European Investment Bank

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Annual Meeting of the Board of Governors

The 2004 Annual Meeting of the EIB Board of Governors warmly welcomed ten new Governors, the Ministers of Finance of the States that had joined the EU on 1 May, to their first meeting of the Board as full Members on 2 June.

Providing a summary of the Bank's activities in support of EU policies and an overview of operational priorities, EIB President Philippe Maystadt pointed out that Acceding and Accession Countries had attracted a record 11% of total 2003 lending (EUR 4.6 billion out of EUR 42.3 billion).

New EIB Vice-President

Ivan Pilip was appointed Vice-President of the European Investment Bank from May 2004. His responsibilities within the EIB's Management Committee include financing operations in Poland, Czech Republic, Slovak Republic, Trans-European Networks and the cooperation with the European Commission on post-accession issues.

Contents

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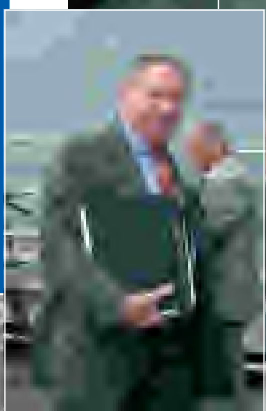
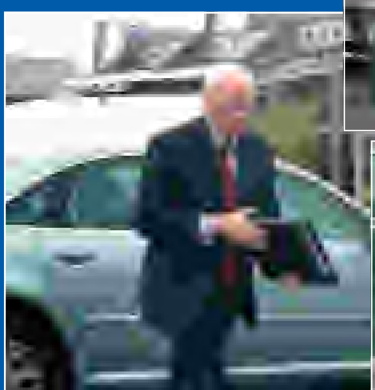




P. Solbes, W. Roth, G. Zalm, P. Maystadt, I. Pilip and P. Sedgwick, J.C. Junker

Record year for borrowings

With a total of EUR 42 billion raised in 15 currencies through 310 transactions, 2003 was a record year for EIB borrowings. Structured and targeted issues were the primary source of growth. The Bank also contributed further to the development of the capital markets in several new Member States.

The balance sheet total reached EUR 234.1 billion at 31 December 2003. Outstanding loans and guarantees amounted to EUR 250 billion, well below the EUR 375 billion statutory ceiling.

The profit and loss statements closed with a 10% year-on-year growth in net profit (EUR 1.4 billion).

President Maystadt pointed out that the good standing of the Bank's results and the quality of the loan portfolio had been achieved against the backdrop of a difficult economic climate.

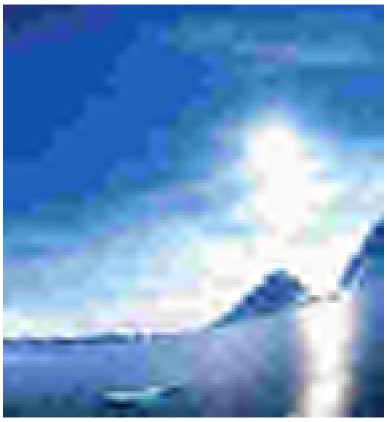
Operational Priorities 2004-2006

President Maystadt emphasised that continuity with respect to past commitments and rapid implementation of the policies set out by the European Union would drive

In 2003, the EIB's core lending target continued to be focused on providing support for economic and social cohesion within the European Union, with 70% of individual loans (EUR 22.8 billion) being devoted to assisted areas.

Other sectors in which the Bank reaffirmed a strong commitment were:

- the Innovation 2010 Initiative;
- the protection and improvement of the natural and urban environment;
- operations outside the EU, with a particular focus on the Mediterranean region under FEMIP and ACP countries under the Cotonou Investment Facility.



the EIB's operational priorities for the next three years. These priorities are formalised in the Corporate Operational Plan (available on the Bank's website). The EIB will work closely with the European Commission to achieve its objectives.

For the period 2004-2006, the Bank's main priorities are as follows:

- support for economic and social cohesion in the enlarged EU, the target being for at least two thirds of individual loans to be signed in favour of projects in assisted areas. Particular attention will be devoted to new Member States, where coordination with the Commission will be sought, with a view to optimising the combination of Structural Funds and EIB lending;

- protection of the natural and urban environment, with a target of 25-35% of total lending;

- implementation of the Lisbon strategy through the Innovation 2010 Initiative. In the context of the Action for Growth approved by the European Council in December 2003, the Bank is ready to consider up to EUR 40 billion in new loans between 2004 and 2010. The EIB will focus on research and development, education and training, as well as information and communication technologies;

- Trans-European Networks (TENs) involving transport and energy. The Action for Growth foresees the creation of a TENs Investment Facility (TIF) in favour of TEN projects covering the years 2004 to 2010, with a lending capacity of EUR 25 billion over the next three years alone. Special attention will be paid to priority projects, for which the Bank will perform upstream work and use its expertise to help solve financing issues with the promoters.

Lending outside the European Union:

Close Cooperation with the Commission and other IFIs

President Maystadt underlined that particular attention would be devoted to three areas, in which the EIB would continue to cooperate with the Commission, the World Bank and the European Bank for Reconstruction and Development:

- the Balkans;

- the Mediterranean area, through strengthening of the Facility for Euro-Mediterranean Investment and Partnership (FEMIP);

- the African, Caribbean and Pacific (ACP) regions, via the Cotonou Investment Facility.

The Bank will strengthen its presence in the Mediterranean and ACP countries by opening two offices in the Maghreb region and regional representations in Dakar, Nairobi and Pretoria.

European Investment Fund (EIF): a Record Year for Guarantee Operations

Turning to the specialised, EIB majority-owned venture capital and guarantees vehicle, the European Investment Fund, Mr Maystadt said that guarantee operations in favour of small and medium-sized enterprises (SMEs) should remain at high levels after a record year in 2003 (EUR 2 251 million). After a difficult year in the venture capital markets, the EIF's contribution, mainly to the Innovation 2010 objective, via its fund of funds activity, is expected to pick up.

The EIB's value added: the three criteria

The value added by the Bank through its operations is based on three criteria:

- consistency between each operation and the objectives of the Union;
- the quality and soundness of each project;
- the particular financial benefits obtained by using EIB funds.

The Board of Governors authorised the Bank to implement a system whereby the decision-making process for each operation would include an assessment of the project's merits in terms of value added for each of these three criteria.

Corporate Governance: Internal and External Control Structures

The Bank continuously monitors its corporate governance principles and adapts them, where necessary. With regard to internal procedures, the President listed a series of recent initiatives that highlighted the EIB's commitment to maintaining and developing efficient corporate governance: centralisation and reinforcement of risk management systems; creation of the Management Control function; implementation of an Internal Control Framework; development of a Bank-wide integrated reporting tool; formalisation of procedures to ensure optimal cooperation and exchange of information with OLAF; as well as amendment of the Statute and Rules of Procedure in connection with enlargement.

As for external control structures, Mr Maystadt pointed out that the EIB was subject to a twofold supervision process (by the Audit Committee, appointed by and accountable to the Board of Governors; and by the European Court of Auditors for all operations where budgetary funds were involved).
Following the suggestions made by the European Parliament, the President stated that the EIB was prepared in principle to accept appropriate external banking supervision.

The President also announced further proposals for strengthening the Bank's corporate governance, which were due to be approved shortly by the Board of Directors. Examples included an annual corporate governance statement, the publication of half-yearly summary accounts as from 2005, the extension of the compliance function in the Bank in order to monitor rules and codes of conduct, and a declaration of financial interest by the Management Committee members, modelled on the arrangement in force for the Members of the European Commission.

Transparency: Public Access to Documents widened

The Bank has reviewed its approach to transparency, notably in order to widen public access to documents. All reports of the independent ex-post evaluation department, the list of projects under appraisal (with a few exceptions where requested by the promoter for legitimate confidentiality reasons) and the Corporate Operational Plan are published on the EIB website. With the aim of ensuring that the EIB operates, as an EU body, in a transparent way vis-à-vis EU institutions and citizens, the Bank is also proactive in providing information about control, evaluation procedures, operational activities, remuneration and other benefits for governing bodies and staff. As in the past, the Bank will continue to update its transparency and disclosure policy, as and when needed.

Daniela Sacchi-Cremmer
Press Office and Communications Department
(+352) 43 79 31 30
d.sacchi@eib.org

Mr Maystadt's statement at the Board of Governor's annual meeting is available on the EIB's website: www.eib.org.

The EIF manages first instrument of German Innovation Initiative

After a long and intensive qualification process, the German Ministry of Economics and Labour (BMWA) has awarded the European Investment Fund (EIF) the management of the first investment facility of the German Innovation Initiative. The "ERP-EIF Dachfonds" facility was signed end of December 2003 and officially launched on 16 February 2004 in Berlin. The EIF is now set to begin actively investing in German high-tech venture capital funds under this new mandate

Vice-President Wolfgang Roth, Dr. Sigrid Skarpelis-Sperk, Dr. Matthias Ummenhofer, Kim Kreilgaard

In November 2002, after a first contact with BMWA, EIF's team in charge of venture capital (VC) in Germany organised an information workshop with BMWA representatives on the German market and the EIF's view on public support. BMWA then invited EIF to elaborate a proposal to manage a BMWA sponsored investment scheme and to participate in the qualification process alongside other competing public and private institutional fund-of-fund investors. Finally, and after approval by the ERP subcommittee of the German Parliament (ERP stands for European Recovery Programme – the official name of the Marshall Plan), the German Ministry of Finance and the German Court of Auditors, the EIF was awarded the management of the facility, its first external Mandate.

The EIF's Chief Executive, **Francis Carpenter**, highlighted that the ERP-EIF Dachfonds is the first mandate the EIF will manage on behalf of a non-shareholder: "The fact that BMWA has chosen the EIF to implement the mandate, in a country as important as Germany, is witness that the EIF is a strong reference in the European VC market. It is a perfect example of partnership and I hope we can strike other mandates with public or private investors in other countries."

The EIF brings to the facility its recognised know-how and widespread network in the European venture capital industry, and may thereby play a catalytic role in fundraising for the funds in which it participates and support the further development of a sustainable VC infrastructure in Germany. The EIF's standing and professionalism in the European VC market might be considered as key reasons for it being attributed management of the fund.

Designed and structured jointly by the EIF and BMWA, the ERP-EIF Dachfonds is a EUR 500m mandate for investments in venture capital funds focusing on Germany-based high-tech early stage companies. BMWA will commit EUR 250 m from ERP resources, which will be matched by an EIF co-investment. The Dachfonds would have an investment period of up to 5 years and a divestment period of up to 10 years.

The principal aim of the ERP-EIF Dachfonds is to support the establishment and financing of specialised venture capital funds that focus on investments in early and development stage technology companies in Germany (so-called

State Secretary Dr. Alfred Tacke

Vice-President Wolfgang Roth

The ERP-EIF team:
Dr. Harjeet Sandhu,
Dr. Matthias Ummenhofer,
Dr. Gunter Fischer

The EIF reaches 10 years with EUR 10 billion portfolio

As the European Investment Fund celebrates its 10th anniversary this summer, its portfolio of venture capital investments and guarantees has reached almost EUR 10 billion in operations committed to supporting small businesses across Europe. The Fund has made a sizeable contribution to EU objectives for growth and employment, which have been the base of its development since its creation in 1994. While early on, the EIF was actively involved in backing two crucial areas for the development of the European economy: Trans-European Networks and SME finance, today, the EIF has taken on a unique role as the specialised EU institution dedicated to SMEs through venture capital and portfolio guarantees. For the future, the Fund will continue to explore new types of instruments in support of EU policies, and is currently expanding its activity and objectives in favour of innovation and technology transfer through support for research centres and university spin-offs. Considering these developments and the EIF's positive track record, its role in support of the Lisbon European strategy is certain to receive further momentum in the coming years.

seed, A and B rounds). The second focus is to provide finance for funds that ensure follow-on financing for high-tech companies in their development and expansion stages (B and later rounds).

The launch of the Facility was attended by the State Secretary of BMWA, Dr. **Alfred Tacke**, EIB Vice-President **Wolfgang Roth**, Members of the German Parliament Dr. **Sigrid Skarpelis-Sperk** and **Hans-Josef Fell**, Dr. **Holger Frommann**, Managing Director of BVK, and more than 200 interested parties, including Ministry representatives, members of the German Venture Capital Association (BVK) and the German Press.

In his speech, Dr. Tacke reiterated "innovation remains of utmost importance for the development of employment and is the basis of the venture capital market in Germany. One of the central problems is the lack of liquidity in the venture capital market, and this point is now specifically addressed by the ERP-EIF Dachfonds."

Vice-President Roth spoke of "the necessity for involvement of public sector money in the early-stage segment", adding, "this new fund should not be considered as a subsidy vehicle, but as a professionally and commercially managed instrument".

Support for the high-tech sector is one of the top priorities of the German Government. BMWA plays a leading role in the realisation of this high-tech strategy, which will replace the existing State-funded promotion schemes for early stage high-tech companies.

The Dachfonds, implemented in addition to the EIF's ongoing investments in Germany, is perfectly in line with the EIF's investment approach and strategy for the region, and is also in accordance with EIF's Statutes and EU policy objectives – the facility has even become a reference: in the interim report to the European Council on "A European Initiative for growth" (COM(2003) 579 final) the European Commission invited the EIF to come up with proposals for a new range of innovative schemes supporting public and private venture capital investments, on the model of the ERP-EIF Facility concluded in Germany.

A dedicated team within the EIF, which is in the process of being completed, embraces the management of the facility and of EIF's VC operations in Germany.

This team will select VC funds that are managed by well-motivated, professional and experienced VC fund teams. First-time teams may also be considered. With the ERP-EIF Dachfonds, the EIF will, as already in its investments, act as a pari-passu, cornerstone investor. The EIF is a long-term, committed and pro-active investor, participating in line with market standards and seeking an appropriate return on its investments. The funds benefiting from the ERP-EIF Dachfonds are not restricted to invest solely in German companies, although a major geographical focus of the investments should be in Germany.

The Dachfonds will take participations of at least 10%, when investing in a venture capital fund, but the average participation in a fund will depend on market conditions. The aim is to maximise the mobilisation of private capital to fully use the leverage effect of the ERP-EIF Facility.

The facility is operational and the EIF is currently looking at and actively supporting several investment opportunities including first time fund projects. The sector focus of the funds mirrors the areas where Germany has a strong technology base and position, i.e. information and communication technologies, life sciences, energy technologies including renewable energy and in particular enabling and converging technologies which emerge at the interfaces between traditional technologies. One investment proposal has already been approved by the EIF's Board and is expected to be signed during the third quarter.

Gunter Fischer
European Investment Fund
Venture Capital Operations
(+352) 42 66 88 - 344
g.fischer@eif.org

New EIB Vice-President

Ivan Pilip was appointed Vice-President of the European Investment Bank from May 2004. His responsibilities within the EIB's Management Committee include financing operations in Poland, Czech Republic, Slovak Republic, Trans-European Networks and the cooperation with the European Commission on post-accession issues.

Mr Pilip, aged 40, served as Minister of Finance of the Czech Republic from 1997 – 1998. During the period 1994 – 1997 he held the post of Minister of Education. From 1992 to 1994 he was responsible for financing and budget control as Deputy Minister of Education, Youth and Sports.

Amongst his most recent responsibilities Mr Pilip was active as a Member of the Chamber of Deputies of the Parliament of the Czech Republic (1998-2002). He was a Member of the Budgetary Committee and the Sub-Committee for Financial and Capital Markets as well as Chairman of the Parliamentary Commission for Banking.

Mr Pilip is an economist. He has a degree in International Business and Trade from the University of Economics in Prague and attended post-graduate studies and courses at the Faculty of Economic Policy at the Universidad Complutense in Madrid, University of Linz and Cornell University, among others.

Ivan Pilip was born in Prague in 1963, is married and has three children.

New initiatives in support of EU climate change and renewable energy policies

EIB Vice-President Peter Sedgwick

As a policy-driven bank promoting EU policies, climate change and renewable energy (RE) are a major focus of activity for the EIB. While RE is an important European policy in its own right, promoting the RE sector also contributes, among other things, to the EIB's environmental and development lending objectives and its support for the Lisbon process.

The Bank's commitment to support the EU's climate change and RE policy objectives was confirmed recently at two important international conferences on climate change and RE: the 9th Conference of Parties (COP) of the Kyoto Protocol in Milan in December 2003 and the International Conference for Renewable Energy in Bonn in early June 2004. While EIB President **Philippe Maystadt** spoke in Milan about a package of planned climate change initiatives, in Bonn Vice-President **Peter Sedgwick** was able to develop these further as well as to give particular focus to renewable energy.

The EIB's climate change initiatives in a nutshell

- Climate Change Financing Facility (CCFF) – a lending window of EUR 500 million in favour of projects contributing to the reduction of carbon emissions within the framework of the EU's Emissions Trading Scheme (ETS[1]).
- EUR 100 million of the CCFF window is earmarked for projects under the Kyoto Joint Implementation (JI) and Clean Development Mechanism (CDM), both within and outside the EU.
- Climate Change Technical Assistance (CCTAF) – a EUR 10 million fund to support promoters of JI and CDM projects.
- Cooperation with other International Financing Institutions to ensure the smooth functioning of a liquid market for carbon credits.

The EIB is not working in isolation, since the challenges of climate change require a broad coalition of partners. As well as collaborating closely with the European Commission, the Bank is also cooperating with other financial institutions, national authorities and industrial companies to achieve maximum synergies and to avoid duplication.

Promotion of renewable energy

The Bank's lending for the RE sector is significant. In 1999-2003 it signed

(1) The ETS commences in 2005 and covers five major sectors of EU industry: power generation, oil refineries, steel, building materials and pulp and paper. These account for almost half of the EU's total carbon dioxide (CO2) emissions. ETS is expected to reduce the costs of the EU meeting its Kyoto commitments by about one-third. The scheme may be expanded into other sectors and also cover other greenhouse gases as from 2008.

Renewable Energy Conference in Bonn

individual loans for RE generation projects totalling EUR 1.3 billion, while global loan allocations for RE through intermediary institutions over this period amounted to some EUR 280 million. This activity was spread across all the EIB's region of operations and a multiplicity of technologies, with some concentration in the rapidly growing wind sector (45% of RE lending in 2002 and 2003). In the future, the Bank aims for greater diversification throughout the various RE sectors.

For the EIB, as well as others, promoting RE projects can pose major challenges, in particular the high cost of small-scale schemes, the weak financial characteristics of projects or promoters (perhaps linked to early stages of commercialisation), and the lack of a suitable policy and institutional framework for RE (particularly in many developing countries).

In 2002, the EIB set itself the target of doubling its RE lending as a percentage of its total energy lending (from 7% to 15%). Already having achieved this, the Bank now aims for RE lending to reach 50% of its lending for energy generation in the EU-25 by 2010, consistent with the EU's RE electricity generation target of 22%. This formed one of the EIB's commitments at the Bonn RE Conference. On current trends, this will represent some EUR 700 million a year for RE generation by 2010. This target includes all investments required to generate power (and heat) from renewable sources, that is to say construction, rehabilitation and substitution for fossil fuels.

The Bank also provides finance for RE R&D, for instance fuel cell technology, and the manufacture of RE equipment contributing to the EU's Growth Initiative. The European Investment Fund (EIF), part of the EIB Group, provides venture capital for early stage and high technology small and medium-sized enterprises, including innovative RE ones.

The EIB would support the European Commission's Patient Capital Initiative (PCI) to help overcome RE financing constraints in developing countries and emerging markets, should this be established.

Some Renewable Energy (RE) data

- In EIB's RE approach and activities, RE sources and technologies include solar, wind, hydropower, biomass, biofuels, geo-thermal energy and new technologies under development, including R&D.
- Along with improvements in energy efficiency, RE holds the key to long-term climate stability.
- Today, RE accounts for some 2% of total world energy supply.
- The future development of RE is regarded as vital for fostering sustainable development and poverty alleviation. RE should allow the poor access to affordable energy services (Millennium Development Goals) and help to improve energy security in all regions, mitigating the effects of climate change globally.
- EIB's current lending for RE is EUR 450 million annually. By 2010, up to 50% of its lending for electricity generation in the EU-25 should come from RE sources.

The Bonn Renewable Energy Conference

The Bank participated in the Bonn RE Conference (1-4 June), organised under the umbrella of the Johannesburg Renewable Energy Coalition (JREC) and hosted by the German Government. JREC brings together 88 countries and aims at achieving speedy implementation of measures permitting an efficient and orderly increase of the RE share in global energy production and use, with a particular view to addressing the needs of less developed countries. Some 3 600 delegates from governments, financial institutions, the public and private sectors, and civil society from all parts of the world came together in Bonn. EIB Vice-President Peter Sedgwick was one of the speakers on a panel chaired by German Environment Minister **Jürgen Trittin**.

The Bank's new Environmental Policy Statement and Environmental Report 2003 are available on the EIB website: www.eib.org

Peter Sedgwick highlighted that most of EIB's lending promoting RE was within the EU-25. This was in line with the Bank's main role to facilitate the implementation of EU policies. Within the EU, there are various forms of encouragement for RE approved by the European Commission and the Member States. In other areas where the Bank operates, including Africa, the Mediterranean region, the Balkans, Asia and Latin America, there is not the same generous financial support for RE. Nevertheless, the EIB has financed RE schemes outside the EU in sectors such as biomass, geo-thermal and hydro. The rise of RE in the EU through R&D and a faster pace of investment will also help to facilitate a similar move in transition and developing economies. The Bank's Climate Change Financing Facility and Climate Change Technical Assistance Facility directly contribute to this development. Peter Sedgwick also underlined the EIB's close cooperation with the Commission and other parties.

He also highlighted the Bank's new 2004 Environmental Policy Statement and Environmental Report 2003, both published just two weeks before "Bonn". He stressed the fact that EIB's environmental mission is based on EU environmental policies and strategies. The Bank applies environmental guidelines throughout the project cycle, which are based on EU Directives and other legislation. Implementing good environmental management practices ensures that any EIB-financed project will comply with EU standards. The Bank's Corporate Operational Plan envisages 30-35% of total lending to be devoted to the environment in the EU-25.

The tangible output of the Bonn Conference was threefold: a widely negotiated "Political Declaration"; a non-binding set of "Policy Recommendations for Renewable Energies"; and an "International Action Programme" of about 150 items, including the EIB initiatives. Together, these documents stressed the importance of RE development, a stable and coherent regulatory framework, greater financial flows to developing countries, human and institutional capacity building and R&D. In political terms, the Bonn Conference has helped to place the promotion of RE firmly on the development and environmental agendas.

Yvonne Berghorst
Press Office and Communications Department
(+352) 43 79 3154
y.berghorst@eib.org

Further details

For new EIB publications on climate change and RE, please consult the "Publications" section of the EIB website www.eib.org.
For further information on the Bonn Conference consult: www.renewables2004.de.

Spotlight: Urban renewal in Barcelona

EIB Information regularly highlights specific projects presenting a particular interest not only because of their innovative financial, economic or environmental features, but also on account of their exemplary fulfilment of the Bank's objectives.

Under the world's spotlights

The European Investment Bank has supported with a EUR 90 million loan the important environmental urban renewal project being undertaken by the Municipality of Barcelona in the Besòs district.

Once a marginalized and stigmatised industrial area, the 180-hectare site south of the river Besòs has been drastically remodelled, integrating innovative urban and environmental schemes. Besides being currently under the world's spotlights by hosting the Barcelona 2004 Forum of Cultures, a multicultural and innovative world event sponsored by UNESCO, the project also illustrates how the EIB's long term lending can contribute to sustainable urban development.

From marginalization…

The renewed area contains a vast water treatment plant, a large power station, a solid waste incinerator and a formerly highly polluted river. Most of the housing was built many decades ago to house immigrants who moved to work in the industrial belt of Barcelona. Locations such as Camp de la Bota and La Mina had become pockets of deprivation. For many years, the Besòs area suffered from serious problems, such as economic decline, unemployment, physical decay and social exclusion.

…to public leisure areas

The main infrastructure financed by the Bank includes the covering of the water treatment plant with a large square of some 156 000 square meters to create the Forum Plaza, an open public place on top of which many Forum activities are taking part; an impressive photovoltaic plant which has become a new landmark on the Barcelona coastline and is providing energy to the whole Forum area during the event as well as shade; a pneumatic waste collection system for 9000 homes in the neighbourhood; a new marina; new beaches and swimming areas; underground bus parks; new sewage and rainwater collectors and retention deposit and various road improvements.

The project also includes an innovative environmental component involving the creation of a series of artificial lagoons providing a permanent new habitat for a variety of migratory birds.

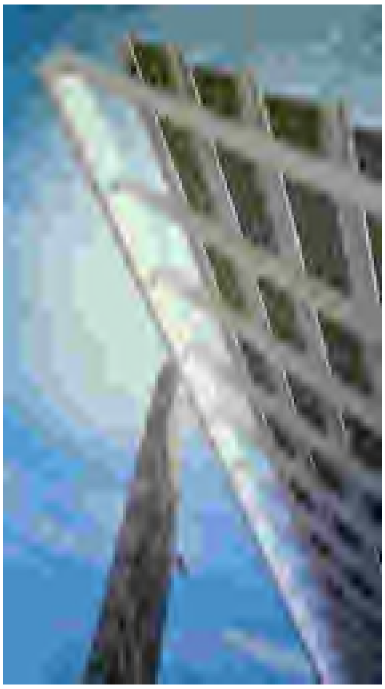
A comprehensive approach

As the infrastructure was put in place by the Municipality of Barcelona in co-operation with the municipality of San Adrian de Besòs, many other private sector developments in the area are contributing to the overall renewal: the Forum building and conference centre; a shopping centre; new residential property; hotels; offices and a tramway (also partly financed by the EIB) linking the area to the main transport network of Barcelona.

The Besòs River has been cleaned up and regenerated and a green area built along the banks. Further improvements will contribute to the urban renewal; housing for senior citizens will be built, part of the University will be moved to the area and the La Mina and La Catalana housing estates will be upgraded following many years of lack of investment.

EIB participation to this project has served to promote Barcelona's economic development and social cohesion while enhancing the urban environment and safeguarding the quality of life of the city's inhabitants.

Juan Manuel Sterlin Balenciaga
Press Office and
Communications Department
✆ (+352) 43 79 3126
j.sterlin@eib.org



Enhanced role for FEMIP Ministerial Meeting in Alexandria

The Ministerial Committee Meeting of the Facility for Euro-Mediterranean Investment and Partnership (FEMIP) took place at the Bibliotheca Alexandrina, in Alexandria on 7 June. This was the first meeting to be held in its enhanced role, through which it is set to become the Mediterranean "Ecofin Council". Being also the first one after EU enlargement, it was attended by the representatives of 25 EU Member States.

The Finance Ministers of the Region agreed to group themselves to propose by end of September their own economic reform agenda to support enhanced and sustainable growth in the Region, while FEMIP should fully participate to the major step up of small and medium size enterprises' support called by the G8.

Hosted by the Prime Minister of Egypt **Dr Atef Ebeid**, the Meeting was held at Ministerial level under the joint chairmanship of the Egyptian Minister of Finance **Dr Medhat Hassanein**, and EIB Vice-President with special responsibility for FEMIP, **Mr Philippe de Fontaine Vive.**

Achievements and future actions

The discussion was based on practical and operational recommendations concerning the two subjects of privatisation and private companies' access to the various sources of finance, prepared and put forward by the first FEMIP Experts Committee Meeting held in Marseille on 16-17 February 2004 (see EIB-Information n° 116).

The Ministerial Committee Meeting also discussed policy issues concerning the creation of the FEMIP Trust Fund (FTF) and greeted progress on the FEMIP Technical Assistance (TA) Support Fund with a forecast of EUR 54.7 million of commitments in 2003-2004 in environment, human capital, infrastructure, as well as industry and finance.

FEMIP'S Ministerial Committee Meeting concluded that FEMIP should fully participate to the major step up of small and medium size enterprises' support called by the G8, as one of the leading financial institutions active in the Region. Participants warmly welcomed the initiative taken by the Finance Ministers of the Region to group themselves to propose by end of September their own economic reform agenda to support enhanced and sustainable growth in the Region.

FEMIP's Ministerial Committee Meeting reaffirmed the strong commitment of the 35 European and Mediterranean Finance and Economy Ministers to forge a closer economic partnership and greeted with satisfaction the first concrete results of FEMIP's activity for private sector development in the MPCs, examining in particular the example of Tunisia. The participants also expressed satisfaction on the new format of dialogue between the MPCs and European representatives, notably extended through the Experts Committee.

Establishing a new pattern of development

Mr Philippe de Fontaine Vive, in his opening address stated: "The commitment to creating a free-trade area between the southern and northern shores of the Mediterranean by the year 2010 requires not only substantial financial support but also an unswerving political will on all sides of the Mediterranean to bring about far-reaching reforms: establishing in the MPCs a new pattern of development based on economic liberalisation, a flourishing private sector and growing foreign trade earnings, reforms for creating an efficient market economy. To this end FEMIP will assist quantitatively with a EUR 2 billion annual lending volume, but also qualitatively with new lending instruments and techniques, particularly in support of privatisation programmes in the Mediterranean Partner Countries, including larger privatisation of public services and utilities. The FEMIP 'menu of options for privatisation' available to the MPCs, ranges from setting a framework agreement with the local authority concerned, assistance to the privatisation programme through the FEMIP Support Fund (grants), provision of equity or quasi equity finance to the provision of loans and other finance to new investments after privatisation".

Inter-institutional cooperation

In an effort to achieve complementarities through inter-institutional cooperation, the Meeting was also attended by representatives of the European Commission, the International Monetary Fund (IMF), the World Bank group (WB and IFC) and the African Development Bank (AfDB). Their participation in the Meeting builds on the Memorandum of Understanding signed on 3 May between the European Commission, the World Bank and the EIB (see article page 23). FEMIP is confident that such agreements will be followed by increased cooperation with other international and European bilateral institutions active in the Region.

With some EUR 2.1 billion total lending in the MPCs in 2003, the first operational year since its launch, FEMIP is the leading player in fostering sustainable development in the region. Most notably, about half this amount went to finance private sector projects through foreign direct investment (Egypt, Tunisia, and Turkey), joint ventures resulting from cooperation between MPC promoters (Algeria) and Small & Medium-sized enterprises (SMEs) financing (Syria, Tunisia, Turkey, and creation of a regional venture capital fund).

The next Ministerial Committee will take place in Morocco during Spring 2005 and will be prepared by two Experts Committee Meetings to be held in Amsterdam in October 2004 and in Luxembourg in March 2005.

Helen Kavvadia
Press Office and
Communications Department
(+352) 43 79 3146
h.kavvadia@eib.org

The EIB Learns Lessons from Financing in ALA

One of the most recent ex-post evaluation reports by Operations Evaluation covers the EIB's financing in Asia and Latin American countries (ALA). The evaluation looked in-depth at all the operations completed up to the end of 2001 (26 in total, of which 20 are located in Latin America and 6 in Asia) and analysed the specific approach developed by the Bank to finance private sector operations in this region.

In early 1993, the Council of the European Union gave the EIB a mandate to finance projects of mutual interest in ALA. This first mandate has been renewed and extended several times, with the latest mandate covering the period up to 31 January 2007. Projects of mutual interest should serve the interest of one or more ALA countries and the EU.

The ALA region is the main destination of European Union (EU) Foreign Direct Investment in developing countries (about three quarters of total investment in the last few years). EIB financing has mainly supported EU private sector investment in the area. Lending to the private sector has accounted for close to 80% of total EIB financing. Although total loan amounts have reached about EUR 3 bn since 1993, EIB financing in ALA is still relatively modest considering the needs. In the 1990s, it only represented around 10% in Latin America and 5% in Asia of the total finance to the private sector by all the Financial Development Institutions active in the area.

Projects affected by economic and political instabilities

Severe economic and political instabilities, such as the Asian and Argentinean crisis, have had a negative impact on the projects. Currency devaluations have considerably increased the cost of servicing loans in foreign currencies, such as the EIB loans, and inflation has added to local costs. The evaluated projects most affected by economic and political instabilities were in regulated sectors (water, electricity or gas, etc.), as their revenues depend on government decisions to raise tariffs. Projects in competitive markets were generally less affected than the regulated ones; as they were usually able to increase prices to compensate for high inflation and/or foster export sales following currency devaluation.

Two public service projects in Argentina have been severely hit by the currency devaluation in early 2002 and as a result the projects have become financially unsustainable. Following devaluation, the government modified unilaterally the terms of the public service contracts (froze the tariffs) and forced their re-negotiation. The companies involved in the projects indicated that they have since adopted a much more prudent approach in relation to their involvement in public concessions.

Most of the projects carried out by private promoters were generally implemented in line with the initial budget and on time. On the other hand, the five projects carried out by public authorities have experienced implementation problems. Most of the problems were linked to insufficient project preparation or weak project management. In three cases MDBs assisted the promoter in the implementation phase. In two of the three, the EIB relied on the assistance to the promoters provided by other MDBs and in the third, where no other MDB was involved, the EIB itself provided important technical assistance. For none of the projects evaluated significant environmental problems were reported during the implementation phase.

Generally, there existed a high market potential at the time when the projects were launched. This often reflected underinvestment of the former public company or still limited penetration of some products or services. In one large Latin American city, 50% of the inhabitants were not connected to the drinking water network and 66% were not connected to the sewerage network under the former public utility. The initial objective of the new privatised company was to connect 90% of the population to the drinking water network and 75% to the sewerage network by early 2000. These objectives were only partially met.

The poor's limited capacity to pay

However, the development of the market was often less than expected due to an overestimation of the capacity to pay for the new products or services offered. Because of this, the revenues expanded much less than forecasted. In the five evaluated telecom projects, the new private companies reduced the cost of access to the services significantly, which then led to a fast expansion of the number of telecom subscribers (often in line with the initial forecasts). However, by adding subscribers with very low incomes, this fast expansion of the number of subscribers was accompanied by a substantial reduction of the average revenues per subscriber. On average, revenue per subscriber at the time that the evaluation was carried out was 50% of the ex-ante forecast (in local currency and in constant terms).

In many cases, the lower than expected revenues reduced the profitability of the projects. Curiously, even the profitability of projects in regulated markets was affected by the lower development of the market, as most of these projects were directly or indirectly exposed to certain levels of market risk embedded in the regulation. The ex-ante forecasts were generally optimistic. The average ex-ante economic rate of return (ERR) was 19% and ex-post went down to 10% and in 4 cases it was very low (below 5%). In several cases, the Bank's forecasts were less optimistic than those of the promoters and closer to the ex-post results.

A clearer mandate

All the projects evaluated are consistent with important policy objectives in the partner countries. In 12 cases the projects were a key element in government policies to privatise and/or deregulate public services (telecoms, electricity, water and gas). In another five cases the projects contributed to key government policies, such as better transport infrastructure, proper waste management or developing rural areas. The other projects, mostly in competitive markets, contributed significantly to meeting new demand and/or increasing the level of competition (new products, reduced imports from abroad, etc.). In addition most of the projects generated substantial benefits to the European Union. Only in 5 of the 26 cases that were reviewed, did EU benefits appear remote and indirect. These five operations can be better classified as contributing to development cooperation rather than to mutual interest.

The objectives of the mandates given to the EIB by the Council and the Bank's interpretation are rather general and this is not sending a clear message to potential clients. For this reason, the Bank will now define the type of projects eligible for finance in ALA more precisely.

Risk coverage

Long term financing and political risk coverage is in limited supply in many of the ALA countries. EIB financing, which offers these products, has thus filled a financial gap.

The core instrument developed by the EIB to finance private sector borrowers is the risk-sharing loan. In this type of loan, the classical political risks (currency transfer restrictions, expropriation and war or civil disturbances) are covered, free-of-charge, by the guarantee of the EU that is granted to the Bank under the mandates. The other risks, the so-called commercial risks, need to be covered through other guarantees acceptable to the EIB. However, the scope of the political risk cover may limit the interest of the risk-sharing loans for certain projects, such as public service projects. As in the two Argentinean public service projects mentioned above, the key risk is that public entities breach the contracts, and this risk is not covered at present. For this reason, the European Commission, in its mid-term review of the external mandates to the Bank (COM (2003) 603 final), has proposed to extend the political risk cover to Breach of Contract in combination with Denial of Justice(1).

For private sector operations, the evaluation found good evidence that EIB financing has significantly improved the financial terms in the projects evaluated. It has also encouraged some banks to provide guarantees, and sometimes for a longer period than they would otherwise have done. The Bank has thus provided a certain quality stamp and in some cases comfort for guarantors. However, the EIB's high security requirements have effectively limited lending to highly rated private sector entities and made EIB financing very dependent on the commercial banks' appetite for ALA risks. Therefore, limiting the possibilities that the Bank behave in a counter cyclical way.

In none of the private sector projects evaluated, with perhaps one exception, has the EIB played a critical role. This is not surprising, as the possibility to play such a role in private sector investments is linked to the willingness and capacity to take credit risk. This is not a characteristic of the EIB's financial products in ALA, as the Bank requires commercial guarantees from third parties with a high credit standing. The Bank now intends to increase the range of products available to finance private sector investment, increasing the potential to provide more value added.

The EIB financial value added for public sector borrowers is generally high. As EIB loans to sovereign borrowers are fully guaranteed by the European Union, the Bank has been able to offer very attractive lending conditions, in particular because the EIB - as other Multilateral Development Bank's (MDB) - does not charge a risk premium to the borrower.

(1) To cover cases involving breach of certain contracts (e.g. concessions or off-take agreements) by the host government (or other public authorities) and a subsequent failure to enforce an arbitration award against the relevant public authority.

Another significant contribution to the value added of the Bank's loans is linked to the framework agreements that the Bank has concluded with 16 countries in Latin America and 12 in Asia. Through these agreements, the host governments have conferred de jure Preferred Creditor Status on the EIB. In addition, they have allowed for withholding tax exemptions on payments to the Bank and other benefits for the borrower.

Strong credit quality of the ALA loan portfolio

Overall, the Bank's selection process ensured the selection of sound projects, despite the often difficult environment. This is reflected particularly in the strong credit quality of the ALA loan portfolio, as demonstrated by the fact that for all the operations financed, it was necessary in one public sector operation only to call the Community's guarantee, and only in one other to call the commercial guarantee to cover part of the debt service (up to end 2003). These two cases were projects affected by the Argentinean crisis.

The Bank's appraisal was generally of good quality and the Bank's cash flow forecasts were often much closer to the actual evolution than those of the promoters. Financial monitoring reports were regularly produced and were generally of a satisfactory quality. However, physical monitoring reports were frequently incomplete and lacking in detail, which is an issue that the Bank is presently addressing.

Private sector lessons

The Bank's activity in ALA, by focusing on lending to the private sector, has pioneered developments in EIB financing in developing countries. The recent Investment Facility for the Africa Caribbean Pacific (ACP) states and the Facility for Euro-Mediterranean Investment and Partnership (FEMIP) for the Mediterranean partner countries also focus on financing of the private sector. Therefore, there are useful lessons to be drawn from the ALA evaluation for financing private sector investment in developing countries in general.

The complete text of the report "Evaluation of projects financed by the EIB under the ALA mandates" can be found at the eib website (www.ei.org) under "Publications".

Juan Alario
Operations Evaluation
(+352) 43 79 92 79
j.alario@eib.org

EIB finances innovative corporate trade receivable securitisation

The EIB concluded on 30 April 2004 its participation as funding entity in the securitisation of corporate trade receivables of Unión Fenosa, a Spanish electricity utility. This is a highly innovative operation, not only for the Bank but also for the Spanish and the EU market.

For this operation, an asset securitisation fund (FTA) was established, according to Spanish law. The sole purpose of this fund, named FONDO DE TITULIZACIÓN DE ACTIVOS KWH-1, is the acquisition assets – future electricity sales receivables of Unión Fenosa Distribución, S.A. and Unión Fenosa Comercial, S.L.(Originators). These originators are both fully owned subsidiaries of Unión Fenosa, S.A. The fund's bond issue (rated AAA) was entirely acquired by the EIB.

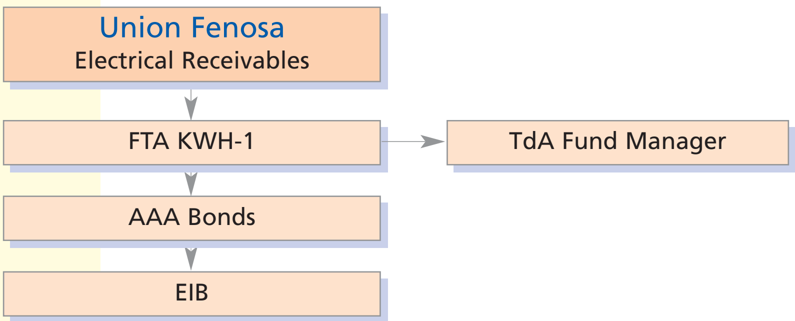
EIB value added

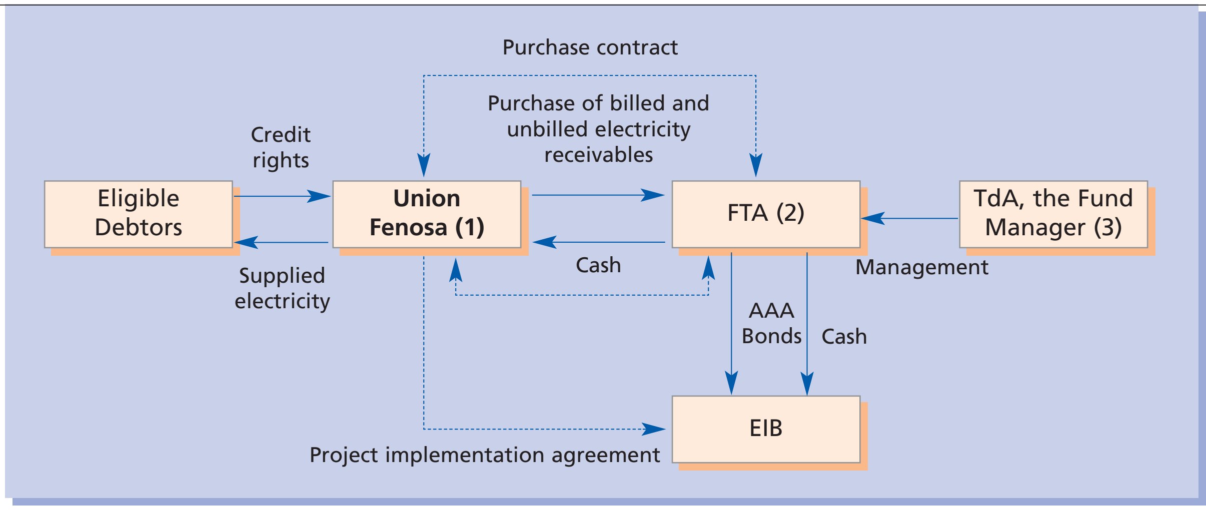
This financially complex structure was used by the Bank as a "loan substitute" with the aim of better responding to Unión Fenosa group's financing requirements. The Bank (i) reinforced the credit structure, (ii) added value to its institutional role by promoting an innovative financial product, and (iii) reduced the exposure to Unión Fenosa. This last aspect enables future EIB operations with Unión Fenosa. Moreover, with this innovative structuring, the Bank can tap new business opportunities by duplicating the structure with other major corporates operating in regulated markets. In addition, such securitisation scheme allows the EIB to further consolidate its cooperation with the commercial banking sector.

How was this securitisation structured?

Asset backed securities (ABS) are securities backed by (or representing ownership interest in) a pool of homogeneous financial assets producing predictable cash flows. Issuing bonds or notes to finance solely these assets is called a "securisation of assets". Corporate and covered bonds (cédulas hipotecarias, obligations foncières, pfandbriefe, etc.) are covered by the whole corporate and legal structure of the underlying corporates and their operations. Investors in securitised transactions, however, look solely at the underlying assets as their source of bond-debt-service, i.e. in this case, the future electricity sales receivables of the originators Unión Fenosa Distribución, S.A. and Unión Fenosa Comercial, S.L. The originators have no direct obligations, the payment of interest and principal on the bonds/notes depends on the quality of future receivable flows of these high quality operators in this regulated market. As a consequence there is de-linkage with the credit profile of the entity that originated the securitised assets.

In the Unión Fenosa securitisation structure, two originators sold electricity trade receivables to a special purpose vehicle (the FONDO DE TITULIZACIÓN DE ACTIVOS KWH-1 – "FTA"). The FTA issued AAA/Aaa rated bonds (the Fund's liabilities) for an amount of EUR 202m to finance the receivables (the Fund's assets).





(1) Unión Fenosa Distribución SA and Unión Fenosa Multiservicios SL ("Originators")
(2) Asset securitsation fund, established under Spain law, Fondo de Titulización de Activos, (FTA). The EIB subscribed the entire bond issue. Bonds are rated AAA.
(3) Fund manager = Gestora Titulización de Activos, S.A. S.G.F.T. ("TdA")

The FTA is not an independent legal entity, therefore, it requires a Fund Manager, who is the legal entity entrusted with the administration of the FTA's assets. The Fund Manager, in this transaction, Gestora Titulización de Activos, S.A. S.G.F.T. (TdA), is a specialised company registered with the Spanish Securities Market Regulator (Comisión Nacional del Mercado de Valores, CNMV). The bondholders' rights are constantly protected through the Fund Manager, which is under the supervision of the CNMV.

The FTA is bankruptcy-remote: (i) the FTA itself cannot go bankrupt or be subject to insolvency proceedings and, (ii) in the case of insolvency of the originators, the FTA and the bondholders (the EIB) would not be affected because the FTA owns the receivables transferred. The assets purchased by the FTA are full and unconditional transfers (true sale of assets) and thus are no longer on the balance sheet of the originators.

The entire bond issue was subscribed by Unión Fenosa, S.A. and immediately transferred to the Bank. The coupon rate on the bonds equals the Bank's interest rate. The bonds issued by the FTA have a six-year soft bullet structure, divided into a revolving and amortising period (the bonds should be fully amortised by 15 December 2010). The bonds are all rated AAA/Aaa thanks to the application of appropriate levels of over-collateralisation and other risk mitigating elements.

During the revolving period (for this transaction a 6-year period), the FTA will on a weekly basis acquire additional receivables that would be financed with the receivables collections. During the revolving period the EIB is paid only interests. At the end of the revolving period, the amortising period would begin, where the receivable collections would be used to reimburse the bonds rather than purchase new receivables. Due to the short amortisation period (3 to 10 months), the structure is referred to as a soft-bullet.

Credit enhancement: AAA/Aaa rated bonds backed by assets originated by a BBB corporate.

The basis for the AAA/Aaa rating of the bonds, includes: (i) high quality of the receivables (strict eligibility criteria and low default rate), (ii) credit enhancement (over-collateralisation) and (iii) the strong legal framework in Spain. The minimum over-collateralisation level is structured in accordance with credit enhancement requirements of the rating agencies and is constantly monitored by the Fund Manager based on a dynamic model whose parameters are revised in accordance with monthly statistical data on the portfolio of electricity trade receivables purchased by the FTA. The dynamic model includes elements to mitigate delinquency and default risk, dilution risk (a non-cash reduction in the receivable balance for reasons other than default) commingling risk (possible loss of funds held by the Originator/Servicer at the time of its possible bankruptcy). To achieve this, two rating agency dynamic models were specifically designed. Furthermore, adaptations were made in the collection process involving 20 different banks.

This is the first securitisation of this type for the Bank, undoubtedly creating the basis for future opportunities to finance corporate entities. By promoting this innovative financial product, the EIB sets forth a new benchmark in the capital markets that will be certainly followed by others.

Carlos Guille, Fernando de la Fuente, Andrea Tinagli
Directorate for Lending Operations in Europe
(Spain and Portugal Department)

Appointments to the EIB's senior management

Directors

Gabrielle LAUERMANN

Ms Gabrielle Lauermann *was appointed Director of the Press Office and Communications Department in the SG-JU Directorate in May 2004.*

Ms Lauermann holds a Master's degree in French and American literature and a diploma in journalism and communication science, in addition to an MBA. She began her career as a journalist with German television, then worked as project manager for a publishing house. Thereafter, she held posts as Director of Communications for Greenpeace in London and Amsterdam and with the Öko-Institut in Freiburg, before taking charge of the Communications and Marketing Department at the Goethe Institut's head office in Munich.

Mr Gianmaria Musella *was appointed Director of the Planning and Settlement of Operations Department in the Finance Directorate in April 2004.*

Mr Musella has a degree in economics and commerce from the University of Naples and qualified as an auditor at the Bocconi School of Management in Milan. Married with five children, he joined the Bank in 1980 after thirteen years with the ENI Group.

After several years in the Directorate for Lending Operations in Europe (Italy and France/Benelux Departments), he expanded his skill-set by working in the Credit Risk Department. In early 2001, he was appointed Head of the Back Office Loans Division in the Finance Directorate (Planning and Settlement of Operations Department).

Gianmaria MUSELLA

Associate Directors

Agustin AURIA

Mr Agustin Auría *was appointed Associate Director in charge of the Common Services and Facilities Management Division in July 2004.*

Mr Auría joined the Bank in 1994 as an engineer specialising in the fields of manufacturing, industry and research. After a secondment to the Organisation for Economic Co-operation and Development (OECD) in 1998, he continued his career in the areas of health and education in the Bank's Projects Directorate. Since March 2000, Agustín Auría has been head of the Common Services and Facilities Management Division within the EIB's General Secretariat.

A physicist, industrial engineer and holder of an MBA, Mr Auría worked as R&D Director and Technical Director in several multinational companies prior to joining the Bank. He is the author of 36 patents of invention in commercial use granted in Europe and the USA.

Mr Peter Carter *was appointed Associate Director in the Projects Directorate in July 2004.*

Since 2002, Mr Carter has headed the newly formed Environmental Unit (ENVU) of the Bank as well as chairing the Environmental Assessment Group (ENVAG). In 1995, he was appointed the EIB's Environmental Coordinator. Prior to assuming his environmental responsibilities, he worked successively as an economist in Africa, the Caribbean and the countries of Central and Eastern Europe. Before joining the EIB in 1985, Mr Carter worked for the UK Government's Economic Service in the then Department of the Environment and the Overseas Development Administration.

Mr Carter has taught at the Universities of Liberia and London and spent five years living and working in West and Southern Africa. He was educated at the Universities of Bristol, London and Oxford, where he was EIB Visiting Fellow in 1998-9.

Peter CARTER

***Mr Guy Clausse** was appointed Associate Director in the Projects Directorate – Policy Support Department in July 2004.*

Guy Clausse completed his studies in economics and business administration at the University of Cologne with the title of Dr.rer.pol. After teaching and research management activities there and in Lisbon, he joined the EIB in 1985. He became successively involved in economic project assessment, environmental cooperation, and lending coordination and planning (Head of Division since 1999). He notably participated in major lending policy initiatives, including the Bank's shift to innovation finance and its preparation for EU enlargement, and in forging links with related actions at EU Council and Commission level. Since 2000, he has headed the Operational Lending Policies Division in the newly created Policy Support Department.

Guy CLAUSSE

***Mr Fernando de la Fuente** was appointed Associate Director in the Directorate for Lending Operations in Europe in July 2004.*

Mr de la Fuente joined the EIB in 1986, the year of Spain's accession to the EU, initially in the Italy Department at the Bank's Rome Office. In 1988 he transferred to the Germany, Spain and Denmark Department in Luxembourg. In 1989, he assumed the position of head of the Bank's operational office in Madrid when it opened. A Managerial Adviser since 1995, he was posted back to Luxembourg in 2000 and promoted to the position of Head of Division for Industry, Energy, Telecommunications and Banks in Spain.

Mr de la Fuente holds degrees in economics and business administration. He also studied law at the University of Madrid and holds a diploma in European Community Studies from the Spanish Ministry of Foreign Affairs. Prior to joining the EIB, Fernando de la Fuente pursued a career in banking for almost a decade at Lloyds Bank International in Spain and Portugal and then at Lloyds Merchant Bank in London, in the fields of Corporate Banking and Capital Markets.

Fernando DE LA FUENTE

***Mr Jacques Diot** was appointed Associate Director in the Directorate for Lending Operations in Europe in July 2004.*

A graduate (majoring in finance) of the Institut Commercial de Nancy and a credit analysis specialist, Mr Diot began his career in the Lorraine Region. A managerial assistant at Société de Développement Régional, he successfully presented his first dossiers to the EIB between 1973 and 1978, the year in which he joined the Bank and was immediately posted to Italy. At the Rome Office, he was responsible for developing lending operations alternately in the infrastructure and industrial sectors. In 1985, he returned to Luxembourg to apply his expertise to EIB activity in France, becoming Head of Division in 1994.

Jacques DIOT

***Mr Georg Huber** was appointed Associate Director in charge of the Systems Development and Procedures Division in the Finance Directorate's Planning and Settlement of Operations Department in July 2004.*

Mr Huber joined the EIB in 1980 as an IT expert. He soon moved to the Finance Directorate and covered various areas in the Treasury and Capital Markets sectors. He introduced the Bank's asset and liability management system and contributed to the large-scale use of derivatives. In the Credit Risk Department since 1997, he has been responsible for the EIB's credit portfolio with banks, placing special emphasis on securitisation.

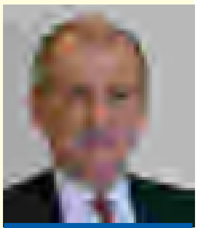
Prior to joining the EIB, he worked in a German mathematics and computer science research institute and on a number of IT projects in the private sector. Mr Huber has a degree in mathematics and business administration from the Technical University of Munich.

Georg HUBER

***Mr Gerhard Hütz** was appointed Associate Director in the Legal Support for Lending Operations Department in July 2004.*

With a bank apprenticeship, a German degree in law and a PhD in US and German banking law, Mr Hütz joined the Bank's Legal Affairs Directorate in 1992. Since then (as Head of Division from 1999) he has worked on operations in Germany, Austria and Central and Eastern Europe, as well as (since 2001) in Russia. In 2003, his Division was responsible for 175 operations in 13 countries with an overall volume of EUR 11 700 million. Prior to joining the EIB, he worked in the Legal Department of Deutsche Bank. Mr Hütz has published several articles on public, comparative and banking law topics. He also writes regularly on the EIB in leading German law publications.

Gerhard HÜTZ



Justin LOASBY

__Mr Justin Loasby__ was appointed Associate Director in the Directorate for Lending Operations outside Europe in July 2004.

A graduate of Oxford University and the London Business School, Mr Loasby started his professional career in the City of London, working in corporate finance and investment management at Morgan Grenfell & Co Ltd and in venture capital and SME financing at 3i plc. He joined the EIB in 1978 and worked on the Bank's lending operations within the European Union (in the UK, Ireland and North Sea sector). In the early 1980s, Mr Loasby switched to the Directorate for Operations outside the Union, where he has been responsible for operations in West Africa, Central Africa, the Caribbean region, and (most recently) Southern Africa and the Indian Ocean.

__Ms Elisabeth Matiz__ was appointed Associate Director in charge of the Coordination and Support Division in the Risk Management Directorate in July 2004.

A former pupil of the European School in Luxembourg, Ms Matiz joined the EIB in 1971 as an assistant/secretary in the Research (now Projects) Directorate. After 17 years in the Directorate for Lending Operations in Europe where she contributed, inter alia, to the introduction of the first IT application for recording the Bank's operations, Ms Matiz was transferred to her current Directorate in 1997 in order to set up a Middle Office and develop the IT side of credit risk. In 2000, she was appointed Head of the Coordination Division and in 2001 was assigned the task of managing the SERAPIS project – the new IT application for recording the Bank's operations, introduced to replace the four previous versions which had all been implemented under her charge.

Elisabeth MATIZ

__Mr Manfredi Tonci Ottieri__ was appointed Associate Director in the Legal Support for Lending Operations Department in the General Secretariat and Legal Affairs Directorate in July 2004.

Manfredi TONCI OTTIERI

A Doctor of Law from the University of Rome, Mr Tonci Ottieri joined the Bank in 1979. Within the Legal Affairs Directorate, he worked as an operational lawyer for Italy, the former Yugoslavia, Romania, Israel, Albania, Portugal, Turkey, drafting and negotiating the EIB/EFTA Cooperation Agreement. Between 1982 and 1990, he was seconded as a lawyer to the Bank's Italy Department in Rome. Following his return to the Legal Affairs Directorate's Italy Division in Luxembourg, he was notably given responsibility for legal questions arising in the creation of the EIF, helping to draft the latter's Statutes. Between 1995 and 1997, he worked in Washington D.C. on secondment as Senior Counsel to the Legal Department of MIGA, an agency of the World Bank Group specialising in political risk guarantees. Upon returning to Luxembourg, he was placed in charge of coordination of the Legal Affairs Directorate. In 1999, he was appointed Head of the Italy, Greece, Cyprus and Malta Division of the Operations Department of the Legal Affairs Directorate. Before joining the Bank, Mr Tonci Ottieri was employed in various law firms in Italy.

__Mr Patrick Walsh__ was appointed Associate Director in the South East Europe ("SEE") Department in the Directorate for Lending Operations in Europe in July 2004.

A holder of Banking Studies Diplomas and a Qualified Accountant (FCMA), Mr Walsh joined the EIB in 1983, having previously been employed in the Civil Service and the financial sector (banking/venture capital) in Ireland. He then worked as a Loan/Country Officer on Bank operations in various regions outside the EU and was appointed Head of Division for Lending Operations in the Middle East, Cyprus and Malta in 1995. In 2000, he was made Head of a new Division for Lending in the Balkan Region and Turkey, within the then Mediterranean Department. During the period 2002-03, he was also closely involved in the planning and creation of the New Investment Facility ("FEMIP") for the Mediterranean Region. Currently, Mr Walsh continues to head up Bank operations in Turkey. As Head of Division for the Balkans and Turkey during 2000-03, he was responsible for coordination with other IFIs, the Commission and the Stability Pact in the SEE Region, and was appointed Alternate Director for the EIB on the Board of the EBRD in London in early 2004.

Patrick WALSH

Mr. Philippe de Fontaine Vive, EIB Vice-President, Mr. James Wolfensohn, President of the World Bank and Mr. Philippe Maystadt, President of the EIB.

Memorandum of Understanding between the European Commission, the EIB and the World Bank

On 4 May 2004 the European Commission (EC), the European Investment Bank (EIB) and the World Bank signed a joint Memorandum of Understanding aimed at enhancing donor coordination in the Middle East and North Africa/Southern Mediterranean region. The agreement signed in Brussels by senior officials from the three institutions will lead to a more focused and complementary approach at all levels from programme implementation to aid programming and overall policies.

Despite the region's rich cultural history and heritage, its vast wealth of natural resources with nearly three quarters of the world's energy reserves and its undoubted development potential, the Middle East and North Africa/Southern Mediterranean region faces increasing challenges to improve the welfare of its citizens.

Enhancing donor coordination

To date, the donor's policy response has been to focus more closely on reform issues, to partner with civil society and to engage more broadly with the countries through initiatives such as the EU's Barcelona Process, Association Agreements and Neighbourhood Policy, the World Bank's regional Strategy and the EIB's Facility for Euro-Mediterranean Investment and Partnership (FEMIP). At the same time, there have been increased efforts at donor coordination, at all levels from programme implementation to aid programming and overall policies. The purpose of this MoU is to further enhance, structure and streamline this coordination process.

Visit of the President of the World Bank Group

The President of the World Bank Group, **Mr. James Wolfensohn**, visited the Bank in Luxembourg on 14 may 2004. Mr. Wolfensohn addressed the Bank's staff on the theme of global imbalances and held meetings with members of the EIB Management Committee which confirmed the complementarity between the World Bank's overarching goal to alleviate poverty and the EIB support of EU policies, notably in its neighbouring countries.

The visit of the President of the World Bank Group to the EIB culminated a process of getting both institutions closer to each other over the past year. In that sense, mutual satisfaction was expressed about the recent signing of the Memorandum of Understanding between the European Commission, the World Bank and the EIB.

Natural partners in the region

As major providers of external development assistance in the region as well as economic and sector work underpinning policy reforms, the signatories to this MoU are natural partners in the region's development efforts. While each has its own mandate and domains of policy emphasis, these are very complementary. The countries in the Region would benefit significantly from joint efforts by the donor community to work more closely at the regional, country and sectoral levels. This would also help to prevent duplication and competition of efforts, facilitate focus on respective strengths of the Partners and provide greater potential linkages between policy and investment initiatives.

A coordinated approach linking EC grant assistance operations, EIB project financing and World Bank loans and technical capacity will enhance the flexibility of each Partner in responding to the region's needs and offers significant promise for improving development outcomes.

New EIB Papers

The EIB has published the latest issues of its EIB Papers, which focus on the internationalisation of production in Europe. This publication follows the Bank's Annual Conference on Economics and Finance held earlier this year on this topic (see EIB-Information N°116).

The 2004 Papers discuss the causes and effects of foreign direct investment (FDI) and non-equity forms of international production (Volume 9, Number 1), and presents specific case studies of foreign direct investment in old and new EU Member States (Volume 9, Number 2).

The EIB Papers are published each year by the Bank's Economic and Financial Studies Division (EFS). The publication, comprising two issues, aims at encouraging high quality economic research and debate on matters of European Interest. As such, the Papers are intended to be accessible to non-specialist readers and emphasise policy dimensions rather than technical issues. They present the result of research carried out by Bank staff together with contributions from external scholars and specialists.

The EIB Papers are available in English only and can be received free of charge from infoefs@eib.org or downloaded from EFS's website: www.eib.org/efs.

European Financing Partners - a win-win partnership

The Cotonou Agreement's Investment Facility, together with CDC, DEG, Finnfund, FMO, PROPARCO and BIO, has set up a joint-venture called European Financing Partners (EFP). These six bi-lateral European development finance institutions, from the United Kingdom, the Netherlands, Germany, Finland, France and Belgium have established themselves as Committing Partners in the EFP joint-venture for the financing of projects that fall within the operational guidelines of the Investment Facility.

Signature in Paris of the European Financing Partners Agreement by EIB Vice-President Michael Tutty and R. Michael Barth Chairman of the EDFI

The EFP joint-venture builds on existing agreements on cooperation of staff and other resources between the EIB and the Association of European Development Finance Institutions [1], institutions providing long term finance for private sector enterprises in developing economies. The EFP now constitutes the third tangible leg under the EDFIs-EIB cooperation, after a number of more basic regional Global Loan operations.

The EFP will be the facility under which the 6 EDFI partners - the Committing Partners - and the Investment Facility will co-finance projects on a 50/50 basis. Outside the circle of the five Committing Partners, other participating EDFIs can also initiate projects. The EDFI, a Promoting Partner, puts up 25% of the funding. Hence, any EDFI can propose a project for co-financing under the EFP scheme. A typical EFP project will be financed: 25% Promoting Partner, 25% another Committing Partner, 50% Investment Facility.

EFP is a joint venture with EUR 30 000 capital. It will channel the Promoting and Committing Partners' funds and those of the EIB (i.e. the Cotonou Agreement's Investment Facility) to projects and manage the portfolio. The Investment Facility has committed EUR 6 000 in EFP's capital and pledged EUR 90m for projects to be financed under EFP, which will result in projects financed up to EUR 180m.

Through the EFP the cooperation between the Member States' financing institutions and that of the Union, the EIB, will become visible, while at the same time creating synergies. By pooling and optimizing staff and other resources through joint project appraisal and project management and leveraging the projects financing over more than one partner in the EDFI-EIB cooperation, EFP will also create synergies and the cooperation is a good example of a win-win situation. The Investment Facility will gain from the EDFI's private sector expertise and comparative advantage resulting from their network of local representations in ACP countries. EDFIs will gain the advantage of 50% funding leverage from the Investment Facility for projects of their selection and; if it is only a Promoting Partner, it will gain a further 25% leverage from one of the EDFI Committing Partners.

The ERP can be contacted at EDFI, tel. +32 2 230 2369, www.edfi.be.

Bram Schim van der Loeff
Press Office and
Communications Department
(+352) 43 79 3134
a.schimvanderfoeff@eib.org

(1) EDFI members are: APAD, Portugal – AWS, Austria – BIO, Belgium – CDC, United Kingdom – COFIDES, Spain – DEG, Germany – FINNFUND, Finland – FMO, Holland – IFU/ IFV/IØ, Denmark – NORFUND, Norway – PROPARCO, France – SBI/BMI, Belgium – SIMEST, Italy – SWEDFUND, Sweden. EDFI was founded in Brussels in 1992 to promote cooperation among its members and to strengthen links between these and EU institutions.

Cotonou goes back to its roots

The EU, CDE and the EIB met with the private sector in Bénin on 15 April of this year. Under the title "Comment favoriser le développement du secteur privé au Bénin?" the EU delegation in Cotonou had created an opportunity for the EU and EIB to present what they can offer for the Bénin private sector and what is expected of that private sector itself and the administration in order to develop the private sector in the Bénin economy.

Some 90 representatives of local banks and professional organisations listened to presentations of the Industry Ministry, chambers of commerce employers' organisations and the EU partner institutions.

The debate focused on the availability of affordable funds for valuable and justifiable projects. The EIB and its partner-banks basically lack valuable projects for their joint financial instruments facilitating sustainable financing.

In Bénin, with a private sector of only 14% of Gross Domestic Product, autonomous private sector development has not been a success, in spite of the government's efforts to open up markets. It is therefore important to first concentrate elements supporting private sector development from the Government such as legislature, judiciary and governance (taking

The Centre de Développement de l'entreprise (CDE) is a joint institution of the ACP States and the EU – part of the Cotonou Agreement – to support and promote the private sector and so help combat poverty. CDE works in co-operation with other key development players; local, public and private sector multilateral and bilateral agencies, in (co) funding operations in and for the private sector, often of a technical assistance or educative nature preparing larger financial support being given to individual projects or sectors. Through its local antennae, in the various ACP States, the CDE functions as wide network of Business Support Systems for potential private sector promoters.

The Cotonou Agreement spells out: "poverty reduction and its ultimate eradication; sustainable development; and progressive integration of the ACP countries in the world economy" as the central objective of ACP-EU co-operation. The private sector is seen as the driver of development and growth as it promotes entrepreneurship and contributes to sound corporate governance and to market conditions that will lead to long-term sustainable economic development and the alleviation of poverty.

The Investment Facility (IF), the key financial instrument that the EIB manages under the Cotonou partnership agreement, is a risk taking financial instrument for the private sector. It will take project related risk for which it expects a return. The IF will support both the growth of local enterprises and finance foreign direct investment and commercially viable public enterprises with various forms of senior and junior debt and risk sharing financing instruments.

Microfinance

The EIB supports microfinance in Bénin through Finadev, a subsidiary of the Financial Bank, itself a joint venture between the IFC, AFD and FMO* and a one of the EIB's Global Loan intermediaries in Bénin. Microfinance is a highly rewarding but very work-intensive way of financing very small, mostly one-person projects – often facilitating participation of women in the economy. One of the ways Finadev grants micro-finance, is by holding a motivation class where a dozen or so potential investors are instructed in basic business management and "corporate governance". Coming out of that an investment demand can be submitted existing basically of a (hand-written) proposal, proof of identity and a passport photograph as well as a character reference. Credits are often granted for small ventures, e.g the purchase of trading goods for the market, small industrial ventures, such as T-shirt printing or the sale of logo-ed ball-point pens for the holiday season and/or subsequent small factories or workshops where sewing machines and other infrastructure may be financed.

It is clear that the emancipatory, motivational and educational effect of a progression of successive, developing (size) micro-credits or the granting of micro-credits to groups, families, villages, further contributing to the social structure are key to the work in the microfinance sector.

*International Finance Corporation (Worldbank affiliate; Agence Française de Développement (F); Financieringsmaatschappij voor Ontwikkelingslanden (NL)

The New Investment Facility's Annual Report is now available on the EIB web site www.eib.org (Publications).

control of the informal economy – within and outside Government circles). Improvement in the legal, corporate and governance sphere, increased reliability of the players, need to come before so-called EU "horizontal" policies, e.g. supporting quality and production for export of agricultural and fisheries' produce to the EU. Only then can regional, political and commercial cooperation, "technical assistance" from e.g. CDE and its local antennae for the production and presentation of adequate private projects become effective.

The EIB has financed an amount of EUR 49 million in Bénin, –recently– EUR 20m for the connection of Bénin with the Sat 3 cable around the African continent and rehabilitation of the OPTB (Bénin Post-office) telecommunications network and EUR 6.1 million in Global Loans for SME and Microfinance support. In addition to improvement of the legal infrastructure and the corporate governance environment, which local government should assure, the EIB brings a variety of financial products to the development finance market, ranging from senior through junior debt and many forms of mezzanine finance and equity taking. The highest expectation for successful EIB intervention rests, however, with its Global Loan line to the four main banking players in the Cotonou market, the Bank of Africa, Ecobank, Financial Bank and Société Générale des Banques au Bénin.

Bram Schim van der Loeff
Press Office and
Communications Department
(+352) 43 79 3134
a.schimvanderfoeff@eib.org

EIB Forum 2004

The EIB will hold its annual Forum 2004 in Warsaw on 14 and 15 October. The topic ***Investing in the New Member States*** *addresses both participants from old and* new Member States. *The Forum will look at investment trends* in *infrastructure and opportunities for foreign direct investments in the private sector of the new Member states.*

BEI/EIB FORUM
2004 WARSAW

Important investments in the new Member States are needed for catching-up economically to the income levels of the old ones and, thereby, contribute to the enlarged European Union's social cohesion. And, important investments are also needed for reducing the wide disparities in employment and income levels within the individual new Member states. From this year on, EU's Structural and Cohesion Funds will provide substantial amounts of grant money that can be combined with EIB loans for co-financing infrastructure. The financial resources must be used most efficiently for achieving sound and regionally balanced growth. Therefore, the Forum will also look at policy lessons to be learned from countries that have managed to catch-up rapidly, such as Ireland or Spain.

The Forum will allow participants to hear first-hand information from EU Officials, EU government representatives, business companies and banks about the policy context and investment needs and opportunities and sources of finance available.

A detailed programme and information on scheduled speakers is available under www.eib.org/forum.

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European Investment Bank
100, bd Konrad Adenauer
L-2950 Luxembourg
(+352) 43 79 - 1
(+352) 43 77 04
www.eib.org
info@eib.org

External Offices

Rue de la Loi 227/Wetstraat 227
B-1040 Bruxelles/Brussel
(+32-2) 235 00 70
(+32-2) 230 58 27

21, rue des Pyramides
F-75001 Paris
(+33-1) 55 04 74 55
(+33-1) 42 61 63 02

Via Sardegna 38
I-00187 Roma
(+39) 06 47 19-1
(+39) 06 42 87 34 38

364, Kifissias Ave & 1, Delfon
GR - 152 33 Halandri/Athens
(+30) 21 06 82 45 17
(+30) 21 06 82 45 20

Lennéstraße, 11
D-10785 Berlin
(+49-30) 59 00 47 90
(+49-30) 59 00 47 99

Avenida da Liberdade, 144-156, 8°
P-1250-146 Lisboa
(+351) 213 42 89 89
(+351) 213 47 04 87

2 Royal Exchange Buildings
London EC3V 3LF
United Kingdom
(+44) 20 73 75 96 60
(+44) 20 73 75 96 99

Calle José Ortega y Gasset, 29, 5°
E-28006 Madrid
(+34) 914 31 13 40
(+34) 914 31 13 83

6 Boulos Hanna Street
Dokki, Giza 12311, Cairo
Egypt
(+20-2) 33 66 583
(+20-2) 33 66 584

European Investment Fund
43, avenue J.F. Kennedy
L-2968 Luxembourg
(+352) 42 66 88 - 1
(+352) 42 66 88 - 200
www.eif.org
info@eif.org

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