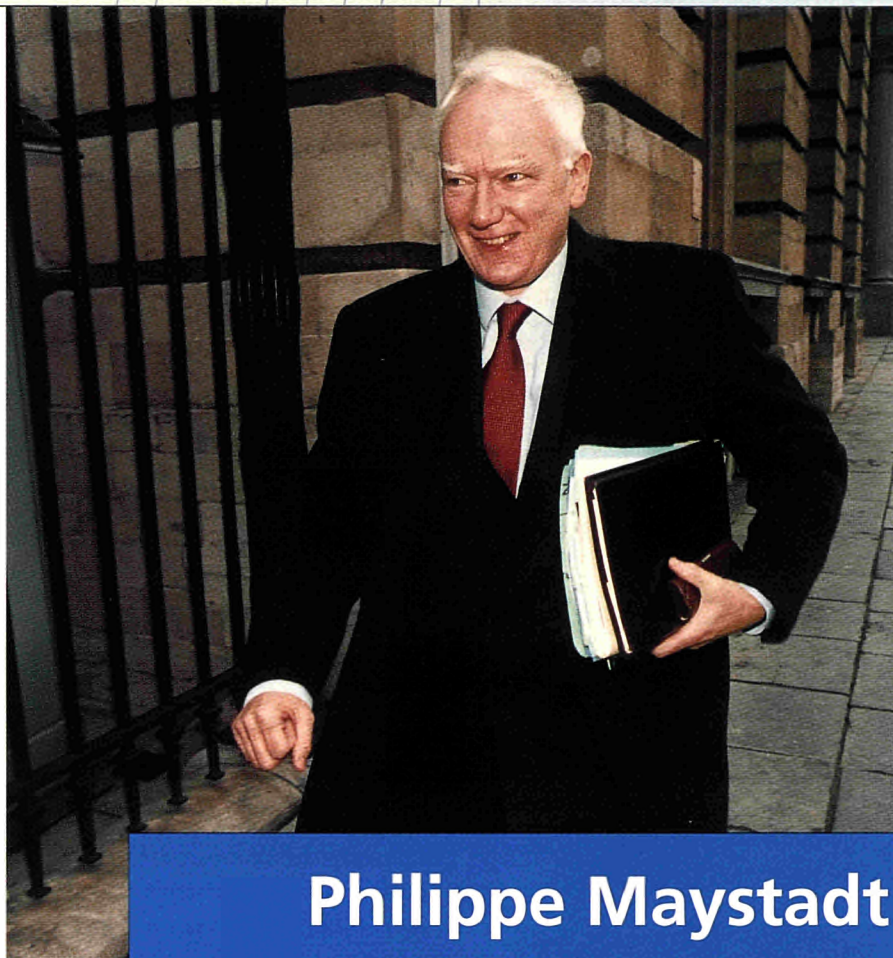


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Philippe  
Maystadt  
will take  
office on  
1 January  
2000

## Philippe Maystadt new EIB President

*Philippe Maystadt's career has included various key posts within the Belgian Government over a period spanning almost twenty years. As Deputy Prime Minister and Minister of Finance and Foreign Trade from 1996 to 1998 and Minister of Finance from 1988 to 1995, he served as Governor of the EIB for ten years. He had previously held the positions of Deputy Prime Minister and Minister of Economic Affairs (1985 - 1988), Minister of the Budget, Scientific Policy and Planning (1981 - 1985) and Minister for the Civil Service and Scientific Policy (1980 - 1981). From 1993 to 1998, Philippe Maystadt also chaired the Interim Committee of the International Monetary Fund.*

*The EIB's Board of Governors has unanimously appointed Philippe Maystadt as President of the EIB and Chairman of its Board of Directors.*



Philippe Maystadt was elected President of the Christian Social Party (PSC) in 1998, when he relinquished his ministerial duties. He has again been a Member of the Senate since June 1999 (following an earlier term from 1991 to 1995) and served as a Member of the House of Representatives from 1977 to 1991 and from 1995 to 1999.

Philippe Maystadt is aged 51 and married, with three children. After studying law and economics in Belgium (Catholic University of Louvain - UCL) and the United States (Los Angeles), he later became professor at the UCL's Faculty of Law. He is the author of numerous studies and publications in the field of economic and financial law.

Mr Maystadt will be the sixth President of the European Investment Bank since its inception in 1958. He succeeds Sir Brian Unwin, who has been in office since 1 April 1993. The Bank's President is appointed for a term of six years. ■

## Three new EIB Vice-Presidents



**Francis Mayer**

Francis MAYER has been a Vice-President of the European Investment Bank since the beginning of October 1999. Within the EIB's Management Committee, his responsibilities include borrowing and treasury policies and Bank activity on the capital markets, as well as financing operations in France, the Maghreb and Mashreq countries, Israel, Gaza and the West Bank.

Prior to joining the EIB, Mr Mayer pursued his career at the French Treasury, where his final post was Head of the International Affairs Department. In this capacity, he was also a member of the EIB

Board of Directors EIB from July 1994 to 21 September 1999. In addition, in October 1997 Francis Mayer took over the chair of the "Paris Club", a body grouping together the 19 largest creditor states and whose purpose is to promote the rescheduling or cancellation of the debt of countries facing repayment problems.

Entering the Treasury in 1979, Francis Mayer held a variety of positions, including Head of the National Banks and Finance Companies Department (1986), followed by Head of Financial Markets (1988), Assistant Director of Sav-

ings and Financial Markets (1991) and Deputy Director of the Treasury (1994). Mr Mayer was also an Alternate Director of the World Bank in Washington from 1983 to 1985, a Director of the Bank of Central African States between 1994 and 1999 and a member of the Board of Directors of the Franco-German television channel "Arte" from 1994 to 1999.

Mr Mayer is a Professor of German and a graduate of the Ecole Nationale d'Administration.

Francis Mayer was born in Strasbourg in 1950. ■



**Ewald Nowotny**

Professor Dr. Ewald Nowotny has been a Vice-President of the European Investment Bank since 1 September 1999. His lead responsibilities include Trans-European Network financing, Economic and Financial studies (Chief Economist's Department) and lending operations in Austria, Sweden and Finland, in Iceland and Norway and in the African, Caribbean and Pacific (ACP) countries.

Prior to joining the EIB, Mr Nowotny was a Professor of Economics at the



University of Vienna, where he was Head of the Institute for Fiscal and Monetary Policy since 1982. Before he was teaching at Harvard University, Technical University Darmstadt and the University of Linz. He became a Member of the Austrian Parliament in 1978, representing the Social Democratic Party. He chaired the Parliament's Finance and Banking Committee as from 1985 and was, from 1994 to 1999, one of the Austrian delegates at the Parliamentary Assembly of the Western European Union (WEU).



**Peter Sedgwick**

Peter Sedgwick has been appointed as the new Vice President to succeed Sir Brian Unwin as the British member of the Management Committee. Mr Sedgwick, aged 56, is currently Deputy Director in the Public Spending Directorate at HM Treasury, United Kingdom.

He joined the Treasury in 1969, holding various posts in the Chief Economic Adviser's Sector dealing with policy and economic developments, before being appointed Assistant Secretary (1981) and then, in 1984, Under Secretary in the Finance Economic Unit. From 1986 to 1990 he was Under Secretary in charge of the Macro Economic Assessments Group, and then served as Head of the International Finance Group from 1990

Mr Nowotny studied at the University of Vienna, the Institute of Advanced Studies, and at the University of Strasbourg. He gained a Doctor of Philosophy degree ("Habilitation") from the University of Linz. He has published numerous economic, financial and political works, including "Der öffentliche Sektor - Einführung in die Finanzwissenschaft".

Ewald Nowotny was born in Vienna in 1944. ■

to 1994, responsible for Treasury policy on international economic and financial issues.

He has held his current position as Deputy Director since 1994 where he has directed Treasury work on international employment policy, and is also responsible for the Treasury teams dealing with expenditure control and policy for the Government Departments of: Education and Employment; Environment, Transport and the Regions; Culture, Media and Sport; The Cabinet Office; the Houses of Parliament; Defence; Agriculture and a number of other smaller departments. As Deputy Director, he also organised the G8 Employability Conference in 1998 and led the Treasury work on EU employment policy in the run-up to the Cardiff European Council, 1998.

Married with four children, Mr Sedgwick gained a Masters degree in Economics at Oxford University. He has been a member of the London Symphony Chorus (LSC) since 1972, of which he was chairman between 1979 and 1984, a member of its Development Committee, and is at present a Trustee and Manager of the LSC's Trust Fund. Other interests include walking, gardening and 20th Century history. ■

## Appointments at the EIB

**Luis Botella** has been appointed to the Bank's Senior Cadre with the title of Chief Accounting Officer of the Financial Directorate.

He is Chartered Accountant and since he joined the EIB in 1987, has been responsible for the accounting area, particularly in its adaptation to International Accounting Standards and European Directives.

In 1998, he was in charge of co-ordination of the changeover to the euro.

**Horst Feuerstein**, an economist, has been appointed Director of the Operations Evaluations Department. Having joined the EIB in 1980, he was promoted to Head of the Energy Division of the Economic Research Department within the EU in 1986. He held this post until his appointment as Director of the same Department in 1994.

Following the merger of the Economic Research Directorate and the Technical Advisory Service in 1995, Mr Feuerstein became Director of the Industry II Department in the newly-formed Projects Directorate, with responsibility for telecommunications, aviation, agroindustry, tourism and financial intermediation.

**Antonello Pugliese** has been appointed to the Bank's Senior Cadre with the title of Director of the Greece, Finland, Denmark and Sweden Department.

He joined the Bank in 1977 as economist in charge of energy and industrial projects. In 1982 he moved to the Italy Department in Rome as a loan officer. In 1990 he returned to Luxembourg and was responsible for lending to Spanish autonomous regions.

Appointed as Head of Division for Greece and Finland in 1995, he is presently Head of the Infrastructure Division in the Italy Department. ■



**Luis Botella**



**Horst Feuerstein**



**Antonello Pugliese**





## Sir Brian Unwin : *The EIB has become more pro-active*

*Sir Brian Unwin leaves the EIB after serving close to seven years as its President. In this interview, he reflects on the Bank's present and future challenges*

*The most visible characteristic during your presidency of close to seven years has been the growth in volume of both lending and borrowing. How would you describe this development and will this growth-trend continue?*

I have not aimed at growth in volume as such. What I have sought to do, is to make the EIB's contribution to EU policies much more positive and dynamic. I have also aimed at developing the capability of the EIB to support Community policies and to take the initiative in doing that.

As the senior British Director of the EIB in the 1980's, I knew what the Bank was capable of doing. It tended, however, to be reactive, to be there and to be used as an instrument of the EU when the Union itself so decided.

Since the capability of the EIB ought to be used as much as possible, I have tried, within the framework of the EU policies and the

policies of our shareholders, to be much more pro-active. I have sought to get involved personally where it matters, for example, by being present at the ECOFIN councils where I have been a regular attendee. I have preferred this to simply waiting to be told by the Ministers to do something.

In 1997, for instance, when Ministers were anxious to find some new employment and growth measures, we took the initiative on the ASAP-programme as we had done earlier on the Pre-Accession Facility for the EU candidate countries. The recent EUR 600 million reconstruction loan facility to Turkey, after the devastating earthquake in August, is another example of an EIB initiative. By being present at ECOFIN meetings I have been able, not to decide, but to make a contribution to ministerial policy discussions.

There are other factors influencing volume as well, such as the gradual increase in the external len-



ding mandates and new member states, the latest ones in 1995. The main growth in volume though has come from the above-mentioned initiatives.

In connection with the capital increase last year to EUR 100 billion - the achievement of which I considered as my main mission during the last couple of years - we assured our Governors that this increase would last for a minimum of five years. In order to achieve that goal the EIB must now aim at a stable, but a somewhat lower, rate of annual growth.

### *CEEC and regional development keep volume up*

But the lending volume will continue to increase, in particular, for instance, in Central and Eastern Europe. Later, as these countries progressively become members, they will expect and will need to have access to the whole range of EIB lending.

During the next few years, there will also be radical changes in the regional development policies under the Agenda 2000 framework. Grants will be withdrawn from a number of regions and the EIB has been specifically asked to pay attention to those regions. I believe that pressures on the Bank to intervene in both the still underdeveloped areas and those areas in transition where grant is going to be withdrawn will be very great.

The ASAP programme has also added substantially to our lending during the last couple of years. This is levelling out now and is not expected to grow strongly.

*The EIB's activities have also to an increasing extent focused more on private sector financing than public.*

The types of activity in which the EIB is engaged have indeed changed a lot. We have tried, for instance, to develop our expertise in Public Private Partnerships - still a relatively small part of our work, but a growing one. The main activities are in Britain, but the trend is spreading to, for instance, Spain, Portugal and Greece. In Central and Eastern Europe it will come at a later stage.

The venture capital initiative taken under ASAP has been revolutionary for the EIB. This activity was launched only two years ago and today, the EIB is together with the European Investment Fund (EIF), the largest source of early stage venture capital in Europe.

*Which are the priorities to be set for the future?*

Firstly - simply to manage and control the very wide range of activities. The EIB is a major financier and venture capital provider in sophisticated European economies, at the same time as it is financing basic projects in Africa and operating in the Mediterranean area as well as in Central and Eastern Europe and the Balkans. All this means a much more complex portfolio with different risks. In addition, the advent of the euro is creating a rapidly developing new market situation with concentration of banks.

A second major challenge is going to be the adaptation to the enlargement, included the institutional aspect - the governance. How do you cope with having some twenty-five shareholders instead of fifteen? This will be on top of the new business that enlargement will bring to the EIB as the new member countries will all expect substantial Bank lending.

In parallel and within the wider EU institutional framework, the EIB has started to prepare itself in this regard. We have to remember that one of the great assets of this bank is its relative smallness and its efficiency even though this may at times put very hard pressure on staff. It is a difficult balance, but we need to try to preserve it.

*Which is your vision of Europe in ten, fifteen years time? Will the EU cope with the enlargement and succeed in cutting down unemployment by, for instance, increasing the enterprise spirit?*

I am sure it will. There will of course be huge difficulties in adjustment, in incorporating the new member states. Their average per capita income is only about one third of the present EU average and, in addition, there are major structural problems. On the other hand, the total size of those economies in Central and Eastern Europe is only about five percent of the present European Union GDP and thus relatively small.

### *Euro - essential for growth and employment*

By completing the single market, I believe that the single currency is going to provide the absolutely essential basis for sustainable economic growth, competitiveness and employment in the future. It will also provide the incentive to make other necessary changes, such as structural and labour market reforms.

It is not only beneficial in itself, but it is forcing the present mem-







ber states to maintain fiscal discipline. Monetary discipline is maintained by the European Central Bank. What are lacking now are the needed structural changes. Pressure will now be more and more on these structural changes.

I would also like my vision of the future Europe to contain the United Kingdom as a member of the euro zone. In fact, I believe that it is in the UK's overall economic interest and that the UK eventually will decide to join, as will Denmark and Sweden. Opinions in the latter countries appear to be changing now.

*When will the euro be competitive with the dollar, with as liquid a market as the dollar's?*

Relatively soon, I would think. It took the dollar some 20 years to become the major international currency following the decline of sterling, so you cannot expect the euro to "challenge" the dollar after only one year's existence. But already in another two, three years, I am sure the euro will be a very powerful currency internationally, taking its place alongside the dollar.

### *Already a major international currency*

Actually, taking into account the enormous euro activity on the bond markets during 1999, the euro is already a major international currency. The decline of the value of the euro against the US dollar has, of course, been used by those hostile to it, not least in the UK, as a sign of weakness and failure.

But the truth is that the euro has only reacted like any internationally traded currency to the differences in dynamics and performance of the American and the European economies. There is nothing un-

usual about that. If you look back at the relative history of the dollar and the Deutsche Mark there have been ups and downs as well.

And it has of course been beneficial for the European exporters that the euro has been at a lower level this year.

But Europe's economic activity is beginning to grow again now - above all the French and UK economies are getting stronger, Germany is a bit hesitant, but showing some good signs. So I would expect the whole position for the euro to strengthen from now on.

In my view, it is a great pity that the delay in the introduction of euro notes and coins is so long. I wish it could be accelerated, because there is still a huge psychological barrier in respect of public opinion and public support for the euro up to the day when we actually have the coins and the notes in our pockets and may use them.

*You would then describe the introduction of the euro as a success story?*

It is a success story. It is extraordinary to have made such a huge transformation successfully without any technical problems. In addition, there are the achievements of the EU governments in obtaining the economic convergence criteria. Maybe all the figures were not believed by everyone, and there were some struggles on the way, but people tend to underestimate the success of this and of the technical introduction of the euro.

The EIB has made a big contribution to the introduction of the euro. It has been a top priority for us during the past two years to support the launch and sustainability of Economic and Monetary

Union. Both the EIB's borrowing and lending policies have been targeted at this objective and this year we should obtain an approximately 40 % euro share of our total borrowing.

*The EIB is today the largest provider of loan finance in Central and Eastern Europe. Do you foresee a future role for the Bank in the former Soviet Union states as well?*

The formal position of our shareholders, expressed in a recent Council statement, is that the time is not appropriate for EIB financing in Russia, but that this matter must be reviewed again at a later stage. A general mandate from our shareholders for lending in Russia is not possible at the moment.

My own view is that in the future it will be possible for the EIB to participate in the financing of, for instance, selected transport and energy investments in Russia. This would be in the interest of both the European Union and Russia. At the moment, the EBRD, of which the EIB is a shareholder, is operating in Russia.

*You are leaving the EIB after close to seven years as president of the Bank. Which are your plans for the future?*

I plan to do a bit less! I will go back to England and start by taking a break, but of course I want to make use of my experience at the EIB and to keep involved in European affairs in the banking and financial sector. ■







## EIB health care sector activities come of age

*Following a request from the European Council at its meeting in Cologne in June, the Board of Directors of the EIB confirmed in July that projects in the health care sector have now become permanently eligible for Bank finance. This widens the scope for EIB action from that accorded under the terms of the Bank's Amsterdam Special Action Programme (ASAP), which was launched in mid 1997<sup>(1)</sup>.*

ASAP was drawn up by the EIB to step up action in support of job-creating investments in Member States. The health sector was identified as an important source of employment in all EU countries; in France, for example, in the early 1990s health care employed almost 7.5% of the working population.

Following the widening of the EIB's remit in health, the promotion of employment remains an important part of the rationale for the Bank's activities. But, this has raised something of a paradox in some (although by no means all) of the projects the EIB has support-

ed. In a number of cases, the Bank has financed, or is in the process of financing, projects, which will lead to the rationalisation of capacity, particularly in hospitals. This can result in reduced employment in the facilities concerned.

It is important, however, to recognise that the direct impact on employment of health care staff in the projects the EIB finances represents only one aspect of the more general contribution health care makes to economic development. Health projects financed by EIB will impact on employment in a number of other ways.

The first, of course, is that any construction involved has an employment-creating effect. The second, and the most difficult to measure, is the impact that health care can have on better health, and through this, to the creation of human capital for growth and development<sup>(2)</sup>. This impact acts as a complement to the EIB's education financing. The third is that the resources freed by rationalising hospitals are available for use in other health services.

(1) *The general objectives of ASAP, and a report on progress in the first 18 months of the initiative, were presented in a previous issue of EIB Information (2-1999 No. 101/102).*

(2) *See, for example, McKee, M Health status in the European Union and the Central and Eastern European countries Paper given at the World Health Organisation/European Investment Bank conference on the appraisal of investments in health, Luxembourg, June 1999 and McKee, M Does Health Care Save Lives?, Croatian Medical Journal, 40(2), 1999.*





### *Employment impact part of overall "health care economy"*

The overall impact on employment needs to be seen in the context of the overall 'health care economy' in which the project is located. This highlights the importance of setting each investment decision in its wider strategic context. Each project financed by the EIB

must be viewed as just one component of a wider set of health services in the region in question.

The EIB, therefore, adopts a wide perspective in considering the impact of its health care investment programme on employment. Health services have a key role to play in enhancing development and growth in Europe. But if the EIB is to assist in this, it is important that its projects contribute

effectively to promoting economic and social objectives in health care provision.

Wasteful health services (too many beds, unnecessary equipment, underemployed doctors, and so on) represent a real resource loss; either more patients could have been treated, or resources could have been redeployed to meet other needs.

The focus of the EIB's selection and appraisal of projects is, therefore, on assessing the economic value of potential investments. In particular, it seeks to ensure that projects will contribute to cost-effective improvement in the health of the people for whom they are designed.

### *No simple benchmarks*

Unfortunately, there are no simple benchmarks to determine this. The EIB's techno-economic assessment, therefore, concentrates on looking for evidence that a project (or programme) is part of a clearly articu-

lated health strategy aimed at improving the efficiency and/or quality of health care delivery. This 'strategic context' needs to be set out by promoters - the organisations (usually but not exclusively governments or their agencies) which bring projects to the EIB. The role of the Bank's projects staff is to assess these cases.

The EIB prepares for this work in two main ways. First, it participates actively in conferences and European networks of health professionals. One example, amongst many, is the European Observatory on Health Care Systems, a joint venture of the EIB, the World Health Organisation, the World Bank, the governments of Spain and Norway and the London Schools of Economics and Hygiene and Tropical Medicine. These contacts give the EIB access to material and expertise of direct relevance to appraisal work<sup>(3)</sup>, and help to refine appraisal methodologies.

Second, the EIB has an active programme of sector work in health care (some of it focused on individual countries, some focused on Europe wide themes). The purpose of this programme is not only to prepare the Bank to respond to loan proposals, but also to help in developing operational priorities for lending.

It is not, of course, the EIB's job to formulate a European health policy. Health services planning is in the hands of the states which are simultaneously the shareholders of the EIB and the source of its mandate. The EIB does require, however, that health projects should demonstrate their consistency with

(3) One of the principal outputs of the Observatory, for example, is the Health Care Systems in Transition series which provide authoritative analysis of health care developments in European countries.

Health projects should demonstrate their consistency with national or regional priorities, and the contribution they make to better value health care

## **The EIB health care sector loan portfolio**

To date, the EIB has approved health sector loans of the value of EUR 2 billion; EUR 1 billion has been disbursed.

Already, with the help of EIB finance, for example:

- Health care facilities in the new East German Länder have been upgraded. Hospitals and other facilities are being constructed and renovated as part of a programme which brings health care provision up to standard and rationalises bed capacity;
- Community and primary care facilities in Greece have been initiated, as part of a programme of health care provision in some of the least developed parts of the country;
- In Spain, hospitals and supporting community infrastructure have been modernised.

The EIB is currently appraising projects which include new facilities to enable older people and people with disabilities to lead independent lives, hospital rationalisation programmes, laboratory and research facilities. All of these projects are being viewed as components of wider strategies for improving health or social care for the populations or clients they serve.



national or regional priorities, and the contribution they make to better value health care. In the course of appraisal, therefore, every proposal is subject to scrutiny on issues such as: do the costs look robust, is the case internally coherent, is it consistent with the Bank's understanding of the needs of the system involved, and so on.

### Modernising Europe's health care capital stock

The EIB is committed to expanding the range and nature of its activities in health care. Working with public authorities and other promoters, it will continue to assist in the modernisation of Europe's health care capital stock, both

within the Member States and amongst candidates for membership of the EU. With the help of its network of partners, the EIB's approach to appraisal will continue to evolve, although the fundamental principle - the Bank's commitment to investing in cost effective health gain - will remain unchanged.

Looking to the future, the key challenge will be to find ways of using EIB's resources for projects, which target the principal health priorities within national systems. In some parts of Europe, the modernisation of the hospital sector will continue to be important; in others the priority will be the community-based infrastructure which is needed to secure efficient use of hospital beds.

There will also be challenges associated with the development of facilities, usually in the community, for growing populations of older people, for people with mental health problems and for people with disabilities. There is a need to promote better integration across the primary, secondary and tertiary levels of care, but also to bridge the health and social care divide. All in all, this is an exciting agenda for EIB. The Bank intends to address it openly and with the support of the health care community across Europe. ■

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The EIB is committed to expanding the range and nature of its activities in health care



## Additional EUR 125 million for EU venture capital funds

*The EIB is raising to EUR 250 million its allocation to the European Technology Facility (ETF). As a fund of funds, the ETF invests in specialist venture capital funds supporting the creation and development of high-tech, growth-oriented SMEs in the European Union.*

The fund was set up in 1997 and is managed by the European Investment Fund (EIF). Under the ETF, priority is given to

SME start-ups, but measures targeting development capital towards innovative companies, especially in regions in which the venture capital industry is less established, may also be included. ETF operations take the form of acquisition of minority stakes (maximum 25%) of EUR 5 to 10 million in venture capital funds.

The EUR 85 million deployed so far under the first tranche of EUR 125 million allocated to the ETF have been invested in 19 venture capital funds, themselves having total capital of over one billion euro.

It is anticipated that the funds benefiting from the ETF will invest in more than 1 000 SMEs over the course of their investment periods. The ETF could leverage a total of some EUR 2 billion in new investment.

The European Technology Facility (ETF) is a component of the "Amsterdam Special Action Programme" (ASAP) launched by the EIB in 1997 with a view to stepping up its support for job-creating investment projects. Under ASAP, the EIB seeks in particular to bolster venture capital facilities for

SMEs. To date, some EUR 750 million has been committed for operations involving virtually all the EU countries, making the EIB a major source of venture capital finance in Europe.

In tandem with the funds managed on behalf of the EIB, the European Investment Fund is investing some EUR 80 million from its own resources. It also administers on behalf of the European Union a facility more specifically designed for investment in more recently established or regional venture capital funds with a higher risk profile. The EIF has a total of some EUR 500 million at its disposal for investing in venture capital and promoting the development of this industry in Europe. Created in 1994, the EIF is the youngest of the European financial institutions. Its shareholders are the EIB (40%), the European Union (30%) and a group of 75 financial institutions from within the EU (30%).

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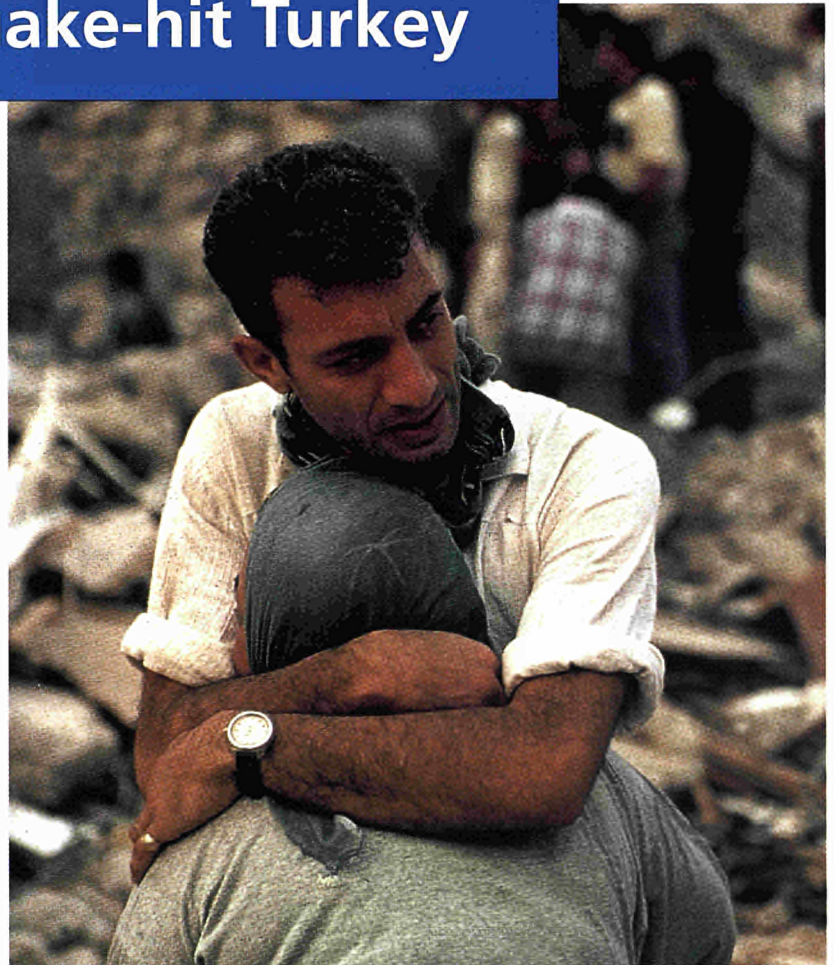
# Reconstruction loan facility for earthquake-hit Turkey

Acting on request from the Council of Ministers and following the favourable opinion of the European Parliament, the EIB has put in place the so-called TERRA (Turkish Earthquake Rehabilitation and Reconstruction Assistance) Facility. This is to support the urgent reconstruction needs in the Marmara region devastated by the recent earthquakes.

The facility provides for a total of EUR 600 million in the form of loans for a three-year period.

Once operational, upon receipt of the official mandate from the European Union, the EIB's TERRA facility will aim at rehabilitating and reconstructing mainly transport, energy and environmental infrastructure, ruined apartment blocks and small businesses as well as repairing the industrial fabric in the provinces of Izmit, Adapazari, Yalova and Bolu.

The earthquake on August 17, which measured 7.4 on the Richter



scale, was followed by over 1 000 aftershocks, some as high as 5.6 on the Richter scale. The total death

toll reported was 15 370 with about 26 500 injured. Furthermore, some 250 000 people were left homeless.

## Water management dominates lending in Turkey

Due to its long-standing lending activity in Turkey, the EIB is well-placed to identify feasible projects and to make swift use of the TERRA Facility. Lending started in 1965, when Turkey signed its first cooperation agreement with the Union.

Since then, the Bank has provided finance totalling EUR 1 303 million. After an interruption in the 1980s, the EIB resumed lending in Turkey in 1994. Between 1994 and 1999 the Bank has provided some EUR 557 million. Of the latter total, EUR 545 million was loans from the Bank's own resources and EUR 12 million

was risk capital managed by the Bank for the EU budget. In the period 1994-1999, EIB lending in Turkey focused on the following sectors: water management (44%), energy (31%), communications (14%), industry and services (11%).

Projects financed in Turkey include: wastewater and effluent treatment systems in Adana, Diyarbakir, Izmit and Tarsus; modernisation of the telephone network; gas transmission and supply networks; desulphurisation equipment at the Yeniköy power station on the Aegean coast and construction of more environment-friendly power and heating plants.





The most serious earthquake damage occurred in urban areas, primarily affecting apartment blocks and the small businesses which typically are located on the ground floor of such buildings, but municipal infrastructure was also badly hit. The official number of housing units destroyed, as reported by the Ministry of Public Works, is some 66 440. In addition, more than 147 000 units are said to be damaged. The corresponding numbers for small businesses are 10 900 destroyed and some 20 000 damaged.

## Donations to Turkey and Greece

A fortnight after the devastating earthquake, the EIB decided to donate EUR 1 million as emergency grant aid for urgent reconstruction in Turkey. The funds will go to an orphanage in Izmit identified by the Turkish authorities.

The EIB also donated EUR 1 million to Greece following the earthquake in September in the Greater Athens area. The funds will be given over to repair and reconstruction of school buildings in the areas most affected, in anticipation of the new academic year.

In recent years, the EIB has provided immediate humanitarian grant aid to countries or regions severely hit by disasters, such as Germany's eastern Länder, Poland and the Czech Republic in September 1997, Honduras and Nicaragua in 1998 and Kosovo in May this year.

The effects of the disaster are expected to knock 3-5% off GDP and to push down economic growth to between 0 and -2.5% for this year.

According to current estimates, the damage caused by the earthquake is

costed at between EUR 3 to 6.5 billion. Funding will have to be provided largely from abroad in the form of long-term reconstruction assistance made available by the European Union, the EIB, the World Bank and the International Monetary Fund. ■

### *A hard winter*

*In the case of previous earthquakes, the damage was much more limited than on this occasion and reconstruction moved on rapidly. The Turkish government has, for instance, already completed and is presently handing over 5 000 reconstructed housing units for those who lost their homes during the Adana earthquake in June last year. The ambitious goal following the present disaster is therefore to complete reconstruction of housing before the winter of 2000/2001. Part of the EIB's TERRA facility will be used to support housing schemes.*

*But the harsh conditions of this winter remain to be overcome. And it will be difficult with temperatures falling to -5 degrees Celsius at times, cold winds from the sea and heavy rains, if not snowfalls. Those who were able to seek shelter in relatives' or friends' homes have done so. For others the authorities offer shelter in rapidly converted social buildings and government guesthouses all over the country, but those who still have a job in the earthquake area cannot afford to leave. Therefore, numerous "tent cities" have been established, many accommodating up to five thousand people.*







## EIB Forum 1999 *"Euro Markets : Changes Ahead"*



*On 21 and 22 October, the fifth annual EIB Forum gathered some 400 specialists in Paris to discuss the euro markets.*

The topic of the EIB Forum 1999, "Euro Markets : Changes Ahead" is of crucial importance for the success of Economic and Monetary Union and has important implications for the international finance system.

Although a very young phenomenon, only one-year-old, the euro has established its credibility and the euro markets are bubbling with new trends, pressing market players to adjust swiftly to change. The euro is already widely used as an international currency. Issuers based outside the euro-zone launched some 20% of euro-denominated bonds in 1998 and 1999 and new issues of European corporate bonds have increased by 20% this year. The average size of euro issues has been growing dramatically by over 60%.

As changes in the new markets obviously impact on the EIB's funding and lending strategies, the

Bank is eager to exchange views with other market operators, as well as with opinion leaders and academics. Even before the launch of EMU, the EIB has helped to create a large and diversified pool of euro-denominated debt instruments.

Early in 1997, the EIB launched the first-ever euro bond issue and since then it has made 77 benchmark issues in euro or euro-tributaries, totalling some EUR 30 billion.

Since March 1999, through its EARN (Euro Area Reference Note) Issuance Facility, the EIB has sought to position itself as a euro-market leader whose benchmarks are the first to complement those of European Governments. The Bank's aim is to have created, with these issues and through debt conversion, a pool of EIB euro-debt of over EUR 50 billion by the end of 1999.



## Programme

### 21 October 1999

#### OPENING OF THE FORUM :

Sir Brian Unwin, President of the EIB  
and Chairman of its Board of Directors

**SESSION I :** "The euro area's challenge:  
a new dynamic development"

Chairperson: **Wolfgang Roth**, EIB Vice-President

#### Speakers:

**Giuliano Amato**, Minister of the Treasury and Minister of the Budget  
and Economic Planning; EIB Governor for Italy

**Felix G. Rohatyn**, US Ambassador to France, former Managing Director  
of Lazard Frères and Company, New York (U.S.A.)

**Jean-Pierre Tirouflet**, Chairman and Chief Executive Officer, Rhodia  
(France)

**Richard Summers**, Director Continental Europe, 3i Group plc  
(United Kingdom)

**Jean-Jacques Laffont**, Professor of Economics, University of Toulouse  
(France) and past President of the European Economic Association

#### FORUM DINNER with guest speaker

**Pedro Solbes Mira**, Member of the European Commission, responsible  
for Economic and Monetary Affairs

### 22 October 1999

**SESSION II :** "Changes in the euro area's financial sector"

Introduction by **Alfred Steinherr**, Chief Economist, EIB

**SUB-SESSION 1 :** "The restructuring of banks"

Chairperson: **Massimo Ponzellini**, EIB Vice-President

#### Speakers:

**Marc Antoine Autheman**, Chairman of the Board of Management,  
Crédit Agricole Indosuez (France)

**Artur Santos Silva**, President, Banco Português de Investimento (Portugal)

**Maurizio Sella**, President of the Italian Banking Association and  
Managing Director, Banca Sella S.p.A. (Italy)

**SUB-SESSION 2 :** "A greater role for capital markets?"

Chairperson: **Ewald Nowotny**, EIB Vice-President

#### Speakers:

**Gerd Häusler**, Member of the Board of Managing Directors, Dresdner  
Bank AG (Germany)

**Fernando Abril Hernández**, Chief Financial Officer, Telefónica S.A. (Spain)

**Rodolfo Boggi**, Member of the Group Executive Board, UBS AG  
(Switzerland)

#### Guest speaker :

**Dominique Strauss-Kahn**, Minister of Economy, Finance and Industry;  
EIB Governor for France

#### CLOSING UP THE FORUM

**Francis Mayer**, EIB Vice-President



During the first day's session, discussions tackled the Forum's topic within a macro-economic context, focusing on the impact of monetary union on growth and employment in Europe. This issue contained an interface with the subject of last year's Forum, which addressed the relationship between investment and employment and, in particular, the questions of mobilising capital within the EMU and the availability of venture capital for innovative firms. Another topic, which was addressed during this session, was how the ongoing restructuring process affects Europe's global competitive position.

The second day's presentations and discussions were more technical and examined the restructuring of banks and the role of capital markets.

Guest speakers were the European Commissioner for Economic and Monetary Affairs, Pedro Solbes Mira, and Dominique Strauss-Kahn, at the time Minister of Economy, Finance and Industry and EIB Governor for France. The Forum's speakers and delegates came from the banking sector and other financial institutions, industry, trade unions, parliaments, governments, regional public bodies, international organisations, universities, as well as the media, drawn from all EU member states and from many third countries.





## CONCLUDING REMARKS

**Francis Mayer**  
*Vice-President, EIB*

The euro is not an end in itself. Indeed, if at the outset the euro is proving a not inconsiderable financial and

technical success, it will need to build on this achievement by bringing stability and wellbeing to the peoples of the European Union and its neighbours to the east and south. This is the yardstick by which we will, in the final analysis and over the medium term, have to measure the genuine success of the euro.

While all our speakers have flagged the strong points, they have also, without actually lapsing into negativity, qualified their reports with the rider "not good enough - can do better." I will therefore address these two sides of the coin in my summing-up.

The advent of the euro has already borne fruit for the European economy. Messrs **Amato** and **Solbes** are right: the euro can certainly not take all of the credit for the revival in economic growth in Europe, but it has clearly helped things along by creating exceptionally favourable monetary conditions both in terms of historically low interest rates and its status in relation to the outside world where, I think we all agree, it fittingly enjoys virtual parity vis-à-vis the US dollar.

Turning to the corporate sector, as pointed out by Messrs **Santos Silva** and **Sella**, the euro may well not be responsible for recent restructurings and mergers within Europe but it has clearly given the process a fillip. A number of speakers observed that these mergers and acquisitions were all the more interesting because they were crossborder initiatives, that is to say they gave rise to fully-fledged European groupings

capable of holding their own against international competition.

Finally, the capital markets: as highlighted by Messrs **Häusler**, **Abril** and **Bogni**, since 1 January 1999 we have witnessed exceptional growth in euro-denominated bond loans, especially issues floated by large European corporates for funding ambitious development strategies.

Now I will turn to the other side of the coin: not good enough - can do better, in other words, the constructive criticism offered by our speakers.

The first piece of constructive criticism came from Messrs **Amato** and **Summers** in connection with the observation that we in Europe have yet to forge a vast single financial market like that in the United States. We may have the single currency, but we do not have the integrated financial market that Europe deserves. There are still too many fiscal and regulatory barriers which we need to set about dismantling. To Mr **Tirouflet's** mind, European corporate enterprise has yet to benefit from the same kind of level playing field in fiscal and social terms as exists in the United States.

The second constructive criticism was spelled out by Messrs **Autheman** and **Steinherr**, who voiced caution against opting for two attractive but flawed solutions. The first is that of rushing down the bigger-is-better road regardless of cost. Mr **Steinherr** clearly demonstrated that neither in the case of national regroupings nor crossborder mergers did playing the size card work miracles in the banking sector's quest for profitability.

Mr **Autheman** pointed up a second flawed cure-all; the merger or

*Richard Summers & Felix G. Rohatyn*



*Jean-Pierre Tirouflet*



*Marc Antoine Autheman & Alfred Steinherr*



*Guiliano Amato & Jean-Jacques Laffont*



*Artur Santos Silva & Maurizio Sella*



*Rodolfo Bogni*



*Ewald Nowotny & Fernando Abril Hernández*



*Gerd Häusler*







Dominique Strauss-Kahn praised the euro for its stabilising effects, giving the European economy a power, which is only equalled by the United States. Even those who are sceptical about the euro have to appreciate that its stabilising consequences are wholesome to the entire international financial system, which had become less certain during the past year.

take-over designed to reach out across Europe. In his opinion, mergers were appropriate solely if anchored in highly specialist areas with a strong international bias, such as corporate finance or the capital markets. On the other hand, mergers are, to his thinking, ill-advised in the case of retail or multi-purpose banks. He would prefer to see such banks entering into cooperation agreements where each participant retains its own national or local identity.

Can it be purely coincidental, might I add, that *Crédit Agricole* happens to be pursuing this very strategy through its merger with *Indosuez* in France and its cooperation agreements with Italian and Portuguese banks, lent added weight by mutual take-up of minority holdings.

The third constructive criticism emanated principally from Mr Amato. He showed us that although we in Europe have now set in place the proper macroeconomic and monetary framework, we still have to adopt the requisite structural reforms. This was a message from a Minister of the Treasury to each of our governments.

Finally, I will summarise the stimulating comments offered by Ambassador Rohatyn and Professor Laffont.

However, to allow the euro project to come to full fruition, favourable conditions will have to be created. In this context, Mr Strauss-Kahn referred to the learning process he and his colleague Finance Ministers were going through in the Euro 11-Group with regard to co-operation and concertation on their respective national economic policies. Furthermore, the European Central Bank has entered progressively into a dialogue with the Euro 11-Group, an ongoing process which needs to be carried further.

The euro is also an asset for Europe's growth, he said. The stability brought about has undoubtedly mitigated the damaging effects of the international financial crisis in 1998 and the beginning of 1999, for Europe's economy.

Currently, the European Union has gained a new impetus to bring about full employment, and five Member States have already achieved this. Crucial policy tools for this are the co-ordination of national economic policies and the stimulation of innovation, a key objective of both the Portuguese and French EU Presidencies in the year 2000. At the same time, EU Member States should continue their efforts to reduce public expenditures, inflation, and interest rates according to the convergence policy criteria set by the Maastricht Treaty. Subject to these conditions, as well as a favourable economic climate, Mr Strauss-Kahn is confident that the EU countries will meet, in 2002, the Treaty's criterion for public expenditure. This will obviously enhance the credibility of the euro and allow the EU to focus fully on its employment objectives.

Mr Rohatyn enumerated what he found to be the three main factors responsible for the healthy state of the U.S. economy, otherwise seen as the American miracle. First, he cited the particularly complex institutional and political system, which, may I say, we certainly have nothing to feel

outdone by compared with Europe's institutional structure shared between Council, Commission and European Parliament. At this level, we are almost on an equal footing on both sides of the Atlantic, except that, in Mr Rohatyn's eyes, the United States is economically advantaged be-



The tone of Pedro Solbes' speech was optimistic : the present recovery of the European economy promises a lasting period of sustainable economic expansion and employment creation.

This is based in particular on the Economic and Monetary Union and the introduction of the euro. Certain conditions will have to be met if this is to continue, the Commissioner explained. Member States have to continue to live up to the criteria of the Stability and Growth Pact - in particular regarding public expenditure - and co-ordination of their national economic politics; they have to support the price stability policy of the European Central Bank; and they should work hard on structural reforms, improving efficiency and flexibility of their markets. As to the ECB, the bank would have to contribute to growth objectives of the EU in keeping its objectives of price stability.

The effects of the introduction of the euro on the European financial markets are substantial, also in terms of market integration. This is an ongoing process, and for the European Commission this integration policy is a priority, laid down in its Action Plan of May 1999.

As to the future development of the euro zone, the European Commissioner strongly favours the entry of the four "pre-in" countries, both in the interest of those countries and the euro market itself. A Monetary Union of the fifteen EU countries will not end there, as the candidate countries have the objective and commitment also to enter EMU and adopt the euro. This will be a gradual, progressive process, not automatic with their accession to the European Union. After their accession, preparations for EMU membership will most likely require a transitional period, depending on their ability to meet the Treaty conditions.

cause its ship of state navigates amid an ocean of safeguards. Second, Mr Rohatyn adduced the vibrant spirit of American enterprise acknowledged by society. His third element was America's grassroots capitalism, a driving force for growth. Indeed, in his words: "The American citizen acts more like a shareholder than a voter".

Professor Laffont helped us to put things into perspective in relation to the immediate business exercising our minds throughout this Forum. He took us back to the Age of the Enlightenment in order to underscore the fact that even up until the dawn of the 21st century we were still living with the heritage of two economic development models: the French Jacobin

Rousseau-Robespierre model, which he felt to be very much outdated, and the Checks and Balances model of Locke and Montesquieu which, as he saw it, was the more promising inasmuch as it was founded on multiple safeguards at all levels of society in the interests of economic and political evenhandedness, openness and information.

As a Frenchman, I feel more than reassured, for if Professor Laffont is correct in deeming the Rousseau-Robespierre model to be old hat, we still have the model developed by the great Montesquieu to take as our inspiration for the future. ■



The Proceedings of the EIB Forum 1999 will be published in early 2000 and can be ordered free of charge from the EIB's Information and Communications Department, fax +352 4379 3189.

For more information on the EIB Forum, please contact: Yvonne Berghorst, Information and Communications Department, tel.: +352 4379 3154 or e-mail: y.berghorst@eib.org

The next EIB Forum, on 19 and 20 October 2000 in Bremen, will focus on regional development and enlargement issues



*Altogether some 70 bridges were damaged in the Kosovo conflict*



## Balkans : EIB lists priority infrastructure projects

The EIB study “Basic Infrastructure Investments in South-Eastern Europe” proposes a first list of potential infrastructure projects identified by the Bank’s Balkan Task Force.

The study focuses on roads, railways, ports, airports, electricity, oil, gas, telecommunications and the water sector, including the Danube Waterway. The implementation of the projects listed would cost in total some EUR 6 billion and require at least three to five years. The EIB is proposing to take the lead in the financing of infrastructure in the region.

The EIB is already playing a leading role in financing infrastructure reconstruction in Albania, Bosnia-Herzegovina, Bulgaria, the FYR of Macedonia and Romania, and subject to the necessary green light from the EU, is ready to begin operations in Kosovo itself.

The study was presented in late September in Washington by EIB-President Sir Brian Unwin to the High Level Steering Group (leading industrial countries and international organisations) on Economic Coordination in South-Eastern Europe.

Commenting on the Balkan situation, Sir Brian Unwin said: ‘Since investment needs are enormous and financial resources extremely scarce, it is crucial to establish investment priorities very clearly, in close cooperation with the governments of the countries concerned, and furthermore to apply rigorous appraisal criteria and insist on an adequate economic return. I believe that on the basis of comparative advantage the EIB should take the infrastructure lead, and we are fully prepared to do this.’

The EIB set up a Balkan Task Force in June to evaluate the investment needs and identify priority projects in post-war South-Eastern Europe. The Task Force is a team of bankers, economists and engineers experienced in the identification of transport, telecommunications, energy and the environmental infrastructures that need to be rebuilt as a matter of priority and for which the EIB can provide long-term finance at short notice. The Task Force is also coordinating EIB activities in the region with the European Commission, the Stability Pact Coordinator and the other international financing institutions working for the reconstruction of the Balkans.

Potential projects for some EUR 6 billion





*Infrastructure in the traditional sense of transport, energy, telecommunications and water are considered key factors in facilitating economic growth. In certain countries of South-Eastern Europe, such basic infrastructure has suffered gravely from the recent conflicts, due to direct war damage which has rendered unserviceable large portions of the physical capital. However, possibly graver damages were caused by the indirect effect of the conflicts such as deteriorating incomes and lack of maintenance.*

The purpose of the EIB study on Balkans' infrastructure reconstruction is to describe the framework for regional infrastructure development and provide a basis for the definition of possible priority projects. The region dealt with covers Albania, Bosnia and Herzegovina, Croatia, the Federal Republic of Yugoslavia (FRY), the Former Yugoslav Republic of Macedonia (FYROM) — a grouping also referred to as SEE-5 — as well as Bulgaria and Romania.

The various wars and conflicts which erupted in large parts of former Yugoslavia resulted in considerable damage to the infrastructure. Besides direct damages, the period of unrest and economic decline during the 1990s in much of the region caused equally severe

indirect effects in terms of neglected periodic and current maintenance, which take progressively greater tolls measured by the cost of required remediation.

Deteriorating incomes and dwindling tax revenues contributed to the curtailment of maintenance and renewal activities, resulting in an accelerating run-down. This was compounded by the lack of reforms, which could have shifted the financial burden away from already impoverished state budgets as regards funding available for civil infrastructure, towards user-based cost recovery mechanisms.

Detailed damage estimates have been established for Bosnia and Herzegovina. While in that country the reconstruction process has made good progress, significant investments remain to be undertaken to restore and enhance systems, and recreate appropriate institutions, as for instance in the railway, power and water sectors.

A key element affecting all of the 11 countries in the Danube basin, of which 4 are in the region under consideration, is the interruption of Danube shipping. The destruction or damage of a series of major bridges over the river means that long distance shipping will not be able to resume until the

way is cleared, which is likely to take several years. The economic consequences of the sustained damages resulting in the interruption of key routes are severe and will be so for several years even if provisional structures or arrangements (ferries) are put into place.

In the FRY, the recent Kosovo conflict lasting from March to June 1999 brought about extensive damage in infrastructure. It is provisionally estimated that some 50 road bridges were damaged or destroyed, of which 9 across major rivers (Danube and Sava) and 8 in Kosovo. A total of some 19 railway bridges were damaged, as well as 5 railway stations. The main affected links, both road and rail, essentially concern the routes between the Hungarian Border, Belgrade, Skopje, and the Bulgarian Border; between Serbia and Kosovo; and between Serbia and Montenegro. In addition, it is estimated that some 12 airports were severely damaged.

In assessing the needs for infrastructure reconstruction after the present conflicts, a factor also to be taken into account is the shift that has occurred in a number of areas as regards patterns of trade and traffic, which may warrant the emphasis on new routes or types of investment. The fundamental geostrategic features of this part of Europe are such that the importance of many age-old trade routes is undiminished, as illustrated by the shortest corridors for north-west-southeast trade that follow the course of the Sava and Danube rivers. Likewise, the road, railway or electric power routes connecting Greece as an EU member with the other member states pass through the countries of the region under consideration, and are retained in the European Union's network of Pan-European Transport Corridors (see map).





In an environment of increased focus of donors on a region, there is an understandable tendency for countries to put forward projects and propose investments without paying as close attention to economic and financial criteria as would normally be the case. This tendency is reinforced if there is an emphasis on projects which respond to political guidelines, such as increased regional integration, rather than economic and demand-driven considerations.

As has been the experience elsewhere, cross-border projects often have a more tentative economic justification than projects which cater for mainstream national priorities. The road and railway traffic across a border tends to be low relative to traffic along national corridors or linking major conurbations in a country. Electric power or water schemes involving two or more countries tend to exhibit additional levels of complexity and uncertainty. There is thus a need to provide balance by reiterating conventional financing criteria of international financing agencies, relating to justification criteria such as demand analysis, economic rate of return analysis, environmental analysis, procurement criteria, and project implementation.

### Selected project types

Typical project suggestions in the present situation are given for selected subsectors, amounting to investments over a 3-5 year period. These suggestions are intended to be illustrative of projects prima facie meeting certain justification criteria (subject to detailed analysis) corresponding to a regional economic integration objective. The total amount identified in



Corridors IV	Berlin/Nürnberg-Prague-Budapest Constanta/Thessaloniki/Istanbul
Corridor V	Venice-Trieste/Koper-Ljubljana-Budapest-Uzgorod-Lvov
Branch B	Rijeka-Zagreb-Budapest
Branch C	Ploce-Sarajevo-Osijek-Budapest
Corridor VII	Danube river and ports
Corridor VIII	Durres-Tirana-Skopje-Sofia-Varna
Corridor IX	Helsinki-St.Petersburg-Moscow/Pskov-Kiev-Ljubasevka-Chisinau-Bucharest-Dimitrovgrad-Alexandroupoli
Corridor X	Salzburg-Ljubljana-Zagreb-Beograd-Nis-Skopje-Veles-Thessaloniki
Branch A	Budapest-Novi Sad-Beograd
Branch B	Nis-Sofia-on Corridor IV to Istanbul
Branch C	Veles-Bitola-Florina-Via Egnatia

**Pan-European  
 Transport  
 Corridors**

this way for the SEE region is some EUR 6 billion.

It should be emphasised that these are selected project examples only. The essential notion is one of selectivity based on a set of criteria, which reflect sensitivity to some of the key issues that have been identified as well as respecting recognised economic, financial, and environmental standards. The relative emphasis on transport sector projects reflects the essential role of this sector as an instrument of regional integration, but is in part also a consequence of more difficult project preparation in some other sectors.

In **transport**, the case for improved networks and access both between the countries as neighbours and with the European Union seems clear, although detailed justifications for each major project are of course required. The issue is one of prioritising the axes, in particular in terms of the main transport corridors (Corridor VIII EAST-WEST, Corridor X NORTH-SOUTH, Corridor V NORTHEAST-SOUTHWEST, and Corridor IV NORTHWEST-SOUTHEAST). A special case can be made for urgently restoring the function of the Danube on Corridor VII as a major international shipping artery serving trade between Central Europe and the Black Sea.



## Selected Project Types *(for illustrative purposes only)*

Sector	Project types	Countries
Roads		
CORRIDOR VIII	Completion of key sections of East-West link to appropriate standard	Albania, FYROM Bulgaria
CORRIDOR X	Completion/repair of key sections of North-South link to appropriate standard	Albania, BiH FYROM, FRY (including Kosovo)
CORRIDOR V	Completion of key sections of Northeast-Southwest link to appropriate standard	BiH, Croatia
CORRIDOR IV	Completion of key bridge over Danube	Bulgaria, Romania
Railways		
CORRIDOR VIII	Completion of cross-border line to Bulgaria (subject to further study)	FYROM
CORRIDOR X	Renewal of key sections	BiH
CORRIDOR V	Renewal of key sections	BiH
CORRIDOR IV	Completion/renewal of key sections	Bulgaria
Waterways		
CORRIDOR VIII	Renewal of Ports of Durres and Burgas	Albania, Bulgaria
CORRIDOR VII	Restoration of Danube shipping	FRY, Romania
Airports		
	Terminal infrastructure Tirana/Rinas - Skopje	Albania, FYROM
Electricity		
High Voltage	Vrutok-Burrel, Blagoevgrad-Dubrovo Sarajevo-Mostar-Bileca	Albania/FYROM Bulgaria/FYROM BiH
Interconnections		
Generation	Vjosa River Hydropower	Albania
Distribution	Renewal countrywide	BiH
Oil and Gas		
Gas Pipeline	Possible links to Greece or Italy	Albania
Interconnection		
Oil and Gas Transit	Part of Caspian Sea Project	Bulgaria
Pipelines		
Gas Transmission and	System renewal, including SCADA and pipe	Romania
Distribution	replacement	
District Heating		
Generation and	Banja Luka	BiH
Distribution		
Telecommunications		
Fixed Networks	Modernisation and extension	All countries
Mobile networks	Extension	All countries
Water and wastewater		
Waterbody protection	Lake Ohrid Upper Vardar River Lake Dojran	Albania/FYROM FYROM FYROM/Greece
schemes		
Water supply and	Medium towns	Albania
wastewater treatment	Medium towns	Bulgaria
	Medium towns	Croatia
	Bucharest	Romania
Hazardous effluent	Danube	FRY
management		Bulgaria Romania

Similarly, in **energy**, according to priorities described in the numerous studies on the subject, interconnection of the national networks appears a suitable goal, keeping in mind appropriate prioritisation, and the direct economic and financial benefits of each link, as well as the broader aim of improving overall supply quality in the region. With some possible exceptions, the creation of new electric generating capacity is unlikely to be required. **Telecommunications** are suitable for typical private sector development, and the institution of appropriate regulatory and competitive frameworks are paramount. Finally, the **water sector** is a candidate for numerous investments, with emphasis on the longer-term strategy of improving water and wastewater policies in the region.

Serious bottlenecks exist in the region regarding capabilities for project identification, definition and feasibility analysis, as well as project implementation, procurement and supervision capabilities. This could be a starting point for a coordinated answer by the main donors along the lines of a dedicated mechanism for project preparation and implementation. The need for sound project appraisal and assessment, covering all aspects of the project cycle in its regional dimension, will be paramount.

Private sector involvement will be instrumental in certain sectors such as telecommunications as a significant source of capital. Structural reforms to enable improved sector management and better regional co-operation will contribute towards the gradual emergence of a basic infrastructure network supportive of economic growth in the region. ■

The study has been compiled by Axel Hörhager from the EIB's Balkan Task Force and relies on contributions from Christopher Hurst, Kristian Uppenberg (economics), Philippe Ostenc (transport), Heiko Gebhardt (energy), Mark Pevsner (telecommunications) and Barend Stofkoper (water). Overall guidance was given by Massimo d'Eufemia, BTF Co-ordinator, and Walter Cernoia, Director for Central and Eastern Europe.

The study in extenso is available on Internet: ([www.eib.org](http://www.eib.org)).

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# Financing sustainable urban development



Well-working cities play a crucial role in bolstering the competitiveness of the European economy, helping to create jobs, and underpinning the quality-of-life for the great majority of the European Union's citizens.

Investment in urban transport systems, urban renewal schemes, and the protection of historical, cultural and architectural heritage sites of European importance has been eligible for EIB funding throughout the Community since 1987.

But even before this, the Bank had supported urban renewal investment in assisted areas, particularly in the industrial cities in Northern Europe suffering from acute re-conversion problems and in the expanding conurbations in Mediterranean countries. From 1988, the scope of the Bank's urban renewal activities was extended to non-assisted areas for investment that

## Venice : recent recipient of EIB loan for urban renewal

In late October, the EIB signed an agreement with the Municipality of Venice to open a credit line of EUR 52 million (ITL 101 billion) to support schemes to improve the urban environment.

The funds are for infrastructure investment in the historic centre and Mestre, such as network upgrading, creation of dedicated public transport lanes, car parks and cycle tracks, repairing and building of pavements and traffic control systems. Projects to preserve and restore artistic and architectural heritage and to bring buildings into line with safety standards, are also being supported. On the environmental side, water management facilities will be upgraded, while solid waste collection and disposal will be rationalised.

This loan is integrated with previous EIB financing (totalling EUR 130 million) directed towards conservation of architectural heritage (1983), the conservation and clean-up of the Venice lagoon (1989) and protection of the historic centre (1996). All these projects are part of a long-term integrated action plan being undertaken by national authorities to protect Venice's urban environment.

helped reduce severe deprivation and formed part of an urban development programme.

EIB support for such projects has been made through a wide variety of promoters, ranging from na-



Around 20% of the EU's population live in large conurbations of more than 250,000 inhabitants, a further 20% in medium-sized cities of 50,000 to 250,000 inhabitants, and 40% in smaller urban areas of 10,000 to 50,000 people. Important differences in economic structure and functions, social composition, demographic structure and geographical location shape the challenges facing urban areas. Despite their diversity, however, cities and towns across Europe share the common challenge of urban development.

tional and local governments, to utility companies and development agencies.

Early examples of the EIB's support for environmental protection and improvement schemes and infrastructure projects promoting urban renewal occurred in Italy, Spain, Denmark, the United Kingdom, Ireland, France and Germany. While the scope and implementation structures of such urban renewal programmes varied, their overall objectives was to enhance urban economic development and ease adjustments to changed economic circumstances. Such investment was designed to provide incentives to business, involve the private sector, improve the labour market and preserve European cultural heritage.

Between 1988 and 1996, the Bank financed urban renewal works in Valencia, Barcelona and the Balearic Islands (Spain). Such schemes were also supported in Denmark (Copenhagen), France (Lyon and

Marseille), Germany (Düsseldorf and Munich), Ireland (Dublin), Portugal (Lisbon), the United Kingdom (Birmingham). In Italy, the EIB financed wastewater collection works in the river Po basin, with a beneficial impact for 3.5 million people, mostly residents of urban areas, as well as restoration works in the historical centres of many cities (Bologna, Ferrara, Genova, Macerata, Milazzo, Monreale, Pompei, Savona, Trento, Venice).

### *Urban renewal lending after ASAP*

In adopting its resolution on Growth and Employment, the European Council of Amsterdam in June 1997 called on the EIB to step up lending for investment helping to create new jobs. The EIB's response to this new remit was to launch its Amsterdam Special Action Programme (ASAP).

The programme is directed at supporting investment in sectors that will encourage job-creation, in particular venture capital for high growth innovative small and me-

dium-sized enterprises, in the labour intensive health and education areas, in urban renewal schemes, environmental protection and trans-European networks.

The rehabilitation of rundown areas and the creation of business districts in cities and towns imply labour-intensive capital investment. Such urban renewal programmes can revitalise the local economy, favour social integration and create employment. According to EIB estimates, new investment of EUR 1 billion in the manufacturing sector will support 4,000 to 5,000 permanent jobs as well as temporary employment during the construction phases. In addition, the construction of public infrastructure can have important multiplier effects on job creation, both during and after the construction period, because of its impact on private sector investment.

Between June 1997 and November 1999, the Bank has appraised and approved loans for some 30 urban renewal projects or programmes in 10 Member Countries



An innovative feature of urban renewal lending under ASAP is EIB support to social housing



for a total EUR 3.8 billion. Of this, finance contracts for EUR 2.3 billion have already been concluded. An innovative feature of urban renewal lending under ASAP is the extension of financing to social housing within well defined integrated urban renewal programmes.

In the UK, the EIB has financed through The Housing Finance Corporation (THFC) seven Registered Social Landlords (RSLs) carrying out housing and urban regeneration programmes in Birmingham, Coventry, Durham, London and Manchester. The loan is for specific schemes to meet social, economic and environment needs in deprived urban areas through the creation of a variety of new or replacement social housing, "foyer" buildings for the shelter and training of jobless young people and the construction of "live-work" units to help start-up businesses establish themselves.

In France, the EIB has financed urban renewal works in the Gerland district, in the south of the Lyons conurbation, and the construction of the Arts and Social Sciences Professional Training College to accommodate the need for modern facilities geared to the latest teaching methods. The urban renewal programme included the creation of Gerland City Park, sport facilities, the extension of a metro line and the enhancement of the quality of all the district's public areas and roads.

In the centre of Berlin at the Potsdamer Platz, which was no man's land for more than 40 years and divided by The Wall, the Bank is helping to finance the construction of a completely new urban

area, with the development of offices, commercial space, residential flats and leisure areas.

The rehabilitation of the most dilapidated dwellings in 14 social

Cities  
and towns  
across Europe  
share the  
common  
challenge  
of sustainable  
urban  
renewal

housing "bairros" (low-rent housing estates) in Lisbon have also been supported by the EIB. The works mainly comprised restoration of frontages and roofs, as well as, in some cases, thermal insulation, upgrading of sewerage systems and development of public areas. This investment complements other projects

financed by the Bank in the city, including the clearance of buildings, decontamination works, design and installation of utilities and construction of public spaces for EXPO'98. This in turn forms part of a programme to create a new development centre with a balanced distribution of commercial, residential and leisure spaces.

In Amsterdam, the EIB has financed the development of a new city district on six islands being reclaimed in the IJ-Lake, adjacent to the city centre. This will allow the city's conurbation to expand eastwards and help meet growing demand for new housing. The overall investment programme will provide the space to build some 18,000 dwellings for some 45,000 residents.

Particularly noteworthy also are the programmes financed by the EIB in Italy's Mezzogiorno, the Balearic Islands and Berlin. These schemes relate to mixed infrastructure works (sewerage, water and power supplies, improvements to roads and public transport, creation of parks, pedestrian areas and urban amenities).

The EIB has financed a programme of schemes approved by the Italian national committee responsible for economic planning to upgrade and expand infrastructure in the Mezzogiorno, with beneficial effects for many urban areas. The schemes helped to meet the environmental objectives of the European Union (water cycle management, land erosion, and urban environment), as well as improvements to the trunk and local road networks and for extension the local public transportation systems (in Naples and other cities).

In the Balearic Islands, the environment was improved to guarantee the quality of life of the islands' inhabitants and also of the tourists who are the mainstay of the economy. The EIB's intervention concentrated on the renewal and restoration of urban infrastructure (roads, lighting, urban amenities, the creation of open spaces, laying electricity mains underground, etc.) in all municipalities and the restoration of the facades of buildings located in historic centres, listed buildings or those more than 20 years old.



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At an award ceremony held at the Schloss Leopoldskron in Salzburg, Austria, in July, the 1st prize-winner, Philippe Martin, CERAS-ENCP, Paris, was presented with his award by Sir Brian Unwin, President of the EIB.

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## 1999 EIB Prize

The 1999 EIB Prize competition, which was launched last year (EIB-Information No. 99), attracted a total of 80 entries from twenty-two countries. Seven winning essays were selected by an independent prize jury.

The prize jury consisted of Edmond Malinvaud, Collège de France (Chairman), Antonio Borges, Dean of INSEAD, Bill Emmott, Editor of The Economist, Alexandre Lamfalussy, former President of the EMI, Alberto Quadrio-Curzio, Catholic University of Milan, Helmut Schlesinger, former President of the Bundesbank, Jacques-François Thisse, Catholic University of Louvain, and Alfred Steinherr, Chief Economist of the EIB.

**1st prize:** "A quoi servent les politiques régionales européennes?" - Philippe Martin, CERAS-ENCP, Paris. A critical examination of the complex and often paradoxical effects of European regional policies demonstrating the trade-off between equity and efficiency at the spatial level.

**2nd prize:** "Hard currency and sound credit: A financial agenda for Central Europe" - Francesco Giavazzi, Università Com-

merciale Luigi Bocconi, and Rudi Dornbusch, MIT. This essay presents the case for currency boards as a viable means of achieving stronger financial structures in terms of both currency arrangements and bank balance sheets.

**3rd prize:** "Deregulation, integration and market structure in European banking" -

Jordi Gual, IESE, Universidad de Navarra. An examination of the consequences of the joint process of deregulation and market regulation on the structure of European banking markets, with special emphasis on the effects of competition.

**Special topic prize:** "Solving the unemployment puzzle in Europe" - Jorn Henrik Rasmussen, Ministry of Finance, and Jens Verner Andersen, Danmarks Nationalbank, Copenhagen. This paper argues that structural reforms in the labour market and in the tax and benefit systems are required to get Europe back to work and points out that Denmark has largely succeeded in reducing unemployment by implementing a variety of structural instruments within the context of stable economic policy.

**Under 30 years awards:** "Privatwirtschaftliches Engagement als Mittel zur Finanzierung transeuropäischer Verkehrsnetze" - Hendrik Hassheider, University of Münster. An analysis of the feasibility of using private sector investment to finance trans-European transport networks, taking into account the difficulties (such as

accepting the principle of "user pays") and the complications inherent in improving the regulatory environment and harmonising legal frameworks.

"The credibility and growth effects of EU institutions for Eastern Europe" - Daniel Piazzolo, Kiel Institute of World Economics. This paper looks beyond the immediate benefits of transfers, removal of trade barriers and guaranteed market access that EU membership would offer Eastern European countries to consider the advantages of institutional integration and to estimate the potential growth bonus that could be realised as a result of improved institutions.

"Direktinvestitionen in den mittel- und osteuropäischen Ländern und die Osterweiterung der EU" - Carsten Sprenger, Humboldt University, Berlin. A study demonstrating that the development of markets with growth potential is a greater incentive for investment in Eastern European countries than differences in factor endowment and lower labour costs.

The EIB Prize was established on the occasion of the Bank's 25th Anniversary and has been awarded every two years since 1985. The aim of the competition is to encourage original research which contributes strongly to the on-going European policy debate.

The winning essays in the 1999 EIB Prize competition have been published in a special issue of the "EIB-Papers", available on request from the Chief Economist's Office, fax: +352 4379 3492. ■