

EIB Forum calls for a new era in Euro-MED Partnership

The message of the 2001 EIB Forum was explicit: Euro-Mediterranean Partnership needs to be intensified.

The achievements and failures of the Barcelona Process were the focus of the 2001 EIB Forum held in late October in Sorrento. In 1995, the European Union and twelve non-EU Mediterranean countries signed the Barcelona Treaty aimed at creating a free-trade area by the year 2010.

The Forum indicated that the Euro-Mediterranean Partnership process has fallen short of expectations.

Representatives of Mediterranean Partnership countries described implementation of the EU's grant aid MEDA programme as slow and complex and pointed out that the EU at present seems to be preoccupied with enlargement towards the East.

EU speakers on the other hand underlined that EU integration should have a positive influence on the Euro-Mediterranean Partnership, which will not be slowed down as a result of EU enlargement towards the East. EU representatives acknowledged that implementation of the EUR 5.3 billion MEDA programme has been weak so far and that procedures need to be simplified and accelerated.

It was also emphasised that Mediterranean countries need to work harder to modernise their economies and introduce structural reforms to generate growth and attract foreign investment.

Spain is ready to use its EU Presidency in 2002 in order to relaunch the Barcelona Process. *(page 2)*



EIB President Philippe Maystadt referred to the fact that the EIB Forum coincided with a period of great international tension. "That the Forum is taking place in spite of this tension is a signal: the EU and the EIB will not allow terrorism and violence to slow down a partnership process of great promise."

The EIB is an essential player in the Barcelona Process with an annual lending volume of some EUR 1 billion to the non-EU Mediterranean countries.

Future EIB lending policy in Accession Countries

EIB lending in the Accession Countries of Central and Eastern Europe is expected to grow in all sectors eligible for EIB financing. The bulk of EIB lending will be directed towards public sector investments, but financing of private sector investments is expected to gain in importance. Once the Accession Countries reach the date of EU membership, the EIB will remain by far the main international long-term financing institution operating in the region and its role will become all the more important and challenging. *(Page 12)*

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2001 EIB Forum Focus on Mediterranean

During the 2001 EIB Forum on 25-26 October, some 400 specialists from government and political circles, as well as administrative, industrial and banking sectors reviewed the achievements of the Barcelona Process and discussed the factors for success and failure of economic development of the Mediterranean region.



EIB President Philippe Maystadt underlined that economic development during the last few years has been very unequal in the different countries in the Mediterranean area.

“Some countries have made great progress whereas others remain fragile.

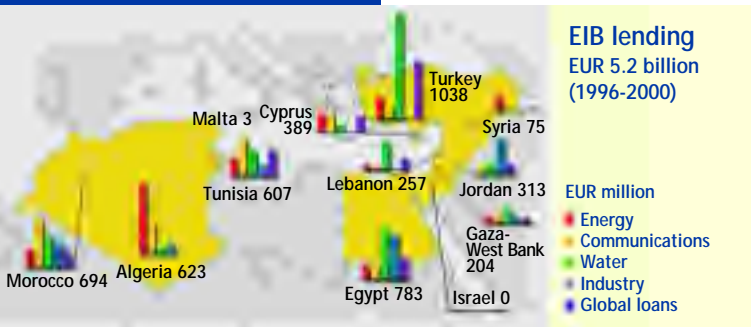
play their part in ensuring macro-economic stability and introducing fiscal and legal transparency. This will give the Barcelona process a fresh impetus.

Sustainable development in the region can only be effected through ever-closer partnership between all countries and economic players. Developing further “south-south” co-operation in the region is indispensable.”

Philippe Maystadt underlined that the EIB is an essential player in the Barcelona process with an annual lending volume of EUR 1 billion to the coun-

tries south and east of the Mediterranean.

“For its part, the EIB is ready to accelerate its financing to complement local and international sources of finance.”



Mediterranean countries wanting to benefit from the increased opportunities of a free-trade area with the EU, foreseen for 2010, must work harder to modernise their economies and introduce the needed structural reforms to generate growth and attract foreign investment.

The European Union is ready to support this process, but the Mediterranean countries must

The Barcelona Process in a nutshell

The European Union and twelve non EU Mediterranean countries signed in 1995 the Barcelona Treaty.

This Euro-Mediterranean Partnership aims at ensuring lasting stability and economic growth in the Mediterranean region through political dialogue, cultural exchange and cooperation on economic and social issues.

The most ambitious economic objective of the Barcelona Process is the creation of a free-trade area by the year 2010; that is free circulation of goods and services between the EU and the MED countries.

Two prerequisites are necessary to accomplish it. Infrastructure has to be expanded and structural reforms need to be implemented.



Didier Reynders, Minister of Finance, Belgium

“Although it is not directly within the framework of the Barcelona process, it is essential to underline that a sustainable solution in the Middle-East would enhance stable economic and political development on both sides of the Mediterranean as well.

In the same sense is the participation of the EIB and the EU in the stabilisation and development process of the Balkans only beneficial for Euro-Mediterranean partnership. Stability in the Balkans has

an impact on this partnership as well, although states such as Croatia, Bosnia, Kosovo and the Federal Republic of Yugoslavia do not directly participate in the Barcelona process.

One of the major challenges is to increase trade between the partnership countries south of the Mediterranean. Today it is too poorly integrated as interregional trade represents less than 10 % of total foreign trade for these countries.

Another fact is that Europe does not invest enough in the region. An attractive investment environment is needed.

We also have to admit that the implementation of the EUR 5.3 billion

grant aid MEDA programme has been weak so far. Less than 30 % of the resources available for the period 1996-2000 has been disbursed. We need to simplify and accelerate the procedures for the use of the second phase 2001-2006. In addition, the partnership countries need to be urged to implement projects by e.g. decentralising their decision-making process.

As a representative of the Belgian EU Presidency, I also want to point out the introduction of a single currency as a strong political signal of integration. EU integration should have a good influence on Euro-Mediterranean partnership which needs to be intensified and will not be slowed down due to EU enlargement towards the East.” ■

Didier Reynders emphasized that the complex international situation makes it even more important to deepen the Euro-Mediterranean dialogue and to boost cooperation in the region.



Kemal Dervis, Minister of Economic Affairs, Turkey

“Regional and international organisations have an important role to play in the introduction of structural reforms in the Mediterranean region.

“Capital does not come for free. Allow me to tell you what we did to attract foreign savings, bearing in mind that we strongly believe that we should not be differentiating between policies to attract foreign direct investment and domestic investments.

We are working on establishing and ensuring a stable and transparent macro-economic management, introducing new sectorial

These necessary reforms need to be implemented with regard to economic and political as well as social functions, e.g. the education sector. Only in this manner do we achieve a social platform for further progress.

The institutions necessary have to be created within the framework

of structural reforms. Transparency is needed to fight corruption.

In Turkey, we have made a lot of progress in this respect, thus creating confidence among the population.” ■

Ahmed El-Dersh, Minister of Planning and International Cooperation, Egypt

policies (power, telecom, ports), and carrying out institutional reforms (customs and tax administration etc).

In the last two years, we have also streamlined and strengthened laws related to foreign ownership and largely eliminated any legal distinc-

tion between Egyptian and foreign firms. We have liberalized our capital account and provided a comprehensive framework for the arbitration of domestic and international commercial disputes. And we have allowed foreign investors to own up to 100 % of business. We are committed to these reforms.” ■





Fethi Merdassi, Minister of International Cooperation and Foreign Investment, Tunisia

"The goals of the Barcelona Process have so far been obtained only partly. Implementation of EU's grant aid MEDA programme is slow and complex.

In addition, here in the South we have the impression that Euro-

Mediterranean Partnership is not a strategic priority for the EU which for the moment is more preoccupied with enlargement towards the East. It is important to underline that we do not in general find EU interests towards the East contradictory to EU involvement in the Mediterranean region. Growth in one region may generate investment opportunities in another.

It is today more than urgent to re-launch vigorously the Barcelona

Process and to reinstall confidence for this project. Tunisia wishes to underline that the process of Euro-Mediterranean integration may not totally be steered by market mechanisms.

After the tragic events of 11 September, the Mediterranean needs a strong political signal to increase investors' confidence in the region." ■

Laurent Fabius, Minister of Economy and Finance, France

Laurent Fabius pointed out that the tense international situation made it even more important than otherwise to meet at the 2001 EIB Forum.

"This Forum is a strong indication of to what extent the partnership between the EU and the Mediterranean region plays a major stabilising role.

The Mediterranean region may become a real zone of prosperity if it plays its cards well. This might sound rather optimistic with regard to the discrepancies in development between Europe and the region from Morocco to Turkey with the GNP in

the latter representing no more than 7 % of EU average GNP.

A first measure to be taken is to reduce the high unemployment rates thus allowing generations of active young people and women to enter the labour market. This will be possible only by investing in high-quality education, modernization of the countries and development of infrastructure between the 27 countries within the Euro-Mediterranean Partnership.

The Mediterranean Partnership countries have strong expectations

with regard to Europe. They expect financial support such as the one provided by the EIB, assistance in implementing institutional reforms and education, exchange of know-how and a better reception of immigrants in our countries.

We for our part require introduction of a more investment-friendly environment and an upgrading of the legal framework." ■



Laurent Fabius:
"I sincerely wish that the Forum indicates the launching of a new era in Euro-Mediterranean Partnership relations."



*EIB-financed projects:
Alexandria National Iron and Steel Company, Egypt,
Marmara Earthquake Emergency Reconstruction, Turkey,
and SME activity, Tunisia*

Fathallah Oualalou: "The Euro-Mediterranean Partnership process has fallen short of expectations."



"Not only do 11 out of 12 southern Mediterranean countries show a chronic trade deficit with the EU, in addition, the "South-South" trade exchange does not represent more than 5 % of foreign trade in general for these countries. And

Fathallah Oualalou, Minister for Economy, Finance, Privatisation and Tourism, Morocco

only 1 per cent of total EU foreign investments last year went to southern Mediterranean countries.

We have only one choice : to deepen the Barcelona process by allowing all necessary means to be used. The responsibility lies both with us and with EU institutions.

I propose that the EU opens constructive negotiations with the highly indebted countries in order to find ways to release these

countries of the heavy burden on their budgets and to enable them to channel resources to measures essential for their development.

The tragic events of 11 September impose us to reread and understand the meaning and importance of the Euro-Mediterranean Partnership." ■

Miquel Nadal Segalá, Secretary of State for Foreign Affairs, Spain

"There are very deep differences between the countries on both sides of the Mediterranean.

In the northern Mediterranean countries, annual per capita income is approximately USD 20 000, whereas in the south it does not amount to more than USD 1 500 – 2 000.

The southern Mediterranean countries have lost ground to the northern ones during the last years. There is no other region in the

world where you may find such great discrepancies in such a small geographical space.

We need to deepen further economic integration by opening up markets. There should be free access to European markets for products, e.g. textiles, from southern Mediterranean countries.

At the same time we need to allocate more investment flows to the south. The relative attractiveness of southern Mediterranean mar-

kets has eroded. EU countries have invested EUR 100 billion in Latin America, but only EUR 6.7 billion in the southern Mediterranean countries.

In addition to the "economic basket" of the Barcelona Process, there is the "social basket" implying a great structural challenge.

Spain intends to use the EU Presidency next year to relaunch the Barcelona Process, but in order to succeed we need the support of all the other 26 partners in this process." ■



Giuliano Amato, Italian ex-Prime Minister, Law Professor in Florence and New York

In our case it is the opposite, the situation is deteriorating. Exchange figures between EU and the Mediterranean Partnership countries are extremely low and are even getting lower. These countries are regarded as risky for long-term investment.

The Mediterranean Partnership countries need to continue to adjust

their economies by reducing tariffs, privatise more and establish a more investment-friendly environment.

This process is a painstaking one and what has been done so far is not enough. New dynamics have to be introduced into the process. New, badly needed jobs and other prerequisites for economic growth must be created." ■

"There is a growing trend for trade from Eastern European countries to the EU as well as for foreign direct investment from EU towards the east.



Wind farm, Tetouan - Morocco



Miquel Nadal Segalá :
"The Mediterranean is today rather a sea of disorder than of integration."

Giuliano Amato :
"The countries south and east of the Mediterranean have entered a vicious circle."

Pedro Solbes Mira answered critical remarks from the Mediterranean Partnership countries by promising to make the EUR 5.3 billion MEDA grant aid programme more efficient.



Pedro Solbes Mira, EU Commissioner for Economic and Monetary Affairs

Another important objective is to build cross-boundary infrastructure networks in the fields of telecommunications, energy and transport in particular with the financial assistance of the EIB.

The achievement of these ambitious objectives in the present world economic situation will require huge efforts that the EU on its side is prepared to assume."

The Commissioner also expressed his conviction that the launching of the Euro will have spill over effects for the rest of the world and more particularly for Europe's trading partners.

"The positive growth effects in the EU stemming from reduced costs, better policy discipline and a more stable trading environment will transmit to our trading partners.

The closer the links between the EU and third countries, the stronger will be the impact. The EU already accounts for some 50% of the Mediterranean region's trade in goods and services. Therefore, the introduction of the Euro is likely to be particularly significant for Mediterranean countries." ■

"Our objective is to complete the Euro-Mediterranean free-trade area by 2010 and to promote South-South trade integration and harmonisation of the legal and regulatory framework.

Lord Rothschild, Chairman of Rothschild Capital Ltd

The approach of Lord Rothschild to the Forum's topic was a different one showing the wide variety of Euro-Mediterranean activities. He focused on the Butrint Foundation set up to help Albania with conservation and archaeology of Butrint, a classical site in southern Albania opposite Corfu.

"Since the Butrint Foundation was set up in 1993 much has been achieved. The Butrint National Park of 29 sq km has been established to manage and conserve the Butrint site and the surrounding country. UNESCO has declared

Butrint a World Heritage Site in danger and has provided funds to permit improvements in the management of the site.

Butrint – like Albania – was al-

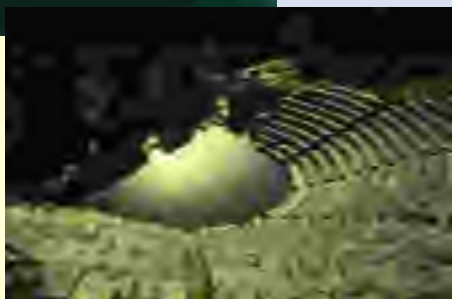
most unknown in 1993. There is now quite widespread awareness that Butrint is a potential economic asset for Albania as well as a precious part of its cul-

tural heritage. Every journalist who writes about Butrint, every TV cameraman who films there, helps correct the negative perception of Albania which is such a deterrent to investment.

How has this been achieved in a country which is generally regarded, even now, as difficult? The answer is by an unusual partnership, which has evolved between the private sector and the public.

The partners are the Butrint Foundation that is committed to the project and to Albania, the Albanian authorities, a grouping of private foundations with interests in conversation and archaeology, UNESCO and the IFIs: the World Bank, the European Union, the EBRD, potentially EIB.

This is an encouraging story but there remains a great deal to do. We have created the basis for sustainable tourism but this rests on successful conservation. We have to convince the local community that conservation is in their economic interest. This means persuading them that sustainable tourism – which is in harmony with conservation – will bring more jobs in the long term than relying on mass tourism."



François Perigot, *Honorary President of the Union of Industrial and Employers' Confederations of Europe*

"We must not be discouraged by the pace of the Barcelona process. Although it indeed has been slow, it does not mean that the battle has been lost."

One of the greatest challenges is to make the Partnership countries in the south attractive for investors. A strong political will must be expressed to show that north-south integration is a first priority for Europe. We must help these countries to introduce an economy based on free competition and trade."

Ahmed Lahlimi, *Minister of Social Economy & SMEs, in charge of General Affairs of the Government, Morocco*

"The EU and the EIB could maybe focus on SMEs as these do not have resources themselves to meet the challenges. It is more a question of education and training as well as organisation than money. But it is likewise essential to facilitate access to MEDA financing which is now too centralised and bureaucratic. The countries in the south do not get use of the money efficiently enough."

Henri Proglia, *CEO of Vivendi-Environment, France*

"A more efficient privatisation of existing and new infrastructure in the region demands cooperation between the EIB, local institutions and infrastructure operators. Several public-private partnership models are possible, but the PPP approach must be accompanied by suitable financing."

The bottlenecks of today can be excluded only by making real improvements to the PPP concept and by engineering the financing suitable for this partnership approach faster and, above all, in a more imaginative way.

Fernando Gutiérrez de Vera, *General Manager and Chief Financial Officer of the Dragados Group, Spain*

"We need to create necessary conditions in the various countries in order to achieve suitable transfers of financial resources for private financing of infrastructure projects. Two key elements are required for attracting private investments: a reasonable degree of economic stability and a suitable legal framework."

Only thus is it possible to increase the volume and pace of investments in infrastructure projects. In addition, it is important to ensure continued operation and maintenance of the facilities, provision of services and the implementation of management systems as well as the transfer of know-how or development of "human capital".

Pierluigi Ciocca, *Deputy Director General of the Bank of Italy*

"In emerging economies, such as those in the southern Mediterranean, an appropriate legal framework, which is internationally recognised as such, and a financial system open to external relations and change are basic prerequisites for progress. The financial structures of the Mediterranean countries are still very different from one another, but in all of them there is an intense process of change underway."

Brahim Benjelloun, *Secretary General, Banque Marocaine du Commerce Extérieur, Morocco*

"It is essential that, in countries such as ours, attention is devoted to the social responsibility of companies with the goal to create an economy based on solidarity. It is inspired by this spirit that banks such as the one I represent is establishing programmes for microcredits, for instance."

To invest in human capital, above all education and professional training, is likewise an essential part of the conditions needed for the financing and developing equation for Morocco."

Yavuz Canevi, *Chairman of the Executive Board of Turkish Economy Bank (TEB), Turkey*

"Stabilisation programs endorsed by the IMF and implemented since January 2000 in Turkey, place extensive emphasis on financial system reforms. A further deepening and expanding of the financial sector is required i.a. through lowering of heavy tax burden on financial intermediation."

State-owned banks and other institutions should be privatised. Rules and regulations should be brought in line with the international standards. In addition, markets for more sophisticated instruments are to be established and encouraged and corporate governance rules need to be improved."

Ahmed Abdelkefi, *President of Tuninvest Finance Group, Tunisia*

"In Tunisia, a legal and regulatory infrastructure in compliance with best international standards is already available and the stock exchange in Tunis is open to international investors."

Yet, the results are below expectations. The reason is that the entrepreneurs are not transparent enough and the authorities, for instance when it comes to privatisation, do not have enough confidence in foreign investors."

Jean-Louis Biancarelli, *Director General for lending operations outside the EU, EIB*

"Financing is not the key problem. Financial resources are or would be available if the investment environment would meet the expectations of investors. An institutional framework, a well-functioning system, is needed most urgently in the countries in the region. A balanced and transparent legal and fiscal environment is indispensable in order to promote private initiatives."

The patrimonial structure of, above all, SMEs in the region which results in lacking management transparency, makes intervention by external financiers more difficult and, occasionally, even impossible."



François Perigot



Ahmed Lahlimi



Henri Proglia



Fernando Gutiérrez de Vera



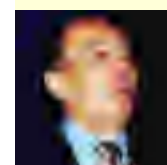
Pierluigi Ciocca



Brahim Benjelloun



Yavuz Canevi



Ahmed Abdelkefi



Jean-Louis Biancarelli

25 October 2001

OPENING OF THE FORUM :

- **Philippe Maystadt**, President of the EIB
- **Didier Reynders**, Minister of Finance, Belgium

SESSION I : "The Barcelona Process - achievements, prospects and priorities for economic action"

Chairman: Francis Mayer, Vice-President of the EIB

- **Kemal Dervis**, Minister of Economic Affairs, Turkey
- **Ahmed Mahrous El Dersh**, Minister of Planning and International Cooperation, Egypt
- **Fethi Merdassi**, Minister of International Cooperation and Foreign Investment, Tunisia
- **Laurent Fabius**, Minister of Finance, France
- **Fathallah Oualalou**, Minister for Finance, Economy, Privatisation and Tourism, Morocco
- **Miquel Nadal Segalá**, Secretary of State for Foreign Affairs, Spain

FORUM DINNER with guest speaker

Predrag Matvejevič, author and writer, Vice-Chairman of the International PEN Club, London and Chairman of the "Laboratorio Mediterraneo" Foundation, Naples

26 October 2001

SESSION II : "Investment and Finance"

Introduction by:

- **Prof. Giuliano Amato**, European University Institute, Florence, Italy
- **Pedro Solbes Mira**, EU Commissioner for Economic and Monetary Affairs

SUB-SESSION 1 : "What bottlenecks are affecting economic development?"

Chairman: Ewald Nowotny, Vice-President of the EIB

- **François Perigot**, Honorary President of the Union of Industrial and Employers' Confederations of Europe
- **Ahmed Lahlimi**, Minister of Social Economy & SMEs, in charge of General Affairs of the Government, Morocco
- **Henri Proglio**, CEO of Vivendi-Environment, France
- **Fernando Gutiérrez de Vera**, General Manager and Chief Financial Officer of the Dragados Group, Spain
- **Lord Jacob Rothschild**, J Rothschild Capital Ltd, United Kingdom

SUB-SESSION 2 : "How to Finance Development"

Chairman: Alfred Steinherr, Chief Economist, EIB

- **Pierluigi Ciocca**, Deputy Director General of the Bank of Italy, Italy
- **Brahim Benjelloun**, Secretary General, Banque Marocaine du Commerce Extérieur, Morocco
- **Yavuz Canevi**, Chairman of the Executive Board of Turkish Economy Bank (TEB), Turkey
- **Ahmed Abdelkefi**, President of Tuninvest Finance Group, Tunisia
- **Jean-Louis Biancarelli**, Director General for Lending Operations outside the EU, EIB

CONCLUSIONS

Massimo Ponzellini, Vice-President of the EIB

CLOSING OF THE FORUM

Vito Tanzi, Under-Secretary of State, Ministry of Finance, Italy



Vito Tanzi, Under-Secretary of State, Ministry of Finance, Italy, closed the Forum: "The resources are there, the institutional framework needs to be put in place." Vito Tanzi also referred to the implementation of the euro: "A closer link between the euro and some of the currencies of the Mediterranean Partnership countries might be one solution to intensified and more efficient North-South cooperation."

Guest speaker at the 2001 EIB Forum was Predrag Matvejevič, writer and Professor, currently teaching Slavic studies at La Sapienza University in Rome. Predrag Matvejevič, born in Mostar (Bosnia-Herzegovina), is also Chairman of the International Board of the Laboratorio Mediterraneo Foundation and Vice-Chairman of The international writers' association, the PEN Club.



His publications include "Mediterranean – a cultural landscape", a novel focusing on the countries surrounding the mare nostrum.

EIB representatives "on duty": Vice-Presidents Francis Mayer and Ewald Nowotny as well as EIB Chief Economist Alfred Steinherr chaired sessions, while Vice-President Massimo Ponzellini's task was to compile conclusions of some seven hours of Forum presentations.



The 2002 EIB Forum – 7-8 November in Vienna – will focus on cooperation with Central and Eastern European countries. A presentation of future EIB lending policy in these countries can be found on pages 12-19.

The EIB strengthens its capacity for strategic identification and operational support



The EIB, which operates in line with market rules but whose core purpose is to underpin European Union policies, regularly adapts its operational structures in order to address its priorities as effectively as possible and to tailor its activity to economic realities. The creation of two departments for strategic and operational support reflects this approach.

Defining a strategy to serve the objectives set out for the EIB by successive European Councils and by its Governors is a key element of the Bank's endeavour to cater for the European Union's policies and the economic requirements of the EU and its partner countries. This strategy, enshrined in the Multiannual Corporate Operational Plan (COP), is reflected in the Bank's lending and borrowing operations.

In order to optimise the Bank's capacity to discharge its remit by targeting its lending activity ever more efficiently, the Management Committee has decided to enhance the definition, implementation and monitoring of the EIB's strategy.

The challenge is to make it possible (a) to develop strategy on an ongoing basis in keeping with the increasing number of tasks assigned

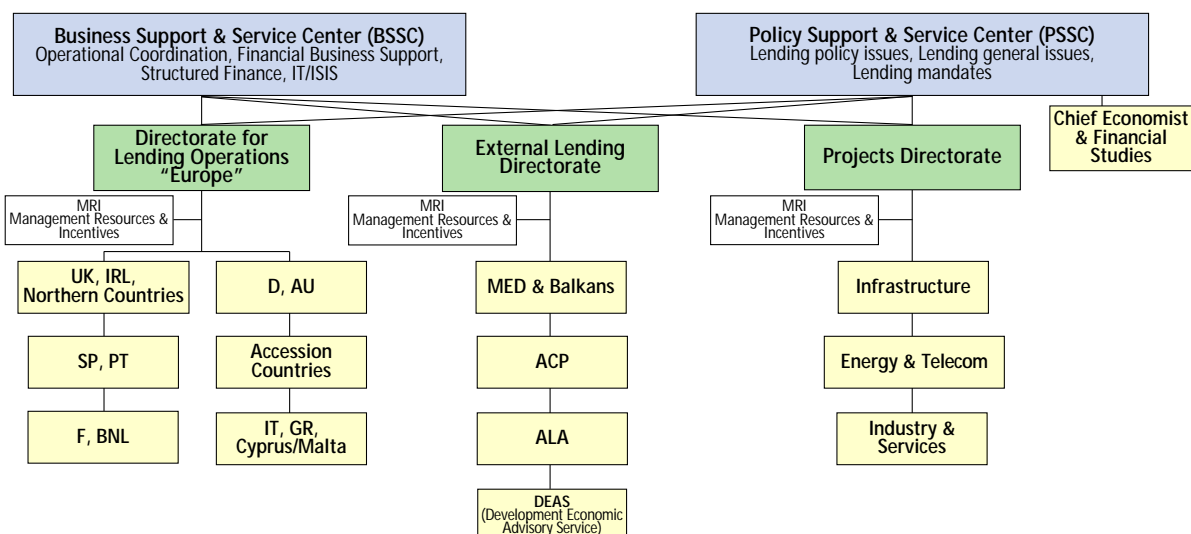
to the Bank by the Union and (b) to ensure that individual lending decisions are characterised by high quality and value added in keeping with the strategic objectives.

Setting-up of two "centres of excellence"

Two strategic and operational support centres have been set up, one within the Projects Directorate and the other within the Directorate General for Lending Operations.

The **Policy Support and Service Centre (PSSC)** brings together the Bank's staff responsible for formulating lending policies as part of the preparation, annual reassessment and monitoring of the COP.

The EIB's regularly updated organisation chart is available on www.eib.org





Michel DELEAU

To this end, the PSSC takes the lead in adapting credit policies and defining new EU mandates (especially for operations outside the Union). As part of this remit, it associates the Bank in work under way in the other EU institutions (especially the Council, the Commission and the European Parliament), with which it is in regular contact with the backing of the Bank's Office in Brussels where the PSSC has several permanent representatives. The PSSC's role also includes ensuring the compliance of project financing with the Bank's strategic guidelines.



Patrice GERAUD

The creation of the PSSC and the synergies developed with the Economic and Financial Studies Division are significantly bolstering the Bank's capacity for reflection and strategic action over both the short and long terms. The PSSC is thus able to contribute systematically, with full freedom of judgment, not only to the borrowing and lending process but also to the definition of underlying credit policies approved by the EIB's Board of Directors on a proposal from the Management Committee.



Jos VAN KAAM

The PSSC Department will be headed by Mr **Patrice GERAUD**, previously in charge of the Coordination and Control Department within the Projects Directorate. It has been placed under the direct supervision of the Director General of the Projects Directorate, Mr **Michel DELEAU**, formerly Director General for Lending Operations in Western Europe, who has succeeded Ms Caroline REID, recently appointed Director at Banca OPI in Italy. The Projects Directorate, numbering some 80 economists and engineers, has the task of analysing projects from an economic, technical and environmental standpoint in close consultation with the teams from the Directorates for Lending Operations.



Terence BROWN

In parallel, the Management Committee has decided to set up the



Jean-Louis BIANCARELLI

Business Support and Service Centre (BSSC) within the Directorate General for Lending Operations. The BSSC manages the functions common to the EIB's lending activities in terms of operational and IT support for loan management, coordination and monitoring of operations as well as liaison with the Bank's other Directorates. The BSSC Department is headed by Mr **Jos VAN KAAM**, formerly in charge of coordination of lending operations. The BSSC serves as a common factor in the Bank's lending activities both within and outside the Union. It operates under the direct supervision of the Director General for Lending Operations in Europe.

New organisation of lending activity

The creation of the BSSC is being accompanied by enhanced integration of the Central and Eastern European Accession Countries: the Departments responsible for the Bank's lending activity in these countries have been merged with those dealing with the countries of the Union within one single Directorate for Lending Operations "Europe", under the authority of Mr **Terence BROWN**. Mr Brown was formerly Director General for lending operations in Central Europe.

Thus, the move initiated a little over a year ago with the aim of responding, by means of unified operational practices, to demand from the Bank's customers for loan products and financial appraisal criteria in the Accession Countries similar to those in the Union is being pursued. In addition, within the "Europe" Directorate, a new unit will be entrusted with coordinating lending activities involving EU companies setting up in Central and Eastern Europe, exemplifying the EIB's backing for the promotion of foreign direct investment in these Accession Countries.

Furthermore, the EIB's lending activities in countries that are signatories to association or cooperation and development aid agreements with the Union remain the responsibility of the External Lending Directorate headed by Mr **Jean-Louis BIANCARELLI**.

This Directorate implements the Bank's activity through three Departments responsible for the Mediterranean and the Balkans, Asian and Latin American countries, and the ACP States respectively. The latter area of operations is set to assume particular significance in 2002/2003 when the Cotonou Agreement enters into force; this agreement entrusts the Bank not only with an important mandate for lending from its own resources but also with management on behalf of the Union and its Member States of the "Investment Facility", a key instrument for developing the private sector in these countries.

Finally, the Management Committee's decisions relating to the reorganisation of the activities of the Directorate General for Lending Operations and the Projects Directorate also have the effect of modifying the administrative arrangements for the Information and Communications Department and the Documentation and Library Division which now report to the Secretary General. However, the nature of the direct relations between the Information and Communications Department and the Bank's Management Committee remains unchanged.

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Appointments to the EIB's senior management cadre

Four Heads of Division have recently been promoted to the senior management cadre of the Bank:

Ms Marie-Odile KLEIBER has been appointed Associate Director within the General Secretariat, in charge of Information Management: Documentation, Library and Archives. Ms Kleiber, a documentalst and Humanities and Economics graduate of the University of Algiers, joined the EIB in 1979 following a career as a national expert in Algiers, then with the United Nations in Togo and finally as Documentary Research Manager at OREAM-Lorraine, a regional body reporting to the French National and Regional Development Ministry. Head of the Documentation and Library Division since 1986, she has built up this service for the Bank in line with technological changes (creation of a library database in the 1980s, development of electronic information, and migration to Intranet technology, etc.). Ms Kleiber has also integrated the Bank's documentation into the "Eurolib" network linking EU and other European institutions and has played a crucial role in setting up the Luxembourg Association of Librarians, Archivists and Documentalists.



Marie-Odile
Kleiber

Ms Jacqueline NOEL has been appointed Associate Director for financing development in Africa within the Department for Lending Operations in the ACP countries. Ms Noël, who has a Doctorate in Economics from the Université Libre de Bruxelles (Belgium) and was awarded a scholarship from the National Scientific Research Fund, joined the EIB in 1984 following a career in the World Bank which began under the "Young Professional Program" and ended in the Senior Management of the Regional Office in Abidjan. As Head of Division in the Department for Lending Operations in the ACP countries from 1985, she was involved, inter alia, in monitoring projects and negotiating loans in numerous African countries, initiating private-sector operations as well as in financing structured projects with a regional dimension.



Jacqueline Noël

Ms Evelyne POURTEAU has been appointed Associate Director in the Corporate Affairs Department. A lawyer (graduate of Paris I-Sorbonne and Columbia Law School, U.S.A.), Ms Pourteau started her career in the legal department of SODECCO, continuing as an employee of the Worms Group before moving on to Société Générale; in 1983, she joined the EIB's Legal Affairs Directorate where she was involved, inter alia, in preparations for Spain and Portugal's accession to the EU as well as in drafting finance contracts for France, Benelux and the ACP countries. A loan officer in the ACP Department (West Africa) from 1987 onwards, she joined the Credit Risk Department (1991), before being appointed Head of the Coordination Division within the Corporate Affairs Department in 1996. In this position, she steered the EIB's changeover to the euro as from 1 January 1999.



Evelyne Pourteau

Ms Grammatiki PAPANOTETROU-TSINGOU has been appointed Associate Director in the Department for Lending Operations in the Accession Countries. Ms Tsingou, a civil engineer and economist, is a graduate of the Universities of Thessaloniki (Greece) and Bristol (UK) and joined the EIB in 1986 following a career in Greece's Public Works Ministry and at that country's Permanent Representation to the European Union. Initially a loan officer for Southern Africa, she was subsequently involved in negotiation on the Bank's behalf of the Third Lomé Convention and the Redirected Mediterranean Policy. In 1993, she was appointed loan officer for Central Europe. In 1996, she was appointed Head of Division with responsibility for Poland and the Baltic States. Ms Tsingou is also EIB Alternate Director at the EBRD and in charge of the Bank's operations in Russia under the new mandate entrusted to the EIB.



Grammatiki
Tsingou

Future EIB lending policy in the Accession Countries of Central and Eastern Europe



The financing requirements for the financing of the countries' basic infrastructure are important and urgent. It can thus be assumed that the bulk of EIB lending, also in the next 3-4 years, will be directed towards public sector investments (mainly environment, water, rail and road, but also in health and education).

Financing of private sector investments is expected to gain in importance and, in addition to lending to industry, include financing of energy (production/distribution), telecommunications and i2i.

The role of partner banks as both Global Loan intermediaries and cofinanciers in industry and other private sector investments is expected to widen and increase. Global loans will continue to channel EIB funds to SMEs and local infrastructure.

The EIB recognises the important role of Municipalities in improving environment and quality of life for their citizens. It is thus prepared to discuss with the authorities of the countries concerned the way that their access to the Bank's long-term finance could be eased, so that the Bank could play fully the role it already plays in financing municipal investments in the Member States.

The Bank's loan product should evolve further in the Accession Countries, to meet the evolving needs.

Funding in domestic currencies should continue to develop, for the Bank to be able to provide loans in local currency at appropriate maturities and terms.

In close cooperation

The Bank is fully committed to a close cooperation with the Com-

EIB lending in the Accession Countries of Central and Eastern Europe is expected to grow in all sectors eligible for EIB financing. In particular, lending will be Accession driven and demonstrate the Bank's support to EU policies and its commitment to a successful enlargement.

However, Accession has often a limiting impact on public sector investments as there is a growing budgetary discipline on public borrowing or guarantees; and most priority projects line up for grant financing before considering borrowing.

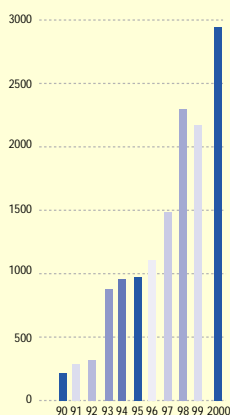
EUR 17.5 billion lending framework

The EIB operates in the Accession Countries under two different lending authorisations by the Bank's Board of Governors:

The **Lending Mandates**, which have been the Bank's response to successive requests by the European Council and which are associated with specific guarantee arrangements under the EU budget. The first Lending Mandate was decided in late 1989 and concerned EIB lending to Poland and Hungary for the period 1990-1992 with a ceiling of EUR 1 billion. The current mandate has a ceiling of EUR 8.9 billion. Decided in March 2000 for the period 2000-2006, it may be used for projects in the 10 candidate countries of Central and Eastern Europe as well as in Albania, Bosnia-Herzegovina, Croatia and FYROM.

The **Pre-Accession Facility**, which has been established by the Bank at its own initiative and at its own risk, is without EU guarantee. The Pre-Accession Facility was first introduced in early 1998 and concerned the 10 candidate countries of Central and Eastern Europe and Cyprus. It was endowed with an envelope of EUR 3.5 billion for the period 1998-2000. It was renewed in January 2000 for the period 2000 to mid 2003 with an indicative amount of EUR 8.5 billion. In addition to supporting the 10 candidate countries of Central and Eastern Europe in preparing for Accession, the renewed Pre-Accession Facility may be used for suitable projects in Cyprus, Malta and Turkey.

Loans signed
1990-2000
(in EUR million)



mission in working together both towards accession and beyond. As the Accession Countries reach the date of EU membership, the Bank will be by far the main, if not the only, international long-term financing institution operating in the region and its role becomes

both more important and challenging. The Bank is ready to take up this challenge. It has already restructured its lending department, to allow the full transposition of current policies and practices to the Accession Countries.

Sectors of activity and special initiatives

Transport - balance between rail and road

As in the past, a very large portion of the EIB funds will contribute to the continuously high needs in the transport sectors of all Accession Countries. Emphasis is placed on a



balanced distribution of the financing means between the rail and the road sectors of the Accession Countries, with focus on TENs and TINA priority network. It is worth noting that the Bank has been an important contributor to practically all major railway investment projects in the Accession Countries and will continue to be, thus assisting rail to maintain its role in the sector.

During the coming years the upgrading of the main hubs as well as some regional airports will be sup-

ported in an effort to improve air movements of passengers and freight and air traffic security in the entire area. Though the volumes in support of the transport sector will remain significant, it may well be the case that the relative importance of the sector will be gradually declining in relation to financing under the other initiatives, which will be gaining significance during pre- and post- Accession.

Despite the size of needs, budgetary constraints may restrict the speed of investment in the sector to the pace allowed by the availability of EU grants for cofinancing. Projects will therefore be selected in close coordination with ISPA. At the same time, in the most advanced countries, efforts for the development of viable privately supported public infrastructure under various PPP structures will continue to appear.

Increasing investments in environment

The sector will continue to require increasing investments as the countries adjust to the standards required by the EU Environmental Directives. However, despite the incentive introduced by the perspective of Accession, as budgetary resources remain limited and disposable incomes constrain affordability, the need for "compliance to the *acquis*" alone may not be sufficiently powerful for promoters to proceed with such investments.

Facilitating enlargement

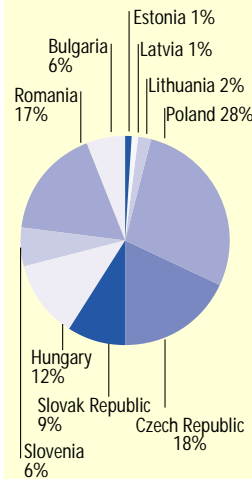
To effectively back up the Community's pre-accession policy and hence to facilitate the enlargement process, the EIB's approach at the country and sector level is strongly linked to the EU's policy priorities and to the needs of the countries concerned with regard to compliance with the *acquis communautaire* and the links with EU infrastructure. It is subject to the quality and viability of the operations presented to the Bank, i.e. the meeting of the pre-defined economic, technical, financial and environmental criteria and premised on the fulfilment of stipulated credit requirements and security arrangements.

Lending in the Accession Countries of Central and Eastern Europe takes place in line with the Bank's normal credit risk policy.

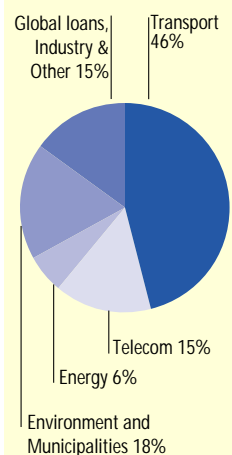
The EU is attaching particular attention to the wastewater and solid waste sectors. Grant financing made available under ISPA has triggered a number of investments and has thus been of critical importance for progress in the sector. Grant funds play a catalytic role but set also the pace of investments as promoters line-up for grants before deciding the time and size of their potential borrowing.

The Bank will follow closely the relevant co-financing possibilities so as to further viable projects in the environmental sector and accelerate their implementation. The Bank will seek actively to raise the share of its environmental lending in the region and will cooperate closely with the Commission in appropriately combining existing instruments or suggesting new initiatives at regional or country level. Urban environment will also be promoted through appropriate support to other forms of urban investments, such as municipal transport and ur-

Geographical distribution of loans signed (1990-2000)



Sectoral distribution of loans signed (1990-2000)



ban renewal that improve the quality of life. In addition, upgrading or replacement of existing industrial/energy facilities undertaken by support from the Bank would also contribute to a better environment.

As with investments in the transport sector, economic progress and

environmental projects in water and wastewater, municipal transport and other urban investments aiming at improvements of quality of life. For various reasons, incl. budgetary discipline, the central authorities are often unprepared to guarantee municipal borrowings.

In so far it is of high importance for the Bank's work in the region to contribute to the development of a municipal borrowing capability similar to the one of municipalities within the Union. This can only be achieved and justified on the grounds of a supportive legal framework providing sufficient safety and comfort to the future municipal creditors in each of the countries concerned. The Bank is committed to the broadening of municipal borrowing capacity in the Accession Countries of CEE and has already commenced with various initiatives in the Accession Countries.

Supporting SMEs

Further strengthening of lending to SMEs through Global Loans will improve entrepreneurship and support the important small-scale business environment. In this context the already well-established co-operation with the banking sector active in CEE will gain further sig-

nificance. Global Loans will also assist the Bank to channel funds in support of local infrastructure or other specific policy objectives (e.g. regional development) and, with market developments, there will be a progressively increasing focus on policy dedicated Global Loans. Furthermore, the size of the single project may often not support direct lending operations, so that a considerable number of otherwise eligible projects will have to be incorporated into Global Loan structures. The EIB maintains currently more than 30 Global Loan relationships with partner banks in the region, most of them subsidiaries of EU-based financial institutions.

Co-operation with the European Investment Fund in the field of Private Equity or Venture Capital through cross-selling of the full range of products of the EIB Group in the region will be an increasingly important proof for the ability to support transactions with the highest value added to the economies of the Accession Countries.

More loans to industry

As we move closer to accession and following the trends of lending operations within the Union, it can be assumed that, in the medium run, lending to industrial entities will

an improved regulatory/legal framework would also increase the possibilities of private participation in the financing of investments in the sector. The Bank will be associated to such schemes as improved conditions allow for such development. It would be appropriate that EU budgetary funds are used by the Bank to facilitate and accelerate operations in this area.

The role of municipalities

Several of the public sector projects eligible for EIB financing are promoted by municipalities. Typical examples of municipal projects are

Enhancing synergies between EU instruments

Support to EU policies has been the core of the EIB's activity in the region and expresses itself in extensive co-operation with the Commission, both general and project specific.

Co-operation with PHARE started already some 10 years ago and although the Bank has not benefited from PHARE Technical Assistance grants on a systematic basis and on a big scale, it has succeeded in cofinancing a substantial number of projects with an important European interest, particularly projects in the transport sector. The re-focus of PHARE following the introduction of ISPA would normally provide additional areas for cooperation, notably in SME financing and Regional Development programmes, and prepare for even greater co-

operation after membership and the availability of EU structural funds.

ISPA has quickly become an important area of co-operation between the EIB and the Commission. The priority attached to the transport and environment sectors is fully shared by the Bank and well within the Bank's traditional areas of activity. Co-operation in this field is expanding quickly, also preparing for a co-ordinated approach after membership and the availability of cohesion funds.

In addition to the EU Commission, the EIB is closely cooperating with other multilateral financial institutions as well as banks active in Central and Eastern Europe.



The bulk of EIB lending, also in the next 3-4 years, will be directed towards public sector investments



form an increasing portion of EIB loans in the region.

The acceleration of restructuring of enterprises and strong economic growth practically across the region, have continued to attract FDI into most of the Accession Countries, in particular those most advanced in their reforms. It is expected that, as markets are liberalized and the legal/regulatory framework improves, investment opportunities in the region will be increasing and be followed closely by interested investors.

The EIB, with its experience in financing the European industry and EU corporates, is well placed to properly accompany them as they expand their activity to Eastern Europe. Such activity would normally cover a wide range of industrial activity, as expanding domestic demand for new or better quality products and new export markets will continue to offer strong potential for investment in a variety of sectors, including in distribution and services. Industries based on local resources, including qualified local labour, would provide sustainable competitive advantages.

Furthermore, as in the past with similar cases in the Member States,

the Bank may also provide support for productive investments in re-structured heavy industries in the context of wider EU programmes, as well as for specific structures that could help revitalizing a loss making industry into a modernized and efficient company viable in a market economy.

The development of an efficient industrial activity in the region would also contribute to an increased efficiency and competitiveness of the European industry and, as in the case of SMEs, will also generate new and consolidate existing employment opportunities in the region. This, in turn, would reduce pressure for migratory movements and further widening of regional imbalances. In order to support this development, the Bank will co-operate and fund on a long-term basis a growing number of corporate clients.

Stepping up energy activities

EIB lending to the sector has been relatively limited when compared to that in the Union. This would appear surprising in view of the substantial needs for energy efficiency and rationalisation and greening of the industry but can be explained by delays in the reforms and the continuing dominance of monopolies.

The Bank's efforts will be directed towards energy distribution networks, where capital expenditure programs become mandatory in the context of the sector restructuring and in the wake of replacing increasingly obsolete installations from the time prior to transition of the economies. Important investments are necessary to improve the energy efficiency and implement the Union's environmental standards. Rationalisation in the use of energy and security of supply would remain the two themes of priority for the Bank's action in the region. Increased cross-border

trade induced by the liberalization of the European energy markets may also generate demand for EIB financing for investment in the region by the EU energy operators expanding eastwards.

The impact that improvements in energy could have on the economy of the Accession Countries would probably justify EIB allocating increased technical and economic resources that allow it to step up its activity in the sector.

Education and health in focus

The Bank's increasing focus on the education and health sectors within the Union will be applied also to the Accession Countries.

In the area of Education, financing requirements could also be expected to grow and follow patterns similar to those experienced in the Union. Although in some aspects educational attainment in the Accession Countries appears good, the matching of competencies to the needs of a modern economy is poor. In addition, chronic under-investments in the sector have resulted in often-outdated educational facilities. There is a clear need for restructuring of the education sector in order to produce the skills required by industry and the service sector. This new challenge will concern most immediately vocational upper-secondary and high education, but efforts to improve primary education should not be neglected.

Countries in Central and Eastern Europe have greater health needs than the EU as a whole. They all require reforms and have urgent requirements for capital expenditure programmes in hardware as they go along with a concentration of the medical care on fewer and more efficient hospitals. However, resources allocated to address these needs continue to be low. ➤

**EIB
finances
water
schemes
in Poland**

The EIB is lending EUR 31 million to the City of Lodz in central Poland to upgrade the drinking water and wastewater networks.

The EIB loan, which is granted for 20 years, will help the City of Lodz to implement a five-year infrastructure investment programme. In addition to the network improvements, the expansion of a wastewater treatment station and several collectors as well as some road works will be financed with the EIB loan.



The European Commission is also participating in the financing under its grant programme ISPA, specifically aiming at environmental and transport schemes in the candidate countries.

With some 810 000 residents, Lodz is Poland's second largest city. It is located on the Ner River, a tributary of the Odra, which flows into the Baltic Sea. The City's authorities have recognised the urgency of investing in its water and wastewater systems in order to meet national and EU environmental standards, to attract new industries and to lift the quality of life for its inhabitants.

Over the last year or so the EIB has developed a strong role as an investor in water projects in the candidate countries and especially in Poland where water improvement schemes were financed in Zywiec, Torun, Bielsko-Biala and Szczecin, in addition to Lodz. Of nearly EUR 3 billion lent in the candidate countries last year, EUR 745 million (26%) went to environmental projects including numerous water schemes.

**EIB lends
EUR 190 million
for railway
modernisation
in Hungary**

The EIB is lending EUR 190 million for the modernisation of the rail network in Hungary. The funds will mainly help modernise three rail lines emanating from Budapest that lie on the pan-European rail corridors IV and V and which link Hungary to Austria (Corridor IV), Romania (Corridor IV) and Slovenia (Corridor V) as well as the Budapest-Lvov (Ukraine) line.

Of the total amount, EUR 60 million are lent directly to MAV, which is the operator of the national railway system and the remaining EUR 130 million will be channelled to MAV via the Government, the owner of the railway infrastructure.

Works mostly comprise track rehabilitation, improvements to the power supply systems and signalling equipment as well as the redesign and upgrading of stations.

Investments will allow higher speeds for international and national freight and passenger traffic, in line with the objectives of Hungary's Accession partnership.

The EIB is co-financing the investments with ISPA, the EU's special grant aid programme for furthering transport and environmental schemes in the Accession Countries.

The loan agreements were signed in September during a visit to Budapest by EIB's Director-General Terence Brown, who commented on the Bank's activities in Hungary:

"Since 1990, when the EIB started lending to projects in Hungary, it has sought to further social and economic integration with the EU. Initially the Bank concentrated on public infrastructure – roads, the railways, air traffic and the telecommunications network."

"A well-developed communications network built to EU standards indeed is the key to the economic expansion and EU-integration. An efficient railway network in particular helps maintain a healthy balance between collective and individual transport and to limit the environmental impact. "

Max Messner
Information and Communications Department
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Telecommunications and Information society

The Telecommunication sector has been one of the fastest growing also in the Accession Countries. Significant investments supported by the Bank have already contributed to improving fixed-line networks and helped to accelerate the introduction of the information society through the development of mobile telephony. However, further support will continue to be important, particularly if the Bank wishes to help reduce regional imbalances and help ensure that information and communication technology networks are there to promote a knowledge-based economy in the Union and its future Members.

Venture Capital through the EIF

(see also page 18)

The recent reform of the European Investment Fund (EIF) as a member of the EIB Group and the commitment to help building a Europe based on knowledge and innovation provides the possibility to expand venture capital operations in the Accession Countries. The first operations covering Accession Countries have already been approved by the Fund and, although expansion will only be gradual, the widening of the Group's range of instruments would also contribute to widening the Bank's partners and clients and would mark a further qualitative shift in the Bank's action.

Innovation 2000 Initiative (i2i)

Activities in the areas above will be given further support under the Bank's Innovation 2000 Initiative (i2i), which, at the request of the Stockholm European Council, is now also being introduced to the Accession Countries. Although gradually and at a pace that may

vary from an area to the other, the Bank will identify and present for approval under the i2i heading investments in Human Capital or Information and Communication Networks and Diffusion of Innovation. Progress in the other i2i ar-

reas (SMEs & Entrepreneurship or Research & Development) may take longer and also depend on the pace of development of the EIF's activity in the Accession Countries. ■

For more detailed information, see www.eib.org/Key issues/Accession strategy

EIB launches PLN 3 billion public debt issuance programme

The EIB is establishing a domestic Polish Zloty Public Debt Issuance Programme. The Programme has an initial amount of PLN 3 billion (some EUR 800 million). Over time the EIB will issue bonds under the Programme with a variety of tenors and structures on the domestic Polish capital market.

The Programme documentation was signed in late October by EIB together with Bank Handlowy w Warszawie, Warsaw, as arranger and dealer, and 10 Polish and international banks, acting as dealers under the Programme. The Programme will provide a framework for the EIB to enter the Polish domestic capital market in order to finance projects in Poland with Polish Zloty loans.

Commenting on the operation, EIB Vice President Wolfgang Roth said: "We took this initiative to establish access to the Polish domestic investor base, increasing the Bank's capacity to provide long-term funding for projects in Poland. At the same time, the presence in the Polish capital market of a solid player such as the AAA-rated EIB should help this market to become deeper. We also hope that this Programme provides incentives for other issuers to follow us. All market participants would benefit from the resulting diversification in the market."

The Programme will be governed by Polish Law and should enable the EIB to raise Polish Zlotys in various market segments (fixed/floating/zero-coupon/index-linked) by using a variety of structures and tenors ranging from one to thirty years. Bonds will be issued as Public Offerings to be listed on the Warsaw Stock Exchange. The Programme will provide the EIB with the necessary flexibility and cost-savings in raising Zlotys for the benefit of investment in the Republic of Poland.

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(1) 1 euro = approximately 3.85980 PLN



EIB prepared to finance sewage project in St Petersburg

The EIB Board of Directors has agreed to propose to the Bank's Board of Governors a EUR 15 million loan for the financing of the South-West Waste Water Treatment Plant of St Petersburg in Russia.

This is the first EIB loan intended for financing an investment in Russia and follows an agreement reached by the European Council meeting in Stockholm.

St Petersburg with a total of some five million inhabitants is today the largest single source of pollution into the Baltic Sea, but there are also other hot spots in the region which are largely a legacy of the "planned economy" system of the past period and which have cross-boundary effects.

To help address this issue the EU Heads of State and Government decided at the EU Summit in Stockholm in March 2001 to authorise the EIB to participate in the financing of environmental investments in North Western Russia of significant interest for the EU, for

a total of up to EUR 100 million within the Framework of the EU Northern Dimension Initiative.

Projects under this special lending action in the Baltic Sea basin of Russia should have a strong environmental objective and be of significant interest to the European Union. They will be developed in close cooperation and in cofinancing with other International Financing Institutions (IFIs) and, whenever possible, with the European Commission and the Donor Community.

In addition to the present project, the EIB is currently prepared to work on other environmental projects in St Petersburg and in Kaliningrad.

The EIB is also participating, together with other IFIs, in the so-called Northern Dimension Environmental Partnership (NDEP). The aim is to step up cooperation and coordination between the IFIs and the EU Commission as well as donor and recipient countries in order to meet environmental and energy efficiency challenges in the Northern Dimension area.

EIF's Venture Capital Activity in Accession Countries



The EIF first began to investigate investment opportunities in Central and Eastern Europe (CEE) in October 2000 following the Reform of the Statutes which allowed to extend the Fund's activities to Accession Countries.

The European Investment Fund's (EIF) experience on the ground indicates that it is both established corporates as well as start-ups and

early stage companies that are experiencing shortages of sources of funding in Central and Eastern Europe.

The shortage of sources of funding in the corporate sector is even greater for companies in the earlier development stage, reflecting increased risk from unproven track records, incomplete market penetration, and a low degree of self-financing capacity. Generally, there appears to be very little finance available for seed capital and early stage companies, as most venture capital firms require a few years track record to invest in a company.

Therefore, venture capital is still a limited resource in the region. According to EVCA statistics, funds raised in 2000 amongst the more advanced economies in the Accession Countries only accounted for EUR 780 million or 1.6% of funds raised in the EU Member States. Less than EUR 400 million have been invested in those countries in 2000 compared to EUR 35 billion in the EU Member States.

Looking at a stage distribution, virtually no capital went into seed ventures, 15% went into start-up ventures, 75% in expansion capital and 5% each in replacement capital and buy-outs.

Also in terms of teams the market is very tight. Opportunities to find qualified and experienced venture-capital teams with the right blend of local market knowledge and international experience are still scarce.

The market appears driven by larger generalist funds that target mainly companies that :

- operate in traditional industries;
- are in the development stage;
- are mid-sized, with an already proven track record.

Based on the reasoning exposed above, these deals currently offer an acceptable risk/return profile for international investors who are still the main funding sources for venture capital firms in the CEE region. Exit strategies pursued by these players are predominantly trade sales to EU-based investors who, once sufficiently sound market players have emerged, seek their market entrance in CEE by means of acquisition.

Already five EIF operations:

Currently, the EIF has committed EUR 65 million into five multi-country venture capital funds, which cover all of the EU applicant countries under EIF's mandate, with the exception of Cyprus and Malta.

Following investments have been made to date:

The **Baring Central European Fund**, to which EIF has committed a participation of EUR 20 million, operates mainly in Poland and Hungary, and is pursuing a buy-and-build strategy that fits in well with the state of development of venture capital markets in those regions. The Fund has the backing of the ING Baring group, with whom the EIF has already co-operated on other venture capital deals in the EU.

The **Raiffeisen Central European Private Equity Fund**, which EIF joined with a commitment of EUR 15 million through a closing in July and is targeting a buy-and-build strategy focused on consumer and service industries. It is managed out of currently three offices in Vienna, Budapest and Warsaw and soon will add a representation office for the Czech market in Prague. The fund is backed by the Raiffeisen group, one of the most experienced players in the CEE financial sector.

In the three Baltic States of Estonia, Latvia and Lithuania, EIF is investing via the combined funds **Baltic SME Fund** and the **Baltic Investment Fund III**, for a total of EUR 10 million. The SME fund is also EIF's first investment in co-operation with the EU-PHARE SME Finance Facility Special Fund.

The **Innova/3 L.P.** Fund is a regional fund focusing on CEE, and being run out of Warsaw, and shortly also Budapest. EIF is participating with a EUR 20 million commitment. It represents EIF's first commitment in the area of early stage SME investment to which Innova has dedicated part of its resources.

In addition, EIF has recently joined the Greek **NBG Technology Fund** sponsored by the National Bank of Greece. This fund will also extend, on an opportunistic basis, its activities into the CEE region, primarily into Bulgaria and Romania.

The EIF's venture capital focus for the CEE region over the near future will primarily be to maintain a sustainable presence in the region, seeking investment opportunities with experienced teams that have proven track records in the region and that can rely on an extensive local network. As such, the EIF's venture capital investments will, for the time being, still concentrate on relatively mature companies in more traditional industries.

The EIF foresees however an increasing shift towards earlier stage investments and a stronger focus on technology. This enables the EIF to intensify its role as a networking platform between EU-based technology funds and management teams operating in the CEE region in order to facilitate technology transfer and the expansion of CEE companies into EU markets.

In conclusion, the EIF will actively provide support to the venture capital industry in CEE while respecting sound portfolio diversification considerations.



Judged on the basis of our first investments in the region, EIF's contribution is positively valued not only for its broadly acknowledged catalytic role as a quality corner stone investor that facilitates the fund-raising process for individual management teams, but also for its efforts to align fund structures, terms and conditions with best industry practice. This institutional building role is an important part of the EIF's activity, in Eastern Europe and also in the "Southern flank" of the Union.

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The 2001 EIB Prizes awarded

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The winners of the 2001 EIB Prize competition were presented with their awards at an ceremony held in Luxembourg on 10 September.

1st prize: "Better Schools for Europe" – Erich Gundlach & Ludger Wößmann, Kiel Institute for World Economics.

Time-series evidence for a number of European countries shows that rising educational expenditures have not improved student performance. Gundlach & Wößmann speculate that the apparent decline in European schooling productivity reflects inefficient schooling institutions.

International cross-section evidence suggests that the performance of students in many European countries could be vastly improved by changing the institutions which govern the incentives of students, teachers and the school administration. Centralised exams, school autonomy in personnel decisions and competition from private schools, for instance, are found to boost student performance. Hence educational policies in Europe should focus on institutional reform rather than on additional spending.

2nd prize: "Democracy in Transition Economies" – Jan Fidrmuc, Centre for European Integration Studies, Bonn.

The post-communist countries of Eastern Europe and the former Soviet Union introduced, at least initially, political and economic reforms simultaneously. This paper explores the consequences of simultaneous implementation of economic and political liberalisation for economic growth.



Prizewinners Ludger Wößmann and Erich Gundlach (to the right) with Professor Jacques Thisse, Chairman of the EIB Prize Jury, and Ewald Nowotny, Vice-President of the EIB.

It found that, although democracy had a negative marginal effect on growth during early phases of transition (1990-93), it reinforces progress in economic liberalisation, which in turn has a strongly positive effect on growth. When accounting for this indirect effect, the overall effect of democracy on growth turns out to be overwhelmingly positive.

3rd prize: "The evolution of the UK North-South divide" – Gilles Duranton & Vassilis Monastiriotis, London School of Economics.

Data on average regional earnings point at a worsening of UK regional inequalities and a rise in the North-South gap. In this paper, regional inequalities in the UK are decomposed and earnings equations are applied for UK regions in the period 1982-1997. Evidence is found of rapid convergence across regions regarding the determinants of individual wages (i.e., regional fixed-effects, gender gaps and returns to education and experience).

Education accounts for most of the discrepancy between aggregate divergence and disaggregated convergence. First, London gained because its workforce became relatively more educated over the pe-

riod. Second, returns to education increased nation-wide, which favoured the most educated regions (i.e., London). Third, returns to education were initially lower in London but they (partially) caught up with the rest of the country.

Had returns to education and their distribution across UK regions remained stable over the period, the UK North-South divide would have decreased.

The EIB Prize was initially established on the occasion of the Bank's 25th Anniversary and has

Prizewinners Vassilis Monastiriotis & Gilles Duranton



been awarded every two years since 1985. As the aim of the competition is to encourage original research which contributes strongly to the on-going European policy debate, the winning essays were presented by their authors at a Prize Conference at the EIB on 11 September.

The winning essays in the 2001 EIB Prize competition have been published in a special issue of the "EIB-Papers".

Prizewinner Jan Fidrmuc

