY	44	22			17	5
Bulgaria	SOPHIA AIRPORT	123	60			15	48
	CROSS-BORDER TEN ROADS	95	40			50	5
Estonia	TALLINN AIRPORT	28	10	8			10
Hungary	RAILWAYS I	220	100	40			80
	BUDAPEST METRO EXTENSION	650	50		160		440
Poland	FLOOD DAMAGE RECONSTRUCTION	1 025	300	75			650
Romania	TELECOM. B	338	40	35			263
	RAILWAYS MODERNISATION	439	200	105		32	102
Slovak Rep.	EUROPEAN ROADS	150	72			15	63
Total		3 112	894	263	160	139	1 666

4

Including funds of promoters, states and commercial banks

EIB lending activity in the Mediterranean countries

Objectives and priorities

1. The Bank's lending takes place mainly within the framework of the Euro-Mediterranean Partnership, in support of the economic development of the countries concerned. Bank lending supports individual investment projects and, through the global loan mechanism, smaller projects and SMEs, while at the same time strengthening the financial sector in the various countries.

2. Under the terms of the Euro-Mediterranean Partnership, EIB own resources lending is complemented by interest subsidies (for loans in the environmental sector only) and risk capital from EU budgetary sources managed by the Bank.

Results and assessment of the operations as at 30 June 1998

3. The geographical distribution of lending during the reference period shows that loans on own resources were signed in nine countries, i.e. all of the Mediterranean countries except Malta, Syria and Israel (see Table 1, below).

Table 1 **Geographical breakdown of EIB lending as at 30.6.1998**

Loans Signed (ECUm)			
Country	Number of loans	ECUm	%
Algeria	1	218	16.9%
Cyprus	2	60	4.6%
Egypt	4	196	15.2%
Jordan	4	143	11.1%
Lebanon	3	131	10.1%
Morocco	4	230	17.8%
Gaza-West Bank	2	49	3.8%
Tunisia	4	170	13.2%
Turkey	2	95	7.4%
Total	26	1 382	100%
Of which during 1.1-30.6.98	8	388	27.7%

4. As can be seen from Table 2 below, some 30% of total financing (ECU 389m) was allocated to the **energy** sector, in support of investments in Algeria, Cyprus, Lebanon, Morocco and Gaza-West Bank. These included a gas pipeline in Algeria and the upgrading of the electricity transmission systems in Cyprus, Lebanon, Morocco and Gaza-West Bank.

5. More than one-quarter of total financing (ECU 345m) was allocated to **water and sewerage** projects in six countries, underlining the Bank's commitment to this critically important sector for the Mediterranean and to environmental protection and improvement.

6. In this context, it is worth noting that, in accordance with the provisions of the Euro-Mediterranean Partnership, 7 of the Bank's loans have attracted interest subsidies from the EU budget, thus confirming their environmental objectives. These loans are identified in Table 3, below.

7. **Transport infrastructure** investments accounted for almost one-quarter (ECU 300m) of total financing, including the modernisation of Egyptair's fleet, improvements to the Port of Aqaba, the renovation and extension of the Beirut-Tripoli motorway and railway projects in Morocco and Tunisia.

8. Finally, loans in support of **industry, services and SMEs** (including global loans) accounted for some 20% of the Bank's activity and involved four countries.

Table 2 Breakdown by country and sector of EIB lending in the Mediterranean countries

Country	Energy		Transport		Water & Miscellaneous		Industry & Services		Global loans		Total loan signatures	
	ECUm	%	ECUm	%	ECUm	%	ECUm	%	ECUm	%	ECUm	%
Algeria	218	100.0%									218	100%
Cyprus	30	50.0%			30	50.0%					60	100%
Egypt			75	38.3%			121	61.7%			196	100%
Jordan			30	21.0%	40	28.0%	43	30.1%	30	21.0%	143	100%
Lebanon	11	8.4%	20	15.3%	100	76.3%					131	100%
Morocco	95	41.3%	85	37.0%	50	21.7%					230	100%
Gaza-West Bank	35	71.4%					14	28.6%			49	100%
Tunisia			90	52.9%	80	47.1%					170	100%
Turkey					45	47.4%			50	52.6%	95	100%
Total	389	30.1%	300	23.2%	345	26.7%	178	13.8%	80	6.2%	1 292	100%
Of which during 1.1-30.6.98	160	44.7%			80	22.4%	118	33.0%			358	100%

9. Table 3 below gives details of the loans signed, indicating whether projects are risk sharing or not. Only 3 of the 26 projects are in the risk-sharing category because of the nature of the EUROMED Partnership mandate, which calls for particular assistance to public-sector reform projects with governments or public bodies as main borrowers.

Table 3 EIB loans signed as at 30 June 1998 in the Mediterranean countries

-14-

COUNTRY	PROJECT	DESCRIPTION	LOAN AMOUNT (ECUm)	RISK SHARING
Algeria	SONATRACH GR2 - B	Construction of a gas pipeline between Alrar and Hassi R'Mel	218	No
			16/9/97	
Cyprus	PAFOS SEWERAGE(*)	Construction of a sewage collection and treatment system and a stormwater drainage system	60	No
	7/5/98	EAC TRANSMISSION SYSTEM	30	No
Egypt	EGYPT AIR	Modernisation of the Egyptair fleet	196	No
	29/9/97	ECC GREY CEMENT(*)	30	Yes
	19/12/97	LECICO CERAMICS	16	Yes
	8/6/98	ANSDK II	75	No
Jordan	INDUSTRIAL DEVELOPMENT BANK VI	Global loan for financing SMEs in the productive sectors of the Jordanian economy	143	No
	7/10/97	AQABA PORT	30	No
	6/10/97	ARAB POTASH COMPANY I	43	No
	28/4/98	AMMAN WATER REHABILITATION II(*)	40	No
Lebanon	TRIPOLI WASTEWATER(*)	Upgrading of storm and wastewater drainage and construction of a sewage treatment plant for the Greater Tripoli area	131	No
	10/9/97	AUTOROUTE COTIERE DU NORD	20	No
	10/9/97	CENTRE NATIONAL DE CONTROLE ELECTRIQUE	11	No
Morocco	ONCF MODERNISATION	Rehabilitation and increase in the capacity of sections of the main axes of the Moroccan railway network	230	No
	30/6/97	ONEP EAU POTABLE II	50	No
	23/4/98	ONE - TRANSPORT D'ELECTRICITE	75	No
	11/5/98	PARC BOLENDE TETOUAN	20	Yes
Gaza-West Bank	GAZA INDUSTRIAL ESTATE	Development of an industrial estate in the Gaza Strip	49	No
	23/12/97	ELECTRICITY DISTRIBUTION NETWORK	35	No
Tunisia	SNCFT II	Rehabilitation of the Tunis-Sfax-Gabès railway line	170	No
	14/10/97	ASSAINISSEMENT DU LAC SUD DE TUNIS(*)	40	No
	14/10/97	VOIRIES PRIORITAIRES	65	No
	12/12/97	ONAS III(*)	40	No
Turkey	ADANA WASTEWATER(*)	Extension of the sewer network and construction of two wastewater treatment plants in Adana (South-East Turkey)	95	No
	12/11/97	TURKEY Global Loan	50	No
26/8/97		For financing small and medium-scale enterprises		
Total			1 292	

(*) Loans with environmental objectives, benefiting from interest subsidies from the EU budget

10. The Bank's activities in the region, conducted within the framework of EU policy, form part of a concerted approach that is being pursued in close cooperation with the Commission and, as appropriate, with other international financial institutions, including through cofinancing operations.

11. The Bank cooperates closely, whenever possible, with multilateral and bilateral financial institutions.

12. The contributions of these institutions to projects financed by the EIB are shown in table 4, below.

Table 4 Cofinancings in 1997 and the 1st semester of 1998

COUNTRY	PROJECT	COST	EIB	MULTILATERAL INSTITUTIONS	BILATERAL INSTITUTIONS	OTHER ⁵
Cyprus	PAFOS SEWERAGE	71	30	28		13
Egypt	ECC GREY CEMENT	340	30	30		280
	ANSK II	565	75	107		383
Morocco	ONE TRANSPORT ELECTRICITE	158	75	24		59
	PARC EOLIEN DE TETOUAN	50	20		15	15
Lebanon	CENTRE NATIONAL DE CONTROLE ELECTRIQUE	26	11	8		7
	AUTOROUTE COTIERE DU NORD	44	20		15	9
Jordan	AMMAN WATER REHABILITATION II	141	40	50	21	30
	ARAB POTASH COMPANY I	117	43	22		52
Gaza-West Bank	GAZA INDUSTRIAL ESTATE	34	14	8		12
	ELECTRICITY DISTRIBUTION NETWORK	73	35	14		24
TOTAL		1 619	393	291	51	884

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Including funds of promoters, states and commercial banks

EIB lending activity in Asia and Latin America**Objectives and priorities**

- Under the present mandate, the Bank continues to finance projects that are of mutual interest to the countries concerned and the European Union – cofinancing with EU promoters, transfer of technology, cooperation in the fields of energy and environmental protection. Details of the mutual interest of projects are included in Table 4, below.
- Loans were signed in 2 countries in Asia and 3 countries in Latin America (1 loan in each country).

Results and assessment of the operations as at 30 June 1998**Table 1 Geographical breakdown of EIB lending as at 30.6.1998**

Loans Signed (ECUm)			
Country	Number of loans	ECUm	%
Indonesia	1	55	25.9%
Philippines	1	25	11.8%
Panama	1	50	23.5%
Brazil	1	32.5	15.3%
Peru	1	50	23.5%
Total	5	212.5	100%
Of which during 1.1-30.6.98	1	50	23.5%

- As can be seen from Tables 2 and 3, the loans were in transport (airports development in the Philippines), water (water supply and distribution in Indonesia), industry and services (a cement plant in Brazil), and telecommunications (improvements to networks in Panama and Peru).

Table 2 Breakdown by country and sector of EIB lending Asia and Latin America

Country	Transport		Water & Miscellaneous		Industry & Services		Telecoms		Total loan signatures	
	ECUm	%	ECUm	%	ECUm	%	ECUm	%	ECUm	%
Indonesia			55	100%					55	100%
Philippines	25	100%							25	100%
Panama							50	100%	50	100%
Brazil					32.5	100%			32.5	100%
Peru							50	100%	50	100%
Total	25	11.8%	55	25.9%	32.5	15.3%	100	47.1%	212.5	100%
Of which during 1.1-30.6.98							50	100%	50	100%

4. Table 3 below gives details of the loans signed, indicating whether they are risk sharing or not. Considerable progress has been made towards the risk sharing objective has been made in Asia and Latin America, with all but one of the loan being in the risk sharing category.

Table 3 EIB loans signed as at 30 June 1998 in Asia and Latin America

COUNTRY	PROJECT	DESCRIPTION	LOAN AMOUNT (ECUm)	RISK SHARING
Indonesia 20/12/97	WATER SUPPLY JAKARTA WEST	Upgrading and extension of the water supply transmission and distribution system	55	Yes
Philippines 24/9/97	SECOND AIRPORTS	Upgrading, improving and extension of two airports in the Southern part of the Philippines	25	No
Panama 8/6/98	CABLE AND WIRELESS	Modernisation and extension of the Panamanian telecommunications network	50	Yes
Brazil 19/12/97	LAFARGE ARCOS CEMENT	Construction of a cement plant in the State of Minas Gerais	32.5	Yes
Peru 23/12/97	TELEFONICA DEL PERU	Modernisation and extension of the Peruvian telecommunications network	50	Yes
Total			212.5	

5. The Bank has sought, as a matter of policy, to finance projects that present mutual interest for the EU and the countries concerned. Table 4, below, gives details of this mutual interest for each project.

Table 4 Mutual interest of projects in the Asia and Latin America countries

Country	Project	Mutual interest
Indonesia	WATER SUPPLY JAKARTA WEST	The borrower is a joint venture between French and Indonesian private-sector interests. In addition, the project involves the transfer of European technology in the field of water supply operation and management and substantial environmental benefits.
Philippines	SECOND AIRPORTS	The project's mutual interest is based on the required development of these airports, particularly Puerto Princesa, as part of the country's contribution to an important regional development plan (the East ASEAN Growth Area - EAGA). The project will also effectively increase the capacity of Manila International Airport for international flights.
Panama	CABLE AND WIRELESS	Development of telecommunications will bring important economic benefits. The Panamanian borrower is a subsidiary of a UK parent company, which is, in turn, one of the Bank's major corporate clients.
Brazil	LAFARGE ARCOS CEMENT	The borrower is a joint venture between French and Brazilian private-sector interests. The project will strengthen the promoter's position in a leading emerging market.
Peru	TELEFONICA DEL PERU	Development of telecommunications in Peru will bring important economic benefits. The provision of sufficient modern telecommunications services is recognised as a major element for economic development. The Peruvian borrower is a subsidiary of a Spanish telecommunications company. The involvement of an efficient European enterprise in the completion of Peru's telecommunications development programme gives additional benefits, in terms of transfer of technology to Peru and increased activity for European telecoms.

6. The Bank cooperates with other international financial institutions whenever possible, as appropriate.

7. The airports project in the Philippines was appraised jointly with the Asian Development Bank, which also contributed to its financing and will participate in the monitoring of its execution and in the sector's financial and institutional development.

8. Table 5, below, gives details of cofinancing.

Table 5 Cofinancings in 1997 and the 1st semester of 1998

COUNTRY	PROJECT	COST	EIB	MULTILATERAL INSTITUTIONS	BILATERAL INSTITUTIONS	OTHER ⁶
Philippines	PHILIPPINES-AIRPORTS DEVELOPMENT	58.1	25.0	15.1		18.0

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Including funds of promoters, states and commercial banks

EIB lending activity in the Republic of South Africa**Objectives and priorities**

1. The Union attaches considerable importance to deeper and stronger relations with South Africa. In furtherance of this objective, the Bank's continues to support all productive economic sectors in that country.

Results and assessment of the operations as at 30 June 1998

2. A substantial loan was signed for an important water-supply project, linking Lesotho and South Africa.

Table 1 EIB lending in the Republic of South Africa

COUNTRY	PROJECT	DESCRIPTION	Sector	LOAN AMOUNT (ECUm)	RISK SHARING
South Africa 29/5/98	LESOTHO HIGHLANDS WATER	Second phase of a major construction project in Lesotho for transfer of additional water to the Republic of South Africa	Water & Miscellaneous	45	No

Cooperation with multilateral and bilateral institutions

3. The above-mentioned project is being cofinanced as follows (amounts in ECUm):

Project cost (RSA + Lesotho parts)	EIB (RSA part)	EIB (Lesotho part)	MULTILATERAL INSTITUTIONS	BILATERAL INSTITUTIONS	EU export credits	Other ⁷
1 098	45	54	41	24	97	837

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Including funds of promoters, states and commercial banks

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