European Investment Bank

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EIB Forum 2003

"Visions of Environmental Sustainability: Europe's Long-Term Energy and Water Policies"

The EIB Forum 2003 held in Dublin on 23 and 24 October focused on Europe's long-term energy and water policies. It gathered some 350 participants from all over Europe to listen to and exchange views with 25 renowned speakers. See article page 2.

P. Maystadt, EIB President
From Left to right, B. Barraqué, D. Vanek, W. Roth, R. Tortoli, A. Wurzer, D. Zimmer

New EIB Vice-President

Mr. Sauli Niinistö was appointed Vice-President of the European Investment Bank from 1 September 2003.

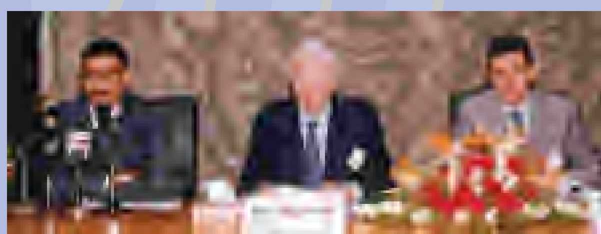
The Board of Directors, on a proposal from Sweden, Austria and Finland, put forward Mr Niinistö's candidature to succeed Mr Ewald Nowotny, who ended his four-year term on 31 August 2003.

The proposal was approved by the EIB's Board of Governors.

See article page 6.

FEMIP: *Official visit to Egypt and inauguration of the EIB's Cairo Office*

On 1 and 2 October 2003, EIB President Mr Philippe Maystadt and Mr Philippe de Fontaine Vive, Vice-President in charge of financing operations in the Mediterranean Partner Countries (MPCs), held a series of discussions at the highest level with the Egyptian authorities and officially inaugurated the Bank's regional office for the Near East in the presence of the Prime Minister, Dr Atef Ebeid. *See article page 9.*



from Left to right, P. Maystadt, EIB President, Dr A. Ebeid, Prime Minister, P. de Fontaine Vive, EIB Vice-President

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"Visions of Environmental Sustainability: Europe's Long-Term Energy and Water Policies"

BEI/EIB FORUM 2003 DUBLIN

In his opening address, EIB President **Philippe Maystadt** made a review of the main issues that were further developed during the Forum:

"With the theme of this year's Forum, environmental sustainability in the energy and water sectors, we have chosen a subject that will remain highly important for a long time to come. The EU's Member States have made firm commitments to environmental sustainability, and in order to achieve this long-term goal continuous and consistent action needs to be taken."

Climate change and renewable energy

"Energy is the first issue that we would like to discuss. At present, 78% of the EU's energy consumption is based on fossil fuels, of which 50% are imported, mostly from politically less stable regions. Using fossil fuels results in greenhouse gas emissions that contribute to climate change. And climate change is arguably one of the most pressing environmental problems that the World is currently facing. The EU is thus confronted with a number of challenges:

Long-term energy scenarios predict that global CO2 emissions will more or less double by 2030

Mrs Margot Wallström, EU Commissioner responsible for the Environment

- further diversifying imports of fossil fuels in order to secure energy supplies;
- switching from coal or oil in electricity production to less-polluting fuels such as natural gas;
- reducing the overall consumption of fossil fuels, particularly by increasing energy efficiency and making use of renewable energies;
- boosting research and development into renewable sources of energy.

This makes for an important political agenda. And efforts may have to be stepped up further as a consequence of decisions taken by certain Member States regarding the use of nuclear power.

The EU actively supports the rational use of energy and the deployment of renewable energies, including by funding research and development. However, it remains the Member States' responsibility to set incentives for making effective use of new technologies and alternative energy sources. Their record so far is mixed, and it seems that greater efforts are required to meet the EU's ambitious targets."

Closer cooperation with Commission

"The EIB promotes the Union's and the Member States' policy objectives in the energy sector, and in recent years we have agreed with Commissioner **Wallström** to work closely together on climate change and renewable energy issues. The EIB lends around EUR 3.5 billion per year for energy projects. In the past, the level of support for renewable energies has been relatively modest, but it has increased significantly over the past 2 years and now amounts to 15-20% of total lending in the energy sector.

There are, of course, limits to the share of renewable energy in total energy consumption, not least due to periods when energy sources such as the sun or the wind are unavailable - although in most cases we are clearly still far from reaching those limits, just as we are far from making the most efficient use of energy. For the EIB, renewable energy projects represent a significant challenge. Frequently, technologies are still not mature and project promoters often have a relatively weak credit profile - which, of course, is a problem for other banks as well.

Moreover, a particular problem for the EIB is that renewable energy projects are, for the most part, relatively small - and it is not possible for us to consider small projects all over Europe individually. Rather, we have to finance such projects via specialised intermediaries - which, are in general quite difficult to find.

Another problem is that the renewable energy sector is, to a great extent, subsidised, and for a

M. G. Tutty, I. Csillag, F. Birol

T. Brown, R. Platzer, P. Sedgwick, W. Evans, F. Joshua

M. G. Tutty, B. Ahern, P. Maystadt

M. G. Tutty, M. Wallström, B. Brende, C. McCreevy

W. Roth

financing institution it is difficult to contribute long-term finance to projects that are only viable because of possibly temporary subsidisation. We expect this to improve once a functioning market for carbon emission "rights" has been established, as foreseen in the EC Emissions Trading Directive, which was approved in July 2003 and will enter into force in January 2005 regardless of whether the Kyoto Protocol is ratified and becomes international law or not.

According to the Directive - the cornerstone of the EC Climate Change policy - restrictions on emissions of carbon dioxide will be imposed on several thousand medium and large-scale EU companies in the energy and heavy industry sectors. To comply, a company will be required annually to hold allowances equal to its CO2 emissions or to pay a fine. A company will be able to buy or sell allowances or to reduce its current emissions to satisfy its compliance obligations. In other words, investment in energy efficiency or renewable energy will create carbon credits that can be sold on the market. The proceeds will add to the project promoter's cash flow and hence make projects more bankable. The EIB is presently exploring ways of playing an active role in the development of this market. We expect the new mechanism also to place us in a better position to support the EU's energy policy targets, and notably the development and application of low carbon technologies.

The EU emission trading mechanism will, of course, challenge Europe's industry and possibly impact on the international competitiveness of companies with heavy CO2 emissions, particularly as the US has not signed up to the Kyoto Protocol. However, we should also see it as an opportunity and incentive for Europe to adopt an international position at the cutting edge of new energy technologies including energy efficiency. The European Council decided in Lisbon, in March 2000, that Europe must become a world leader in research, development and innovation. The EIB is strongly supporting this objective and has approved, since the year 2000, loans of EUR 20 bn for research, high-tech and innovative projects. We plan to lend a further 40 bn for such projects by the year 2010, thereby underpinning the European Growth Initiative currently under discussion. And, of course, the Bank will also finance research and innovation in the energy sector."

Water

"Water is our second topic for discussion. Water is vital. A clean, safe water supply is a fundamental human need. The international summits of Johannesburg and Kyoto placed water at the top of the sustainable development agenda. In the developing world, the challenge is to provide water to the poor at affordable prices, whilst avoiding excessive environmental degradation. In Europe, including the Acceding Countries, the challenge is to provide services and use water more efficiently, allocate water more rationally and further reduce pollution.

In this Forum discussion, the focus will be on Europe and particularly on the ambitious EU Water Framework Directive. The existing Urban Wastewater Treatment Directive, dating from 1991, requires the adequate collection and treatment of all urban wastewater in the EU-15 by 2005, and somewhat later in the new Member States. The Water Framework Directive sets the additional goal of achieving the good ecological quality of all bodies of water by 2015, and should be seen as a new global standard for sustainable management of water resources. The Directive establishes principles and a timetable for attaining this goal,

the Bank's financing of renewable energy projects has already increased , over the last two years, to some 20% of its financing in the energy sector

involving integrated water resource management within river basins and the pursuit of cost recovery with incentive pricing."

Major Challenges

"So where does the Bank see the major challenges in implementing the ambitious Water Framework Directive? There are three particular challenges that I would like to highlight.

Firstly, there is the need to reform the institutions of environmental management and water service delivery. In many countries this is well advanced, with efficient large-scale water providers and effective river basin authorities. But other countries still have a long way to go.

Secondly, there is the thorny issue of agricultural reform. Experience with the clean-up of once heavily polluted rivers such as the Rhine and Mersey has demonstrated how the legacy of industrial pollution and inadequate urban wastewater treatment can be overcome. But the problem of diffuse agricultural pollution is a far more difficult question, which cannot be separated from reform of the Common Agricultural Policy.

Thirdly, there is the challenge of funding the massive investment required to realise the Directive's objectives, particularly in Southern and Eastern Europe. It is now widely recognised that we need to move away from the culture of subsidies for water infrastructure investment towards adequate cost recovery and financial autonomy. But this will require a period of transition. Where reform is complete, the Bank is ready to rise to the challenge of providing long-term finance to creditworthy private water companies or public entities for building our common sustainable future."

EU Commissioner **Margot Wallström** affirmed that the "world's energy policies will become climate change driven". The ultimate goal is the low carbon economy - an economy based on renewable energy sources". *Business as usual* long-term energy scenarios predict that global CO_2 emissions will more or less double by 2030, while scientists are convinced that global greenhouse gas emissions - the most important being CO_2 - need to be reduced by 70 per cent if the climate is to be stabilised. Under the Kyoto Protocol, the EU is committed to reducing its greenhouse gas emissions by 8% from 1990 levels until the year 2012, which according to the Commissioner, should be seen as "a first step only".

Among the others speaking at the Forum were Minister for Finance, Mr **Charlie McCreevy** TD, Chairman of the UN Commission for Sustainable Development and Norway's Minister for Environment, Mr **Børge Brende** and Hungary's Minister of Economy and Transport, Mr **Istvan Csillag**.

At the end, the Prime Minister of Ireland, Mr **Bertie Ahern** TD, delivered an important speech in which he announced that the incoming Irish Presidency will focus on the implementation of the Lisbon Strategy, with a special emphasis on sustainable development and the promotion of innovation.

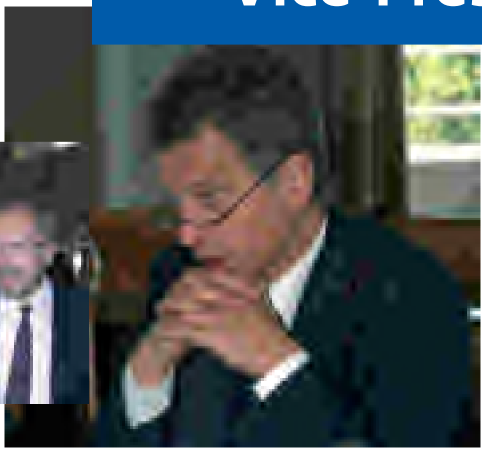
Additional information, including the list of the EIB Forum speakers and their presentations, can be found on the EIB Website:
www.eib.org/forum

The 10th EIB Forum will be held in autumn 2004

From left to right,
T. Brown, D. O'Malley, P. Maystadt, R. Brady, R. MacSharry, M.G. Tutty

R. MacSharry, Guest speaker

New EIB Vice-President



S. Niinistö and E. Nowotny, the incoming and outgoing Vice-Presidents

Mr. **Sauli Niinistö** was appointed Vice-President of the European Investment Bank from 1 September 2003. The Board of Directors, on a proposal from Sweden, Austria and Finland, put forward Mr Niinistö's candidature to succeed Mr **Ewald Nowotny**, who ended his four-year term on 31 August 2003. The proposal was approved by the EIB's Board of Governors.

Mr Niinistö's responsibilities within the Management Committee include financing operations in Finland, Sweden, the Baltic States, Switzerland, Iceland, Norway and Russia, Trans-European Networks, economic and financial studies, and liaison with the Nordic Investment Bank. He is also a member of the European Investment Fund's (EIF) Board of Directors.

Before joining the EIB, Mr Niinistö was Finland's longest serving finance minister (1996-2003). He also served as Deputy Prime Minister (1995-2001) and Minister of Justice (1995-1996). In addition, he chaired his political party, Kokoomus (National Coalition Party), from 1994 until 2001 and was Chairman of the European Democratic Union (EDU) between 1998 and 2002. Mr Niinistö is also Honorary Chairman of the European People's Party (EPP) since 2002.

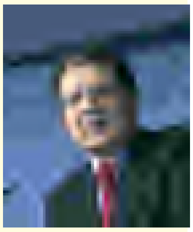
Mr Niinistö began his career in 1976 as Senior Secretary of the Turku Court of Appeal where he later became a judge (1994-1995). He also worked as an Attorney at Law in Salo between 1979 and 1988.

Sauli Niinistö was born in 1948 in the city of Salo, and holds a legal degree (LL.M) from the University of Turku.

New Tripartite Agreement between the EIB, the Court of Auditors and the European Commission

P. Maystadt

J.M. Fabra Vallés



R. Prodi

The Presidents of the EIB, the Court of Auditors and the European Commission, **Philippe Maystadt, Juan Manuel Fabra Vallés** and **Romano Prodi** signed on Monday 27 October 2003 a new tripartite Agreement setting out the ground rules for the Court of Auditors' scrutiny of operations managed by the Bank under Community mandate and involving EU budgetary resources.

This constitutes the renewal of the previous Agreement dating from 1999, several provisions of which were amended with a view to facilitating the Court of Auditors' access to the information necessary for it to perform its task.

In accordance with the EC Treaty, the arrangements for auditing EIB operations mounted on behalf of the Communities, and involving Community or European Development Fund resources managed by the Bank, are governed by this tripartite Agreement.

Alongside such activities funded from the EU budget, the EIB finances the bulk of its operations with own resources raised on the capital markets. It therefore has its own independent auditing body - the Audit Committee - which, with the assistance of the external auditors Ernst & Young, examines the Bank's operations and books with a view to providing a statement of assurance to the EIB's Board of Governors (the Finance Ministers of the EU Member States).

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Project Highlight: Science Parks in Finland

Technopolis Group

Turku Science Park

Helsinki Science Park

The EIB contributes to furthering the European Union's objectives by financing projects both inside and outside the Union. EIB-Information will regularly highlight individual projects that are of particular interest, both for their innovative financial, economic and environmental characteristics, and as illustrations of the Bank's lending activity.

Science Parklife

The European Investment Bank has supported the expansion of Science Parks in Finland with a loan of EUR 45 million to Technopolis PLC. Mr **Sauli Niinistö**, newly appointed Vice-President responsible for Finland, signed a loan for this transaction in October 2003. "The EIB is pleased to support a project that will enhance long-term co-operation between public and private actors," Mr Niinistö said.

The loan will support the construction and/or renovation of laboratory and research premises located in three Finnish Science Parks: in Oulu, in Espoo and in Vantaa. The premises will be leased to research-intensive companies active in sectors such as biotechnology, electronics and environment as well as research institutes.

All three Science Parks in Finland are qualified as national Centers of Expertise and form an integral part of the Finnish government's technology policy and regional development programme. The Centers of Expertise aim to create a favourable infrastructure for business on a regional level, providing research infrastructure and services in order to induce commercialisation of research innovations. This programme is an important part of Finland's aim to maintain its position as one of the leading EU countries in terms of R&D as a proportion of GDP.

Earlier this year, the European Investment Bank signed a loan for EUR 50 million to support the expansion of the existing Helsinki Science Park. This science park project provides laboratory and office space as well as necessary services for start-up companies in the biotech sector. Last year the EIB was involved in a project for an amount of EUR 28 million to support infrastructure development for BioValley, the biotech facility management arm of the Turku Science Park. BioValley has a remit to develop and provide affordable incubator infrastructure to young biotechnology companies with a focus on research.

EIB financing for the Science Parks falls under its Innovation 2010 Initiative (i2i), which will remain a key priority for the Bank. The prolongation of the i2i programme as far ahead as 2010 reflects the long-term nature of the Lisbon and Barcelona objectives, aimed at fostering the development of a knowledge and innovation based European economy. Innovation 2010 is based on an integrated approach focusing on the links between knowledge creation and the market. It covers all phases of the process, from education to R&D, from transformation of innovation into investment. This approach is essential to effective support for innovation, which is a 'driver' of economic growth and job creation.

Also, the European Investment Fund, the EIB Group's venture capital arm, cooperates via its risk capital investments closely with some of the leading science parks and research institutes, supporting young companies at the leading edge of technological development. In this way the EIB Group contributes to furthering European competitiveness in key technology sectors.

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Appointments to the EIB's Senior Management Cadre

Carlos GUILLE

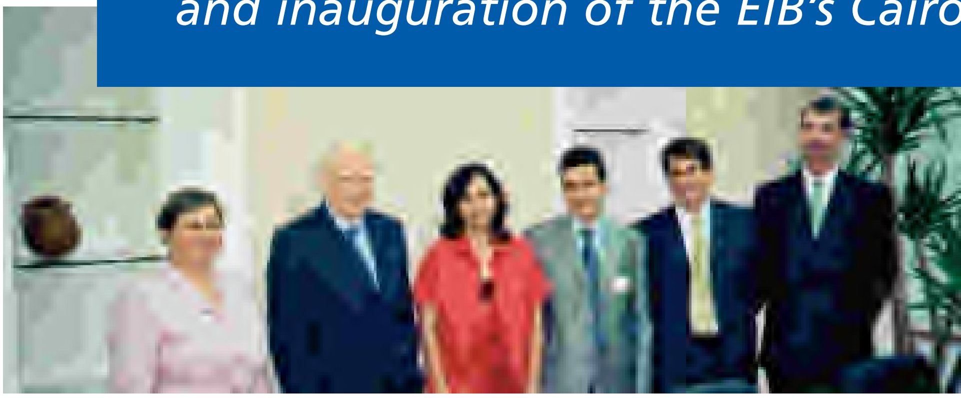
New Director

Carlos Guille has been appointed Director of the Spain and Portugal Department in the Directorate for Lending Operations - Europe.

At the time of his appointment, Carlos Guille was Associate Director in the Capital Markets Department, where among other things he was in charge of funding operations in the American, Asian and Pacific currencies. Before joining the EIB in 1991, Mr Guille worked at the Banco Bilbao Vizcaya in a variety of areas including commercial banking, international operations, lending, treasury and capital markets.

He holds a degree in Economics and Business Administration.

FEMIP: *Official visit to Egypt and inauguration of the EIB's Cairo Office*



Staff of the Cairo office with P. Maystadt and P. de Fontaine Vive

On 1 and 2 October 2003, EIB President Mr ***Philippe Maystadt*** *and* Mr ***Philippe de Fontaine Vive****, Vice-President in charge of financing operations in the Mediterranean Partner Countries (MPCs), held a series of discussions at the highest level with the Egyptian authorities and officially inaugurated the Bank's regional office for the Near East in the presence of the Prime Minister,* Dr ***Atef Ebeid****.*

The talks afforded an opportunity to take stock of the achievements of FEMIP (Facility for Euro-Mediterranean Investment and Partnership) during the 11 months since its launch in Barcelona on 18 October 2002.

FEMIP: 11 months of activity

The headway made by FEMIP fully validates the hopes placed in it both by the Union and by the Mediterranean Partner Countries. In those first 11 months of activity – conducted in a very difficult political environment – it provided more than EUR 1.65 billion in new loans; and the figure for calendar 2003 looks likely to come out at 1.8 billion.

This financing clearly reflects the Facility's top priority, with more than one third of operations directly promoting the growth of private businesses - whether through foreign direct investment (in Turkey and Tunisia), joint ventures resulting from cooperation between MPC promoters (Algeria) or financing for SMEs (Egypt, Syria, Tunisia, creation of a regional venture capital fund). At the same time, FEMIP has placed emphasis on transport infrastructure projects underpinning private sector development in Morocco, Algeria, Egypt, Lebanon and Syria; power and water supply and distribution in Egypt, Morocco and Tunisia; improvement of healthcare infrastructure in Syria and Tunisia; and remodelling of education systems in Jordan and Turkey. Lastly, FEMIP has endeavoured to assist populations stricken by natural disasters by making available or pledging 350 million for reconstruction after the earthquakes of 1999 in Turkey and May 2003 in Algeria.

In total, FEMIP has committed more than 1.8 billion in new financing, 60% of this earmarked for the development of local businesses (with SMEs receiving more than 400 million in long-term financing and risk capital, and 740 million going to larger enterprises) and the remaining 40% for socio-economic infrastructure (health, education, the environment, etc). This portfolio of operations underscores the EIB's close cooperation with the European Commission and the multilateral and bilateral financial institutions operating in the region: some 20% of projects will be cofinanced with the World Bank, the African Development Bank or Arab Funds.

Fostering the development of private enterprises

FEMIP's successful launch owes a great deal to the MPC's close involvement in the genesis and monitoring of projects and to their implementation of the reforms needed to create a propitious environment for private investment. In this connection, the work of the Facility's Ministerial Committee – due to meet next in Naples on 10-11 November – provides an opportunity for a constructive exchange

Inauguration of the EIB Office in Cairo

The EIB delegation also officially inaugurated the Bank's Cairo regional office, its first outside the Union. Operational since July and headed by Mr **Luigi Marcon**, this office covers the whole of the Near East. Apart from liaison with the authorities of the region's MPCs, its objectives are to optimise the process of identifying and monitoring projects and to facilitate the implementation of technical assistance both for projects and financial institutions in the beneficiary countries.

As well as keeping in close touch with local conditions and strengthening its presence in the region, FEMIP has been building up its teams at the EIB's headquarters in Luxembourg: it has set up a special division tasked with fostering private sector development and a unit responsible for handling operations in Turkey – a country which, though a candidate for EU membership continues to be eligible for financing from the Facility.

of views and for charting directly operational policies. Such participation by the shapers of economic reform in the Mediterranean is essential if the challenge of establishing the Euro-Mediterranean customs union by the year 2010 is to be met. FEMIP, for its part, offers the partner countries a diversified range of the financial products that their economies need to modernise: very long-term loans, risk capital and technical assistance.

In response to the conclusions reached at the second meeting of the Facility's Ministerial Committee in Istanbul on 3 April 2003 (see EIB Information No. 114), the Facility's spectrum of financial products is being deployed to foster the development of private enterprises by:

increasing the volume of long-term loans granted to businesses directly, or to banks for on-lending to SMEs;

creating new products or new financial arrangements designed to make it easier for businesses to obtain credit, such as leasing and guarantee funds (from risk capital), equity and quasi-equity funding (participating, conditional and subordinated loans);

providing technical assistance to project promoters and the banking sector, in particular to improve credit risk management and hence the prospects for lending to SMEs.

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Official visit of the President of Ireland to the EIB

M. McAleese, her husband Dr M. McAleese and P. Maystadt

Mr **Philippe Maystadt**, President of the European Investment Bank and Mr **Michael G. Tutty**, Vice-President, welcomed Mrs **Mary McAleese**, President of Ireland, to the EIB on 18 November 2003.

The Irish Delegation, paying an official visit to the EU institutions in Luxembourg, Strasbourg and Brussels, included Mr **Dick Roche**, Minister of State with special responsibility for European Affairs, Ambassador **Anne Anderson** and Secretary General **Brian McCarthy**. President McAleese was accompanied by her husband Dr **Martin McAleese**.

After a private meeting with Mr Maystadt, and a presentation on EIB activities, President McAleese was invited to sign the EIB's Golden Book and to meet the Irish members of EIB staff.

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EIF marks first anniversary of its Advisory Services

Photo:
EIF advisory team (from left to right: Marc Schublin, Jacques Lilli, Guadalupe de la Mata)

It has now been one year since the European Investment Fund launched a new Advisory Services facility. The Advisory Services are complementary to the Fund's focus as a venture capital investor and SME guarantor.

*Interview with Head of Division, **Marc Schublin**, who is responsible for Advisory Services as well as Policy and Institutional Coordination at the EIF.*

What is the basis for the EIF's Advisory Services?

The rationale behind this activity stems from our experience in SME finance, which has shown a knowledge gap in terms of know-how and expertise in SME funding, our "raison d'être". Based on our pan-European operational expertise (total EIF portfolio amounts to EUR 8.1bn for both activities), we have decided to assist organisations, which collectively aim at creating an enabling environment for SME financing in the field of venture capital and guarantees, through financial engineering. Initially, this activity was launched at DG REGIO's request and essentially targeted regional development agencies, because of the lack of viable regional financial instruments. Now it has been extended to other beneficiaries.

Can you explain how the Advisory Services work? And what exactly does this activity comprise?

Advisory Services are structured independently from the EIF's Operations (we have set-up a dedicated team) and are carried out on a fee-paying basis. It has to be understood by our clients that the provision of such services should not lead to EIF involvement as an investor or guarantor, thus avoiding possible conflicts of interest. Advisory Services consists of the provision of strategic and technical advice on the design, implementation and evaluation of SME finance instruments in the field of venture capital and SME guarantees. That includes, for example, market studies, soundings of potential investors, preliminary structure design, long-term investment strategies but also the setting-up of structures including schemes, due diligences, or team appraisal.

Who is eligible ?

Counterparties are very diverse, for example governments, regional development agencies, universities, and of course the European Commission.

What are the operations that have already been completed?

The first two operations were negotiated in 2002 with the Instituto de Fomento de Andalucia (IFA) and the Gouvernement de Wallonie. The first mission was of a rather technical nature (structuring of seed funds, risk capital and microcredit operations) while the second dealt with the general future SME policy framework for Wallonia. A third assignment was signed with the DG Energy and Transport of the European Commission and involves the feasibility study for an Arbitral Award Guarantee Fund for energy transactions between the EU and Russia.

What is in store for Advisory Services in the near future?

We expect an important advisory assignment to be finalised before year-end in the context of the European Growth Initiative, with DG Research funding: a study to assess the feasibility of a new type of seed capital investment vehicle linking leading research centres from different European countries and aimed at bridging the financing gap between research and early stage investment.

And in the longer term ?

The launch of advisory services last year demonstrates the reactivity and flexibility of the EIF. We will continue to provide our expertise to organisations as long as there is a need to do so, and as long as these services contribute to meeting EU objectives to which we are committed. However, these activities will still be marginal compared to our core business: we are not a consultancy firm, and for example we do not intend to participate in tenders.

Additional information is available on the EIF web site: www.eif.org

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An announcement of the next Workshop will be advertised on the EIB website

NGO Workshop in Marseilles

The EIB organized a Workshop for NGOs in Marseilles on 31 October 2003 as part of its dialogue with civil society. The Marseilles Workshop was the fifth in a series of regionally organized meetings with NGOs, following the one in Thessaloniki on 21 February 2003. The one day Workshops, which take place in principle twice a year, provide EIB staff and NGOs with a platform to discuss topics of common interest and to learn about each other's objectives and activities.

The Workshop presentations are posted on the EIB website www.eib.org

Programme

The agenda of the Marseilles Workshop included sessions on balancing development and environmental objectives in financing investment, with a focus on poverty alleviation; water issues in the Mediterranean region; waste management in the same region; and the EIB's public information policy. The agenda was drawn up in co-operation with interested NGOs. The EIB and NGOs both delivered presentations. In addition to the plenary meeting, EIB staff and NGO representatives held informal bilateral talks.

P. de Fontaine Vive and P. Sedgwick, EIB Vice-Presidents

Participants

Participants totalled over 30 people, including 17 NGO delegates. Most of them represented regional and local NGOs, while three international advocacy NGOs also participated with speakers. In addition some observers from EU institutions (the European Commission and the Economic and Social Committee) were present, as well as some academics and researchers from the region. EIB Vice-President **Peter Sedgwick**, Member of the Management Committee with responsibility for the Bank's relations with NGOs, chaired the meeting. **Jean-Michel Severino**, Director General, Groupe Agence Française de Développement and Member of the EIB Board of Directors for France, delivered an address on development and EIB Vice-President **Philippe de Fontaine Vive** introduced the Bank's activities in the Mediterranean. EIB staff working in the areas featuring on the agenda participated as speakers.

Next NGO Workshop

The next NGO Workshop will in principle take place in Spring/Summer 2004. The programme will be established together with interested NGOs. Possible items for the agenda include climate change and renewable energy; quality control of large projects in developing countries; and the application of EU water regulations in third countries.

More information

Other details on the Marseilles Workshop can be obtained from **Yvonne Berghorst** y.berghorst@eib.org or **Valérie Thill** v.thill@eib.org. Paper copies of presentations can be ordered by fax (5 +352 4379 3191).

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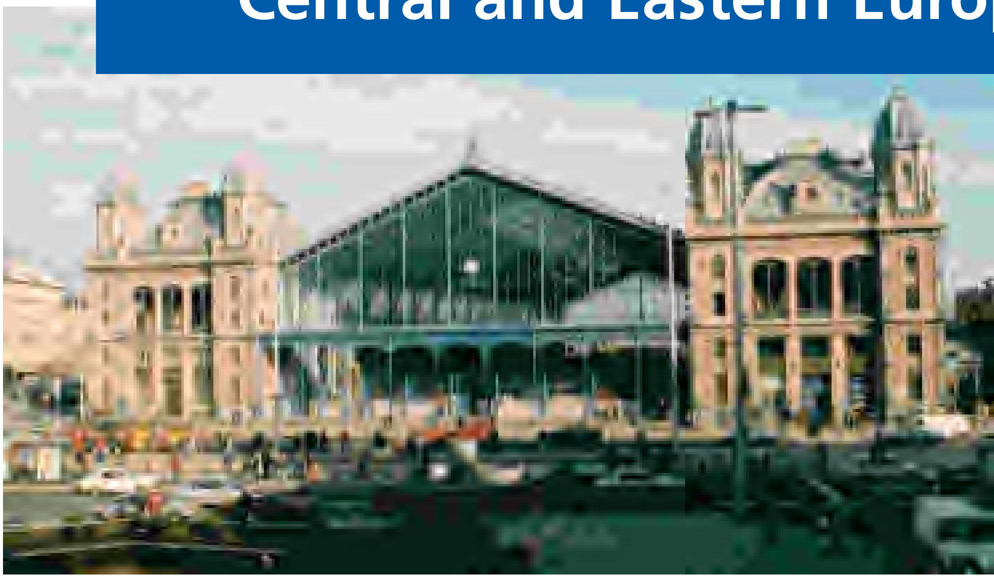
Financing transport projects in Central and Eastern Europe



Budapest station, Hungary

The EIB's Operations Evaluation Department (EV) recently issued a report on transport projects in Central and Eastern Europe that have been financed between 1990 and 1999. With the help of independent external consultants, it carried out desk reviews of 25 projects, followed by in-depth analysis, including field investigations, of ten projects in the road, rail and airports sectors. As is true for all ex-post evaluation reports produced by EV, the evaluation had two primary functions. Firstly, to increase transparency both to the EIB's governing bodies and to the outside world and, secondly, to allow the Bank to learn from its experiences.

Uncharted waters

The first Central and Eastern European mandate, to lend in Poland and Hungary, was given to the EIB late in 1989. The mandate was extended to all ten candidate CEECs countries (as well as to Albania, Bosnia-Herzegovina, Croatia and FYROM) in 1990. So almost all the evaluated projects were initiated in the earliest stage of the transition process, and the somewhat mixed findings, both with regard to project performance and EIB contribution, have to be seen in that context. The operating environment and institutional framework were difficult. The countries were in the process of re-orienting themselves from centrally planned to market driven economies, which meant that many institutions were weak and had to be supported by external assistance. The economies of the countries were subject to rapid changes, mostly linked to transition, making it difficult to predict traffic development on the project level. And project promoters often had little or no experience of the due diligence procedures of international financing institutions like the Bank, FIDIC contracts, international competitive tendering, environmental impact assessments, etc.

Against this difficult background the EIB financed 58 projects in the transport sector in the 1990s, for a total disbursed amount of some EUR 4.9 billion. Of this, approximately 65% went to roads, 27% to railways, 6% to air transport and 2% to ports. Especially in the early days, co-financing with other international financing institutions was the rule. Out of the ten projects examined in depth, eight were financed in partnership with other funding agencies, principally the World Bank (IBRD), the European Bank for Reconstruction and Development (EBRD) and the European Commission via the PHARE programme.

Project performance

When the EIB started lending to transport projects in Central and Eastern Europe, virtually all trans-

For further information regarding transport projects in CEEC, please contact: ***c.thomson @eib.org***

The report "Evaluation of Transport Projects in Central and Eastern Europe" as well as other EV publications can be consulted on the Bank's website: ***www.eib.org/ publications/ eval/***

port modes were affected by a large maintenance backlog due to shortage of funds for maintenance and previous unbalanced transport strategies that gave priority to new construction rather than maintenance of existing facilities. Meanwhile the deterioration of existing infrastructures was made worse by the widespread use of low quality materials (asphalt, concrete, etc.) and poor quality control of works. Consequently, for economic and environmental reasons, the Bank has had a clear preference for rehabilitation rather than new-build projects.

All ten transport projects contributed significantly to the European Union's key transport policy objectives, with a particular focus on infrastructure in urgent need of rehabilitation. Implementation was generally good. The projects were mostly completed to specification, largely on time and on budget, with cost overruns of less than 15% of the original estimate. The works were generally carried out to a high standard and should have a full working life if properly maintained. This point is important, because if the available funds for maintenance from central government are not adequate, the sustainability of seven out of ten projects would be badly affected.

Unfortunately, most of the projects were affected by significant changes in the pattern of transport demand during the transition. Using the main determinants of the Economic Rate of Return, e.g. final costs and traffic demand, four out of ten projects performed below par. The reasons include the unforeseen length and depth of the "transition slump" in the first half of the 1990s, the negative impact of the wars in former Yugoslavia (Kosovo, Bosnia and Herzegovina), and the underestimation of structural change in the transport sector, especially to the railways' detriment. These would apply to most of the Central and Eastern European countries, while other reasons are project and/or country-specific, for example the serious macro-economic crises in Bulgaria and Romania in the mid-1990s. The economic difficulties and the Balkan wars could not realistically have been predicted and quantified at appraisal, and it is important to bear in mind that the difficulties of demand forecasting were not unique to the EIB. All international financing institutions working in the region at this time experienced the same problems. However, EV's report argues that working in a new and uncertain environment might have suggested a more cautious approach, involving more flexible designs, more risk analysis and the flexibility to adapt projects to changing circumstances. Where the projects are over-dimensioned, the excess capacity still has to be maintained. This represents an additional burden for the maintenance budgets, and thus the sustainability of these projects.

When the ten projects were appraised, all the promoters were public entities, e.g. national road or rail administrations, but two projects have since been privatised. In both cases the Bank provided funds to rehabilitate or modernise key revenue generating assets, without which the privatisations would either not have taken place, or would have generated much less revenue.

Environmental contribution

The report is very positive on the EIB's environmental contribution. There can be no doubt that the environmental impact has been substantial in the ten projects that have been evaluated in depth. Obviously, this is influenced by the fact that eight of them were for the rehabilitation, upgrading or modernisation of existing transport facilities. Rehabilitation projects have a minimal negative environmental impact as no, or no significant, additional natural resources, e.g. land, are employed. At the same time, the positive impacts can be significant:

- The reduction of energy consumption of vehicles on road and railway projects
- Lower noise emissions at airports as they become suitable for less noisy modern aircraft, and lower noise levels for rehabilitated roads, particularly in towns and villages.
- A reduction in accident rates on rehabilitated roads despite increase in speeds.
- The removal of toxic effluents.
- The reduction of vehicle emissions in urban thoroughfares due to the construction of road bypasses. The positive impacts of these bypasses considerably outweigh the negative.

EIAs were carried out for the construction of a new motorway and for three new bypasses. For two of these investments, the EIB recommended specific or additional mitigation measures to reduce negative environmental impacts, for example noise protection walls, game crossings, and the modified design of a bridge. All recommended measures were executed. The EIB even continued to influence further investment decisions by some promoters, who had been made aware of environmental issues by the Bank's involvement in the original project. This was the case for an airport operator and for a railway operator.

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The impact of enlargement on the EIB's governing bodies

The planned accession of ten new Member States to the European Union in 2004, with the prospect of two others joining later, required amendments to be made to the EIB's Statute as annexed to the Accession Treaty. Consequently, at its meeting on 5 November 2002 the Ecofin Council adopted conclusions designed to modify the Bank's capital and governance. A Protocol annexed to the Accession Treaty will introduce the corresponding amendments to the EIB's Statute.

Capital: independently of the capital increase from EUR 100 to 150 billion decided by the Board of Governors in June 2002, which took effect on 1 January 2003, it is envisaged that the ten new Member States will subscribe to the Bank's capital when the Accession Treaty enters into force on the scheduled date of 1 May 2004. As with the current Member States, their share will reflect their economic weight within the European Union (expressed in GNP), and the portion of subscribed capital to be paid in will be so in eight installments.

At that time, Spain will increase its share of the subscribed capital to approximately 10% through an additional financial contribution, also in accordance with an eight-installment schedule.

Overall, upon completion of these operations, the Bank's subscribed capital will amount to more than EUR 163.6 billion.

Board of Governors: each new Member State will have one representative on the Board of Governors. This will generally be its Finance Minister.

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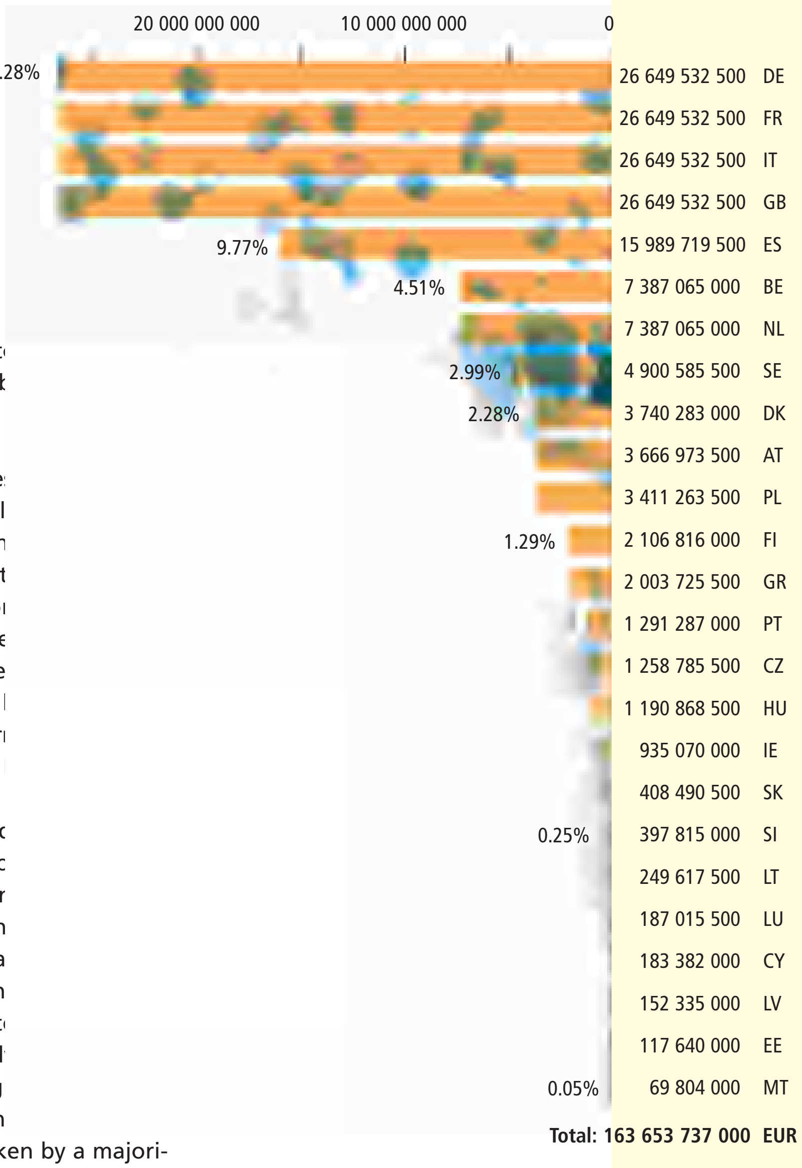
decisions will be taken by a majority consisting of at least one third of members entitled to vote and representing at least 50% of the subscribed capital.

Management Committee: The Bank's permanent executive body will be bolstered by the addition of

Future breakdown of the EIB's capital after 2004 (in euro[1])



(1) Amounts shown for the new Member States are based on figures for 2002 published by Eurostat (New CRONOS).

Visit of Romanian Prime Minister

A. Nastase, M. Tanasescu, P. Maystadt, E. Uhlmann

The Prime Minister of Romania Mr **Adrian Nastase** who is paying an official visit to the Grand Duchy of Luxembourg met the President of the European Investment Bank Mr **Philippe Maystadt** on 8 October.

The Prime Minister, who was accompanied by Mr **Mihai Nicolae Tanasescu**, Minister of Finance, and Mr **Tudorel Postolache**, Ambassador of Romania, discussed with EIB representatives future cooperation with the Bank and its future investment in Romania.

The EIB's task is to support and strengthen EU objectives, particularly helping Romania to meet the EU's membership criteria, adapting to European standards in various sectors such as the environment, and foster the economic integration of the country into the EU. The Bank cooperates closely with the Romanian government to identify suitable investment projects and combines its lending operations with financial resources granted by the EU in the framework of pre-accession assistance to Romania.

Since 1990, the EIB has lent a total of EUR 21 billion in Central and Eastern Europe to finance projects fostering European integration. Loans provided to Romania since 1990 amount to almost EUR 3 billion. The majority of EIB investment in Romania was focused on the development of the transport infrastructure that is essential for the integration of Romania into the Single Market as well as for better economic integration with other countries in the region. Recently, the EIB lent EUR 131 million for the rehabilitation and furnishing of about 1 400 secondary schools throughout the country and EUR 112 million for the rehabilitation of schools in Bucharest.

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