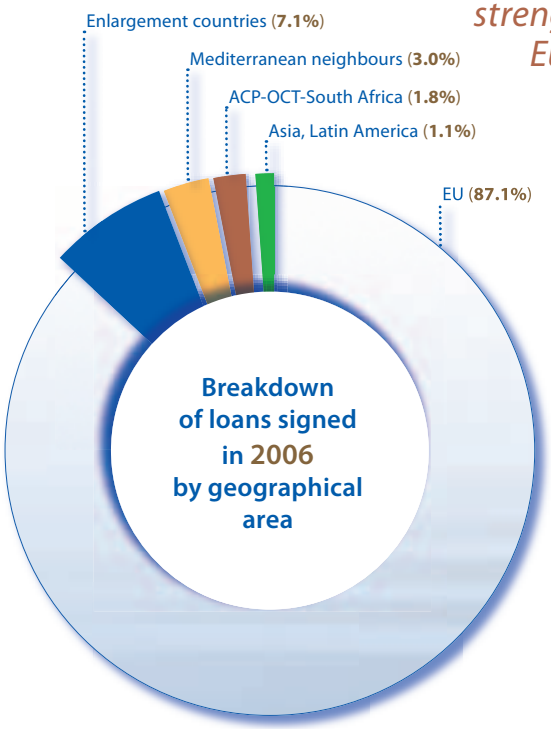
info
N° 126
The information magazine of the **European Investment Bank Group** • 1 – 2007 • ISSN 0250-3891

EIB: more risk-taking to finance Europe's future

The European Investment Bank further increased its financial strength in 2006, carrying out its priority tasks within the European Union, coping with its broad remits in partner countries outside the EU and at the same time taking on greater risks.



Total lending of EUR 45.8bn in 2006 supported projects promoting the European Union's policy objectives in the main priority areas of the Bank's activities:

- Social and Economic Cohesion (EUR 26.7bn)
- Research and innovation (EUR 10.9bn)
- Environmental protection (EUR 10.9bn)
- Major European infrastructure networks or Trans-European Networks (TENs, EUR 8bn)
- Support for SMEs, the backbone of Europe's industry (EUR 5.8bn)
- Sustainable, competitive and secure energy supplies (EUR 3bn).

info

EIB Information is published periodically by the Communication Department of the European Investment Bank.

Editor in charge: Daniela Sacchi-Cremmer.

Layout: EIB graphics workshop, Sabine Tissot.

Photos: EIB Photographic library, BMW World 1999-2005, AVE, RFF-LGV Rhin-Rhône, EC, Hinhibox.

Material which appears in EIB Information may be freely reproduced; an acknowledgement and clipping of any article published would be appreciated.

Lending in 2006 supported investment in excess of EUR 120bn, two thirds of which in the Union's least favoured areas.

To fund its activities, the EIB raised an aggregate amount of EUR 48bn on the international capital markets through 303 bond issues in 24 currencies.

To meet its strategic objectives and in order to support strategic projects by accepting a higher risk profile, the Bank is adapting its lending policy, loan rating and risk pricing. The revised credit risk policy includes, for instance, relaxing the minimum conditions governing acceptability of new operations and reducing the security requirements.

In addition, new instruments are being developed in conjunction with the EIF, the Commission, commercial banks and international financial institutions that enable risk to be spread so as to better reflect those partners' individual expertise and roles.

EIB Press Conference in Brussels

Initiatives within the Union involving greater risk-taking proposed by the EIB Group and the European Commission include the following:

Risk-Sharing Finance Facility (RSFF)	The RSFF is an innovative scheme to improve access to debt financing for private companies or public institutions promoting activities in the fields of research, technological development demonstration and innovation investments. Subject to agreement on the Financial Perspectives for 2007-2013 and on the budget of the 7th Framework Programme 2007-2013 (FP7), up to EUR 1bn could be provided. The RSFF is built on the principle of credit risk sharing between the EU and the EIB and extends the Bank's ability to provide loans or guarantees with a sub-investment grade risk profile. The scheme also provides opportunities for new and innovative EIB financing solutions directed at the private sector and the research community.
Loan Guarantee Instrument for TEN-Transport (LGTT)	This is a facility to be managed by the Bank and supported by a EUR 1bn allocation under the new TEN-T Financial Regulation over the period 2007-2013, subject to agreement on the Financial Perspectives, and it is designed to guarantee revenue risks for a limited period following the construction of projects, notably under a PPP structure.

(See also article on Technology Transfer Accelerator, p. 26)

Bridging development gaps within Europe

On the eve of the 50th anniversary of the Treaty of Rome, in line with Treaty-based tasks and fully reflecting the challenges resulting from enlargement, the EIB remains committed to financing Economic and Social Cohesion within the Union. In 2006, two thirds of EIB lending within the European Union supported regional development objectives with an aggregate amount of EUR 26.7bn.

In the coming years, in line with the renewed Cohesion Policy for 2007-2013, and in order to reflect the new orientations at EU level, the Bank will concentrate on lending to the 113 convergence regions in the EU-27, with a population of 190 million. Over the seven-year period, EUR 308bn in grants from the Structural Funds will be allocated to EU convergence and regional competitiveness policy objectives.

Temporary transitional measures will be introduced up until the end of 2007 to cover operations that are already in the project pipeline but fall outside the new convergence objective. The other two objectives of the EU Structural Funds – regional competitiveness and employment – will be supported through operations under other lending priorities (research and innovation, Trans-European Networks, SMEs, energy and the environment).

In addition to that, in close cooperation with the Commission, the EIB will provide new advisory services as Joint Assistance to Support Projects in European Regions (JASPERS), primarily for projects located in the new Member States, and financial engineering as part of the initiative for Joint European Support for Sustainable Investment in City Areas (JESSICA).

Small and medium-sized enterprises in the spotlight

Together, the EIB and the European Investment Fund – the EIB Group – supported an estimated 209 000 SMEs in 2006. About 26 000 SMEs in the EU-25 benefited from EIB lines of credit of EUR 5.8bn through commercial banks. The EIF made a powerful contribution by investing EUR 688m in venture capital funds, bringing its aggregate portfolio to EUR 3.8bn, and providing EUR 2bn in guarantees for SME loan portfolios of banks and financial institutions. The EIF's activities helped to finance around 183 000 SMEs, of which nearly a third were micro-enterprises with less than 10 employees. The EIF is also set to give a fresh boost to support for SMEs by making a further EUR 1.1bn available under the 2007-2013 "Competitiveness and Innovation" (CIP) Framework Programme for deploying innovative financial products, particularly for SME start-ups.

Proposals involving innovative financial structures for SMEs have recently been identified. They include risk-sharing mechanisms and/or combinations of national and regional SME support tools with EIB products. In late 2006, an EIB Group Strategic Committee for the Support of SMEs was created, which will review the range of products offered by the EIB Group. It will also consult European representatives of SMEs and the banking community in order to implement the Bank's new policy on greater risk-taking for increased value added in the context of SME lending.

Borrowing: strategy adds value for customers

The EIB maintained a consistent funding strategy in 2006, entailing both continuity and innovation in its benchmark programmes and tailor-made issuance. The resulting achievements benefited loan customers, both in the EU and local developing markets targeted by the Bank.

Funds totalling EUR 48bn were raised in a record 24 currencies. Core currencies (EUR, GBP and USD) remained the main source of funding, with EUR, USD and GBP contributing 36%, 30% and 18% respectively.

Benchmark programmes in core currencies raised EUR 28bn, strengthening the EIB's position as a multi-currency sovereign-class benchmark issuer. The largest amount was raised in euros (EUR 10.6bn), followed by USD (EUR 9.7bn equivalent) and GBP (EUR 8bn equivalent).

Developmental work continued in currencies of the new Member States and Acceding/Accession Countries. The largest source of demand continued to be for Turkish liras. The Bank launched its first floating-rate

Examples

- *Construction of new high-speed rail line linking Madrid to Barcelona and French border (Spain)*
- *Widening of several sections of motorway network (Portugal)*
- *Extension of the Polish motorway network (Poland)*

Examples

- *Financing of public scientific and university research and related infrastructure (Poland)*
- *Research and development at research centres (Spain)*
- *Development of hydrogen-powered passenger cars and creation of new vehicle testing laboratories (Germany)*

Focus on energy

In outlining the lending strategy for 2007, EIB President Philippe Maystadt underlined the importance of energy. Target areas for the Bank are those that will help the EU to diversify its supplies and make them more secure. Energy has moved to the top of the EU policy agenda, in relation to security of supply and climate change considerations as well as competitiveness, and the EU is currently formulating new policies for this sector.

Value added also remains the key guiding principle for EIB operations involving energy-related projects. The approach will include recourse to innovative financial instruments and structures where appropriate, as well as technical assistance contributions, in cooperation with the Commission and other international financial institutions (see article on the Multilateral Carbon Credit Fund, p. 17).

The Bank invested EUR 3bn in energy projects in 2006 and expects to invest EUR 4bn this year, of which EUR 600m to EUR 800m will be for renewable energy (EUR 463m in 2006.)

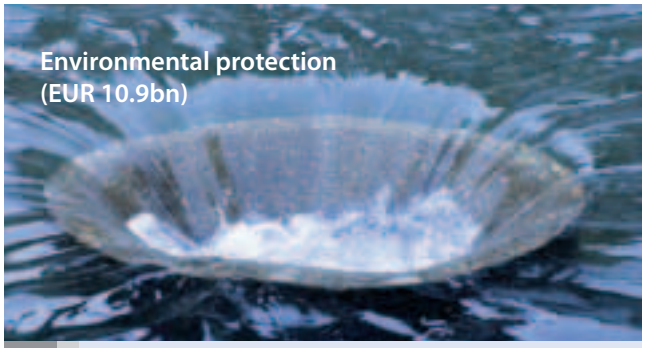
note in Bulgarian leva and issued bonds in three other currencies from this region (CZK, HUF and PLN). Outside Europe, the EIB launched its first issue in Egyptian pounds and raised funds in currencies of Cotonou countries.

The market's positive reaction to the EIB's funding strategy was once again reflected in a number of distinguished awards, such as "Most Impressive Borrower" or "Most Innovative Borrower".

In 2007 the Bank, said Mr Maystadt, addressing questions at the press conference, "will borrow roughly the same amount as in 2006, up to 50 billion euros". The borrowing would again focus on euros, US dollars and pounds sterling, he added.

First JEREMIE agreements in 2006

JEREMIE (Joint European Resources for Micro-to-Medium Enterprises) is a joint European Commission, EIF and EIB initiative designed to give EU Member States the option of using a portion of their 2007-2013 Structural Fund allocation to establish a revolving fund, managed by a fund manager, to improve access to finance for SMEs in regional development areas through a tailored package of financial products. A dedicated JEREMIE team has been established at the EIF to make an EU-wide evaluation of SME access to finance and to manage future JEREMIE investments. In partnership with National Managing Authorities, these specialists are currently evaluating – through to end-2007 – the options for JEREMIE in each case. Memoranda or Letters of Understanding were signed in 2006 with the Slovak Republic and Greece and in 2007 with Romania, while negotiations are at an advanced stage with several other Member States or regions.



Examples

- *Construction of two 50 MWe solar thermal power generation plants in wide valley north of Sierra Nevada and south-east of Granada (Spain)*
- *Improvement and expansion of Maputo's water supply network (Mozambique)*

Examples

- *LGV Rhine - Rhône (France)*
- *Construction and operation of south section of A5 (northern motorway) and sections of S2 (Vienna northern perimeter expressway) and S1 (Vienna outer ring expressway), Austria*

Looking ahead

Within the European Union, concluded Mr Maystadt, the EIB Group's ambition in 2007 "is not so much to increase the volume of its financing as to contribute effectively, through a more selective choice of projects, to achieving the Union's objectives and to mobilise funds from other sources for such projects."

This goal – set by the Bank's Board of Governors – of giving priority to the quality rather than the quantity of projects explains the slight fall in the volume of lending in the Union in 2006 (EUR 39.8bn against EUR 42bn in 2005). At the same time, Mr Maystadt added, "the fluid political situation in a number of new Member States meant that it was not possible to implement certain projects at the pace envisaged".

EIB activity in the countries that joined the European Union in May 2004 amounted to EUR 5bn in 2006 compared to EUR 5.8bn in 2005.

With a more stable volume of activity, the EIB Group will concentrate on more complex projects and more innovative financial products. In so doing, it will remain committed to supporting all 27 Member States, even though, in relative terms, priority will be given to the 12 new Member States. □

Responsible Reporting

Corporate Responsibility (CR) reporting is a key element of the EIB's transparency and accountability and fits into a broader process of setting and implementing strategies and policies and evaluating their outcomes. It describes the way in which the Bank ensures proper governance, transparency and accountability, taking account of the economic, environmental and social aspects and impacts of the Bank's lending activities.

The Bank's second CR report, published in February 2007, concentrates on activities in 2006 and new strategies, policies and procedures, including impact assessment and future goals. Following on from the first comprehensive CR report published in June 2006, it covers all EIB activities, products and countries of operation, but excludes the European Investment Fund (EIF).

The 2006 CR report is complemented by information provided in the EIB's 2006 Annual and Activity Reports as well as information available on the Bank's website.

The expectations of the EIB's shareholders regarding disclosure were taken into account during the careful in-house editorial process. Interested parties include the Member States, customers and other business partners, EU institutions, specialised rating agencies and investors, civil society organisations and the general public.

Corporate Responsibility: the road ahead

For the 2007 CR report, the Bank intends to move towards a more web-based reporting method. A dedicated Corporate Responsibility website will be created, substantially reducing the size of the paper version. For the first time, next year's CR report will also include the EIF, so covering the whole of the EIB Group.

by Felismino Alcarpe
Corporate Responsibility Policies Division

Examples

- *Financing of small and medium-scale projects in Brussels region (Belgium)*
- *Financing of small and medium-scale projects promoted by SMEs (France)*
- *Financing of small and medium-scale projects (Czech Republic)*

Examples

- *Construction of two 50 MWe solar thermal power generation plants in wide valley north of Sierra Nevada and south-east of Granada (Spain)*
- *Construction of high-pressure gas pipeline linking Komotini to Turkish natural gas transmission network at Greek/Turkish border*

New EIB external mandates

Acknowledging the prominent role of the EIB in the implementation of the financial aspects of European external policies, the December 2006 European Council authorised the Bank to lend up to EUR 27.8bn between 2007 and 2013, an increase of more than a third in EU-guaranteed financial resources compared with the period 2000-2006 (EUR 20.7bn).
The Bank's action will focus on:

- *Preparing for the accession of the future Member States (EUR 8.7bn);*
- *The process of convergence with the Union's neighbours (EUR 12.7bn, the EIB's biggest mandate ever);*
- *Cooperation with other continents, in order to take account of the other financial players.*

The EIB will also continue and further strengthen its close cooperation with the European Commission and the other international financial institutions operating in the countries concerned[1].

Pre-accession countries (Croatia, Turkey and the Former Yugoslav Republic of Macedonia) and potential candidate countries (Western Balkans)

The EIB is authorised to lend EUR 8.7bn with a European Union guarantee. The Bank's loans and guarantees will support projects contributing to the priorities defined in agreements between these countries and the European Union.

In the candidate countries, the EIB will support the incorporation and implementation of the "acquis communautaire" with a view to accession. In potential candidate countries, EIB operations will continue to shift, as appropriate, from reconstruction to pre-accession support in line with EU priorities.

Loans and guarantees under mandate will be complemented by operations under the Bank's Pre-Accession Facility, which was created in 1998 and will be renewed and extended at the beginning of 2007 for the candidate countries. This Facility will be made available over time to the potential candidate countries in line with the progress of their accession process.

In this region, the EIB will also develop operations under its Structured Finance Facility, which enables the Bank to support projects presenting a higher risk profile with financial instruments that go beyond its traditional senior loan (mezzanine and subordinated debt, derivatives and equity-type instruments).

European neighbour countries

The EIB is authorised to lend EUR 12.4bn with a European Union guarantee in Europe's Eastern and Mediterranean neighbours over the period 2007-2013. This represents the biggest mandate in its history for operations outside the Union (see article on FEMIP for more on the Mediterranean mandate).

This increase recognises the contribution the EIB has already made in support of the European Union's external policies, particularly in the Mediterranean, and under the recent mandate in Russia, Ukraine and Moldova. Building on the results already achieved, the EIB will continue to promote regional integration, economic modernisation and social stability in the region. In a nutshell, it will continue to support the European model and help to make true partners of its geographical neighbours.

The new mandate also takes into account the changing borders of the Community and has an expanded geographical scope covering the Southern Caucasus.

EIB loans and guarantees, coupled with resources to be made available under the European Neighbourhood and Partnership Instrument (ENPI), as well as contributions from other European and international institutions, will provide the means to finance a significant number of projects in the region, resulting in sustained growth, investment and job creation.

[1] (See article "2006, an exciting year for FEMIP", p. 8 for details of the mandate for lending to the Mediterranean neighbours.)

by Daniela Sacchi-Cremmer
Communication Department

For Eastern Europe, the Southern Caucasus and Russia, the ceiling will be EUR 3.7bn. The EIB commenced operations in the Russian Federation in 2003, with a total of EUR 100m to support selected environmental projects in the Baltic Sea rim area, followed by a second mandate for Russia – as well as Ukraine, Moldova and Belarus – for an amount of EUR 500m for projects in the environmental sector as well as transport, telecommunications and energy infrastructure on priority transport axes having cross-border implications for a Member State. Thus the new mandate, by extending its competencies to new partners, represents a fresh challenge for the Bank.

South Africa

The EIB will be entitled to lend EUR 900m with European budget support in the Republic of South Africa over the period 2007-2013. This represents a small increase compared to the previous EUR 825m mandate for the period 2000-2006.

The South African Government's Growth Initiative aims to increase real GDP growth to about 6% per annum in the period up to 2014 in order to effectively reduce unemployment and poverty. This will require a substantial rise in the investment rate from the current 18% to about 25% of GDP, as reflected in the planned major public sector investment programme in infrastructure. As a result, domestic savings will need to be complemented by capital imports to finance these investments.

In this context, the Bank's support for the South African economy will be reviewed as part of the mid-term review of all external mandates to be carried out in 2010.

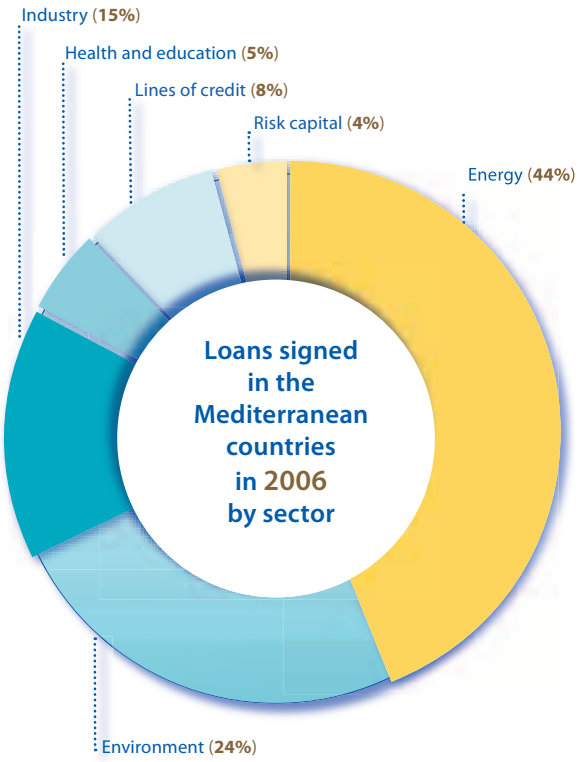
Given the clear focus on infrastructure projects of public interest and private sector support for the new mandate, the Bank will shortly enter into discussions with the South African authorities to determine how best to support the country's development strategy.

Asia and Latin America

The EIB will be entitled to lend EUR 3.8bn with European budget support for financing operations in Asia and Latin America (ALA) over the period 2007-2013. This regional ceiling – broken down into indicative sub-ceilings of EUR 2.8bn for Latin America and EUR 1.0bn for Asia – represents a substantial (53%) increase compared to the previous mandate for the period 2000-2006. EIB lending in ALA countries will continue to support the EU presence in those regions (through foreign direct investment, transfer of technology and know-how) but will also include the protection of the environment, including climate change mitigation, and projects that contribute to the energy security of the EU.

The geographical scope of the Bank's activities in ALA has also been broadened to include less prosperous countries and up to ten additional countries from Asia. □

2006, an exciting year for FEMIP



At the end of a process of consultation and evaluation carried out throughout the year by the European Commission in cooperation with the EIB, the European Finance Ministers decided to strengthen FEMIP and provided it with the means to expand its activities over the next seven years.

EUR 8.7bn: this is the amount made available by the Ecofin Council to the EIB under its external mandates for lending to the nine Mediterranean partner countries[2] over the period 2007-2013. This figure is twice the amount earmarked for those countries under the previous mandate. On top of that, there are the funds approved by the Community budget in particular for technical assistance and risk capital activities.

With regard to operations, FEMIP will continue to provide support for the private sector and projects to improve the investment climate in the Mediterranean. It will continue to offer a wider range of instruments and will develop new products such as guarantees and loans in local currencies. It will also step up risk capital and technical assistance operations, which are vital for the development of local SMEs.

At the institutional level, FEMIP will intensify its policy of dialogue with the partner countries by setting up a committee consisting of representatives of the Member States, the Mediterranean countries and the Commission that will be responsible in particular for discussing FEMIP's operational strategy and approving its annual activity report. A series of FEMIP conferences is also planned, the first of which is to be held in Paris on 22 and 23 March 2007 and will deal with migrant workers' remittances.

On the back of the very strong performance recorded over the period 2002-2006, with more than EUR 10bn being provided for the partner countries (including Turkey), FEMIP will continue to play a leading role in consolidating economic and financial relations between Europe and the Mediterranean by supporting Europe's neighbourhood policy and the Barcelona Process. □

by Joyce Liyan
Directorate for Lending Operations outside Europe, FEMIP Department

[2] Algeria, Egypt, Gaza/West Bank, Israel, Jordan, Lebanon, Morocco, Syria and Tunisia. With Turkey becoming an Accession State, operations conducted by the Bank in Turkey have been transferred to the South-East Europe Department but Turkey continues to participate in the Euro-Mediterranean dialogue.

EIB, the most active venture capitalist in the Mediterranean

With a portfolio of EUR 350m spread over 750 projects, including 22 investment funds and numerous equity participations in local companies, FEMIP is the most active venture capitalist in the region. The EIB often plays a key role in implementing the projects of local promoters, by acting as a catalyst and a guarantor of quality.

One of the risk capital operations concluded in 2006 is "Beltone Capital", which involved the Bank acquiring a 9% stake in the capital of the eponymous Egyptian investment company (an amount equivalent in Egyptian pounds to EUR 5.6m).

Beltone Capital will invest in private sector growth companies, primarily in Egypt, providing them with strategic guidance and investment and operational expertise.

This is the first time that the EIB will be investing FEMIP risk capital resources in an open-ended investment company. The novelty of the structure stems from the fact that it will provide shareholders with the protective elements of a traditional limited-life fund, while retaining the benefits of an investment company, in particular the possibility of a stock market listing.*

The EIB's contribution in terms of structuring and legal documentation has been crucial, enabling Beltone Capital to comply with the highest standards and apply best market practice with regard to governance, business principles and environmental and social management.

Another example is the signing by the EIB of an agreement committing funds for the establishment of a new investment company, Byblos Ventures, which will focus mainly on SMEs in Lebanon.

Byblos Ventures will help to facilitate access to finance for promising small and medium-sized enterprises. This initiative will develop the private equity segment of Lebanon's financial sector, which is at present virtually non-existent. The EIB's involvement will be accompanied by technical assistance in order to encourage the application of best current practice in the sector and help to attract other international investors.

* Unlike an investment fund, whose size and life are limited, an open-ended investment company can consider recapitalisation and operate without any time constraints.

FEMIP Conference 2007

European Banking Federation

PARIS, 22-23 MARCH 2007

Financial transfers from migrants in the Euro-Mediterranean area: a lever for development.

Remittances from the 125 million migrant workers to their countries of origin amount to some USD 300 to 500 million per year. These flows are on the increase, having recorded a more than 130% jump in the past five years. The 2007 FEMIP Conference, organised jointly by the EIB and the European Banking Federation, is aimed at deepening the exchange of experiences and raising awareness on the issues involved through interactive dialogue with the leading experts on these matters. For further information about the FEMIP Conference 2007, reference documentation and speakers' profiles, please visit the conference's dedicated website: www.eib.org/femip/conference.

FEMIP Conference 2007 – PARIS, 22-23 MARCH 2007

Thursday 22 March 2007

14h00 Welcome coffee and registration of participants

15h00 **Inaugural session**
Philippe Douste-Blazy, *Minister for Foreign Affairs of the French Republic*

15h45 **SESSION 1:**
Migrants' financial transfers: situation to date

Introduction: **Enrique Iglesias,** *Secretary General of the Ibero-American Secretariat, former President of the Inter-American Development Bank*

- **John Martin,** *Director, Directorate for Employment, Labour and Social Affairs, OCDE*

Sending remittances using non-bank channels

- **Patrick Werner**, *Chairman of the Management Board "La Banque Postale"*
- **Hervé Chomel**, *Vice-President International Markets, Moneygram International*

Facilitating migrant's financial transfers: the Turkish experience and the benefits of improving transparency

- **Ayse Elif Talu**, *Assistant Director, Workers' Remittances Department, Central Bank of Turkey (TCMB)*
- **Doug Pearce**, *Head of Financial Sector – Policy Division, Department for International Development (DFID)*

Discussion with participants

17h15 **Coffee break**

17h30 **SESSION 2:**
Developing financial services for migrants: the role of the banking sector

Introduction: **Charles Milhaud**, *President of the French Banking Federation (FBF), President of the Caisse d'Epargne Group*

Banks providing transfer facilities and cross-border services

- **Filipe Pinhal,** *Vice-President of Millennium BCP*
- **Pierfrancesco Gaggi,** *Chairman of Payment Systems Committee, European Banking Federation (EBF)*
- **Pablo Tramazaygues,** *Director of Individuals Market, Banco Santander*

Modernising networks and banking services in the Mediterranean area

- **Chekib Nouira,** *Chief Executive Officer, Banque Internationale Arabe de Tunisie*
- **Makram Sader,** *Secretary General of the Association of Banks in Lebanon (ABL)*
- **Abderrahmane Hadj-Nacer,** *Founding Partner of IMBank-International Maghreb Bank; former Governor of the Algerian Central Bank*

Discussion with participants

19h30 **Adjourn**

Friday 23 March 2007

8h30 Welcome coffee for participants

9h00 **Opening of second day**

Michel Pebereau, *President of the European Banking Federation (EBF), Chairman of the Board of BNP-Paribas*
Khalid Oudghiri, *President, Attijariwafa Bank*

9h45 **SESSION 3:**
Regulatory framework and payment systems issues

Introduction: **Gertrude Tumpel-Gugerell,** *Member of the Executive Board of the European Central Bank*

Monitoring of capital flows and exchange issues

- **Mohammed Laksaci,** *Governor of the Algerian Central Bank*

Interconnection of payment systems

- **Louis Kasekende,** *Chief Economist, African Development Bank*
- **Lazaro Campos,** *Member of Executive Steering Group, SWIFT*

How to meet anti-money laundering requirements while facilitating the transfer of migrants' funds?

- **Riad Toufic Salamé,** *Governor of the Lebanese Central Bank*
- **Christian Noyer,** *Governor of the Bank of France*

Discussion with participants

11h15 **Coffee break**

11h30 **SESSION 4:**
Migrants' financial transfers: a lever for financing development

Introduction: **Fathallah Oualalou,** *Minister of Finance and Privatisation of the Kingdom of Morocco*

Transfers as a source of microfinance

- **Jean-Michel Severino,** *Director General, Agence Française de Développement*
- **Essma Ben Hamida,** *Co-director of ENDA Inter-Arabe micro-finance institution, and Chairperson of the SANABEL Arab IMF network*

Underpinning the financing of real estate and social housing

- **Fernando Jiménez-Ontiveros,** *Deputy Manager, MIF, Inter-American Development Bank (IADB)*
- **Abdelazziz Filali Belhaj,** *Chairman of the Managing Board of the Moroccan social developer "Al Omrane"*

Securitisation of financial flows from migrants

- **Erdal Aral,** *Head of Treasury, Türkiye İş Bankasi A.Ş.*
- **Claire Coustar,** *Director, Emerging Markets, Deutsche Bank Global Markets*

Discussion with participants

13h00 **Closing session of the Conference**
Philippe de Fontaine Vive, *EIB Vice-President responsible for FEMIP*

13h30 **Lunch Cocktails, hosted by BNP-Paribas**

EIB, EBRD and Commission

join forces in Eastern Europe, Southern Caucasus, Russia and Central Asia

by Daniela Sacchi-Cremmer
Communication Department

The EIB and the European Bank for Reconstruction and Development (EBRD) have signed an agreement with the European Commission to facilitate the joint financing of projects in Eastern Europe, Southern Caucasus, Russia and Central Asia. Targeted projects are those eligible for EIB financing in this region under the mandates given to it by the European Council, i.e. projects of significant interest to the EU in the energy, transport, telecommunications and environmental infrastructure sectors.

The framework for this cooperation was set in a Memorandum of Understanding (MoU) bringing together the expertise, capacity and comparative advantages of the partners to the benefit of the countries concerned.

The MoU, signed in Brussels on 15 December 2006 by EIB President Philippe Maystadt, EBRD President Jean Lemierre and EU Commissioner for Economic and Monetary Affairs Joaquín Almunia, governs the co-financing by the EIB and EBRD of operations in support of the European Neighbourhood Policy in Russia, Ukraine, Armenia, Azerbaijan, Georgia and Moldova. It could also apply later to Central Asian countries and Belarus, subject to future Council agreement on EIB financing in these countries.

This agreement formalises the de facto cooperation already existing between the EIB and EBRD on all projects financed to date by the EIB in these countries, i.e. three projects in Russia in St Petersburg – Vodokanal Southern Wastewater Treatment Plant (EIB loan: EUR 25m), Flood Barrier (EUR 40m) and Vodokanal Northern Incinerator (EUR 20m), all three already signed; and one project in Ukraine – European Roads Ukraine (M-06 highway between Kiev and Brody in Ukraine, EUR 200m), currently under contract negotiation.

Further projects currently being jointly reviewed/co-appraised by the EIB and the EBRD are the following:

Ukraine	
Projects	• Ukrenergo Power Transmission
	• Ukrtransnafta Oil Transit Network
	• Naftogaz Gas Transit Network
Moldova	
Projects	• Moldova European Roads
	• Moldova Chisinau Airport
Russia	
Projects	• St Petersburg Vodokanal III
	• St Petersburg Western High Speed Diameter

The 2007 EIB Conference on Economics and Finance

An efficient, sustainable and secure supply of energy for Europe

Ensuring an efficient, sustainable and secure supply of energy for Europe has become a major challenge. At the 2007 EIB Conference on Economics and Finance, which took place at the EIB headquarters on 25 January, academics, industry practitioners and policy makers discussed possible ways to tackle it.

1. Torsten Gersfelt, 2. Bassam Fattouh, 3. Dieter Helm, 4. Juan Alario, 5. Mark Jaccard, 6. Joachim Schleich, 7. Dominique Finon, 8. Armin Riess, 9. Coby van der Linde, 10. Machiel Mulder, 11. Shimon Awerbuch, 12. Franz Hubert.

Ensuring an efficient, sustainable and secure supply of energy for Europe has become a major challenge. At the 2007 EIB Conference on Economics and Finance, which took place at the EIB headquarters on 25 January, academics, industry practitioners and policymakers discussed possible ways to tackle this matter.

The conference was opened by **Torsten Gersfelt**, Vice-President of the EIB. Mr Gersfelt emphasised the strong complementarity between the conference programme and the priorities of EIB lending to the energy sector. These are: renewable energy; energy efficiency; research, development and innovation in energy matters; diversification and security of internal supply; and external energy security and development.

The global energy perspective

Bassam Fattouh, from the Oxford Institute for Energy Studies, spoke about the long-term drivers of oil prices, emphasising three of them: spare production capacity (or lack thereof), the role of OPEC, and the influence of speculators. Mr Fattouh argued that lack of spare capacity has consistently driven up prices and will remain a key driver of oil prices. OPEC's influence is less clear – varying over the business cycle, while speculators do not seem to have lasting effects on oil prices.

Dieter Helm, from New College, Oxford, focused on environmental aspects of energy policy. One of his main points was that setting a proper energy policy framework is more important than focusing too much on policy specifics such as the share of renewables and nuclear in the supply of energy and the role of energy efficiency in ensuring a sustainable energy system. To illustrate this point, Mr Helm observed that Europe needs a credible long-term framework and targets for reducing CO_2 emission rather than mere "aspirations" such as raising the renewable energy share to 20% by 2020.

The investor's view

Juan Alario, from the EIB's Projects Directorate, analysed the impact of energy policies on investment decisions. EU Member States, argued Mr Alario, broadly agree on energy policy objectives, but there is less consensus about the ways and means of achieving those objectives, particularly in relation to climate change. This creates substantial uncertainties that hinder necessary investment in the energy sector or may lead to the wrong type of investment. Such uncertainties are especially harmful at a time when a large part of current capacity in the energy sector – notably in the electricity sector – will need to be replaced. Policymakers therefore need to create swiftly a predictable long-term policy environment that is conducive to both financially profitable and economically viable energy investments.

Sustainability and efficiency of energy supply

Mark Jaccard, from Simon Fraser University, Vancouver, argued that abundant fossil fuel reserves, combined with known technologies for capturing and storing CO_2 emissions, could become a main pillar of a clean and sustainable energy system for the 21st century, notwithstanding an increasing role for renewables. The use of (near) zero-emission fossil fuel technologies would ensure enough time to develop further low-cost renewable energy technologies. These could come on stream as and when fossil fuel reserves are depleted or become too costly to extract. Mr Jaccard emphasized the importance of public policy in promoting (near) zero-emission fossil fuel technologies in Europe but also in developing countries.

Energy efficiency is a key policy goal in the EU, as witnessed by the European Commission's recent Action Plan for Energy Efficiency, which aims to reduce energy consumption by 20% by 2020. **Joachim Schleich**, of the Fraunhofer Institute for Systems and Innovation Research, Karlsruhe, discussed barriers to investment in energy efficiency that stand in the way of meeting such goals. Removing barriers – imperfect information and split incentives, for instance – has considerable potential to raise energy efficiency. However, Mr Schleich emphasised that there is no general policy prescription for removing barriers to energy efficiency and

that cost-benefit analyses should be used to find out whether removing barriers is worth the effort.

Dominique Finon, from Centre National de la Recherche Scientifique, Paris, compared different policies for promoting electricity generation from renewable energy sources and argued that it was important to take into account both theoretical and practical considerations. He concluded that while some policies seem to be better than others on theoretical grounds, practical considerations might change the ranking of policies.

Armin Riess, from the EIB's Economic and Financial Studies Division, discussed policy and investment implications of environmental and technology externalities. He pointed out that it is easy, in principle, to show the rationale for promoting new renewable energy technologies, but that it is far more difficult, in practice, to demonstrate the relevance of this rationale and determine the appropriate scope for promoting new technologies. He added that the proper benchmark for assessing the merits of new renewable energy technologies is a mature renewable energy technology rather than a dirty, fossil-fuel technology – at least so long as mature renewable technologies can replace fossil fuels.

Secure energy supply

Coby van der Linde, of the Clingendael International Energy Programme, The Hague, noted that in the 1970s/80s security of oil supplies was the main issue for both the United States and European countries. Things have changed in the sense that the United States continues to be concerned about oil whereas Europe is now preoccupied with the security of natural gas supplies. Energy-importing countries, said Ms van der Linde, need to back their efforts to ensure supply security by action that signals security of demand to producing countries. She also expressed unease at the current bilateral deals, rather than agreements between the EU and producing countries, as a means of reinforcing security of supplies.

Machiel Mulder, of CE Delft, an independent Dutch research organisation, considered the economics of promoting the security of energy supply. At the heart of his presentation was the question of whether the benefit of investing in security of supply exceeds the cost of such investment. Defying conventional wisdom, Mulder argued on the basis of real-world examples that enduring energy supply interruptions is often better than spending resources on projects or policies to avoid such interruptions.

A particular aspect of supply security is the price of energy. Loosely speaking, societies would like to have energy at prices that are affordable and do not fluctuate too much. Against this background, **Shimon Awerbuch**, from the University of Sussex, Brighton, asked whether the mix of electricity generation in Europe currently expected by 2020 will be efficient. He found that it will not be, implying that there are combinations of fossil-fuel fired electricity generation, renewables, and nuclear that would deliver the same amount of electricity as the currently expected mix – but at a lower cost, with less price fluctuation, or a combination of the two.

The EU depends to a considerable extent on natural gas imports, with some 30% of imports coming from Russia. Against this background, **Franz Hubert**, from Humboldt University, Berlin, analysed investments in gas-transport infrastructure. His main insight was that pipeline investment is driven by much more than least-cost considerations. In fact, he argued that strategic considerations of gas-producing countries, like Russia, and gas-transiting countries, like Ukraine and Belarus, will result in investment that is not least-cost. What is more, there will be overinvestment in gas-transport infrastructure – a waste of resources from a global perspective, but possibly good news for European gas consumers as this might result in lower gas prices for gas-importing countries.

The Conference proceedings will be published in the EIB Papers, Volume 12, scheduled for release in July 2007. □

by Atanas Kolev
Economic and Financial Studies

EIB pays tribute to Dr Awerbuch

It is with great sadness that the EIB, and in particular the EIB staff who worked with Dr Shimon Awerbuch, learned of his sudden death in a plane crash in the French Alps on 10 February.

Dr Awerbuch taught graduate and undergraduate courses in the science and technology policy research department at the University of Sussex.

He specialised in energy, regulatory economics and market restructuring and advised government agencies in the US, Europe and Mexico, the United Nations and the World Bank.

New office in Warsaw

EIB office and JASPERS regional office in Warsaw inaugurated; offices in Vienna and Bucharest to follow

On 12 January 2007 the EIB and the new EIB/EBRD/Commission joint initiative for European regions, JASPERS, inaugurated their respective offices in Warsaw. The inaugural ribbons were cut by EIB President **Philippe Maystadt**, EU Commissioner for Regional Policy **Danuta Hübner**, and the Secretary General of the European Bank for Reconstruction and Development, **Horst Reichenbach**. Both offices are housed in the premises of the new Metropolitan Building Business Centre located in the heart of Warsaw.

"The new offices will make a significant contribution towards strengthening the economic development and competitiveness of the countries and regions concerned and will help to make life better for their citizens and ultimately benefit the whole Union", said EIB President Philippe Maystadt at the opening ceremony. "I look forward to returning to this office in future years to mark important milestones in EIB and JASPERS involvement in Poland and the region".

The EIB office will strengthen the local presence of the Bank in Poland and serve to further develop relations with the Polish Government and municipalities – as well as investors, partner financing institutions and private enterprise – in order to support EIB operations in the country. The new office will increasingly facilitate the provision of EIB finance for research, development and innovation (RDI) activities in support of the Lisbon Agenda, promoting job creation and competitiveness. EIB activities from the Warsaw office will also extend to developing Polish infrastructure, ensuring the application of environmental legislation and indirectly improving access to long-term finance for Polish SMEs and municipalities.

The JASPERS regional office will play not only a major national role in Poland, but also a regional one across the north-eastern part of the Union. It will provide frontline technical assistance in Poland and the three Baltic States (Estonia, Latvia and Lithuania). The JASPERS initiative – bringing the EIB, EBRD and Commission together under one roof to work with the EU Member States – capitalises on the extensive expertise gained by its three sponsors during many years of developing long-term infrastructure investments. It will share this experience with the Member States and help them to improve the preparation of projects proposed for financing by EU funds.

This office will also complement two other initiatives being promoted by the Bank and the European Commission along with their partners in the region. These are: JEREMIE – focused on support to SMEs and microfinance; and JESSICA – providing backing for sustainable investment to facilitate urban regeneration. The office in Warsaw will be followed by the opening of two further JASPERS regional offices in Vienna and Bucharest in the coming months, providing similar support for beneficiaries in Central and Southern Europe.

A press conference and an official opening ceremony were also held on 12 January to mark the opening of the two offices. Representatives from the press, Polish government bodies, municipalities, regions, public and private companies and EIB partner banks attended these two events. □

by Dušan Ondrejička
Communication Department

by Matilde del Valle Serrano
Communication Department

Public Consultation on EIB's Anti-Fraud Policy

On 12 February 2007, the EIB launched a public consultation on a review of its anti-fraud policy.

The documents under public review bring together the EIB's existing policy, guidelines and procedures on fighting corruption, fraud, money laundering and the financing of terrorism.

In a 45-working day consultation period, all interested parties are invited to comment on the policy and provide suggestions. The public consultation will include a second round of 20 working days, subject to stakeholder interest.

The consultative process includes online web consultation and, in parallel, a direct dialogue with stakeholders at public meetings. A review panel has been set up within the EIB to consider the public contributions and examine the extent to which they can be taken into account.

The final draft policy will be published for information on the Bank's website, prior to consideration by the Board of Directors, to allow external stakeholders to observe how the Bank has handled their contributions, alongside a consultation report which outlines the consultation process and contains stakeholder proposals and the Bank's reasoned comments. After Board approval, the revised policy and the consultation report will be published on the Bank's website.

The consultation on the anti-fraud policy follows the Bank's first-ever public consultation on its public disclosure policy, which ran from May 2005 until March 2006. Public consultation on selected EIB policies is in line with the Bank's transparency policy.

Information on the consultation process can be obtained from Matilde del Valle Serrano, "Public Information and Relations with Civil Society" Division, Communication Department, tel.: +352 4379 3154, e-mail: m.delvalle@eib.org □

The Multilateral Carbon Credit Fund

EIB and EBRD together tackling climate change

Sustainable economic growth and development require determination and market-based action to bring about tangible and rapid results. The European Investment Bank (EIB) and the European Bank for Reconstruction and Development (EBRD) recently launched a Multilateral Carbon Credit Fund (MCCF), an important step in this direction and a solid foundation for extended cooperation between the two parties in other regions as well.

The MCCF will help EIB and EBRD shareholders and other private parties to meet their mandatory or voluntary greenhouse gas emission reduction targets. It is designed to develop the carbon market in countries in transition to market economies in Central Europe and Central Asia.

Twelve participants pledged EUR 165 million to this Fund, which became active on 11 December 2006. Participants include Belgium (on behalf of Flanders), Finland, Ireland, Luxembourg, Spain, Sweden, and

six private participants: Abengoa (Spain), ČEZ (Czech Republic), Gas Natural (Spain), Endesa (Spain), PPC (Greece) and Union Fenosa (Spain).

Fully subscribed, the MCCF is one of the few carbon funds dedicated specifically to this region.

The MCCF is a purchasing vehicle, in the form of a series of contractual arrangements, and not a fund in the sense of a collective investment vehicle. The EBRD and the EIB share the management of the MCCF through a secretariat (see diagram).

Carbon credit potential of transition countries unexploited

The carbon market in the transition countries is potentially significant. The region currently contributes around 13% of global carbon emissions, yet it generates just 3% of global carbon credits, which are created when projects reduce or avoid greenhouse gas emissions. The potential is much higher, at about 20%. Under the Kyoto Protocol carbon credits can be traded between buyers and sellers.

By joining the MCCF, countries – which must be a shareholder of either the EBRD or the EIB – and companies can purchase carbon credits from emission reduction projects financed by either institution to meet their mandatory or voluntary greenhouse gas emission reduction targets. In addition to the project credits, sovereign participants can also participate via the MCCF in "green investment schemes". These represent an innovative way to facilitate government-to-government trade in carbon credits, whereby the selling country uses the revenue from the sale of carbon credits to support investments in climate-friendly projects.

How the MCCF works

The MCCF combines the strengths of the private sector, in particular its technical know-how and commercial drive, with those of two major international financial institutions, which bring expertise in investment appraisal and risk mitigation.

Rather than creating a large in-house team, the MCCF engaged three "carbon managers", each covering a specific region, to develop, negotiate, sign and monitor carbon credit transactions. This outsourcing mitigates the conflict of interest to which the EBRD and/or EIB would potentially be exposed by being both a financier of projects and buyer of carbon credits from those projects.

Carbon credits purchased from projects will be acquired by private window participants directly, and by the EBRD acting on behalf of sovereign participants. Participants will have the opportunity to approve, and decide whether to participate in, each carbon credit transaction submitted to them by the MCCF Secretariat. Project-based carbon credits will then be allocated amongst participants pro rata to their contributions. Green investment schemes will be the subject of specific arrangements between sovereign buyers and sellers.

A powerful tool in the EIB/EBRD climate change strategy

The EBRD and the EIB launched the joint Multilateral Carbon Credit Fund as a key instrument in their strategy for combating climate change. Following the EU's energy review and subsequent green papers, in 2006 the EIB adopted a new energy strategy. The MCCF is, along with the Carbon Fund for Europe (planned launch in Q1 2007), the Climate Change Financing Facility (CCFF)[3] and the Climate Change Technical Assistance Facility (CCTAF)[4], part of the EIB's prompt response to the new policy guidelines coming from the EU. There is a long road from potential emission reduction to a carbon transaction, and the EIB can play an important role in making the projects and credits a reality.

A key strength of the MCCF is that the projects from which carbon credits will be sourced will

be financed and appraised by one or other institution – or both, if projects are co-financed – in line with standard requirements for project viability and sustainability, integrity and corporate governance. Typical projects under the MCCF will include industrial energy efficiency, power plant and district heating renovation, renewable energy (for example, biomass, wind and mini-hydro) and landfill gas extraction and utilisation projects across all 29 countries in which the EBRD operates, where the EIB also works extensively. □

[3] The EUR 1 billion Climate Change Financing Facility (CCFF) was established to assist EU companies in meeting their requirements under the EU Emission Trading Scheme and the Kyoto Protocol through the financing of up to 75% of project costs that result in a significant reduction in greenhouse gases.

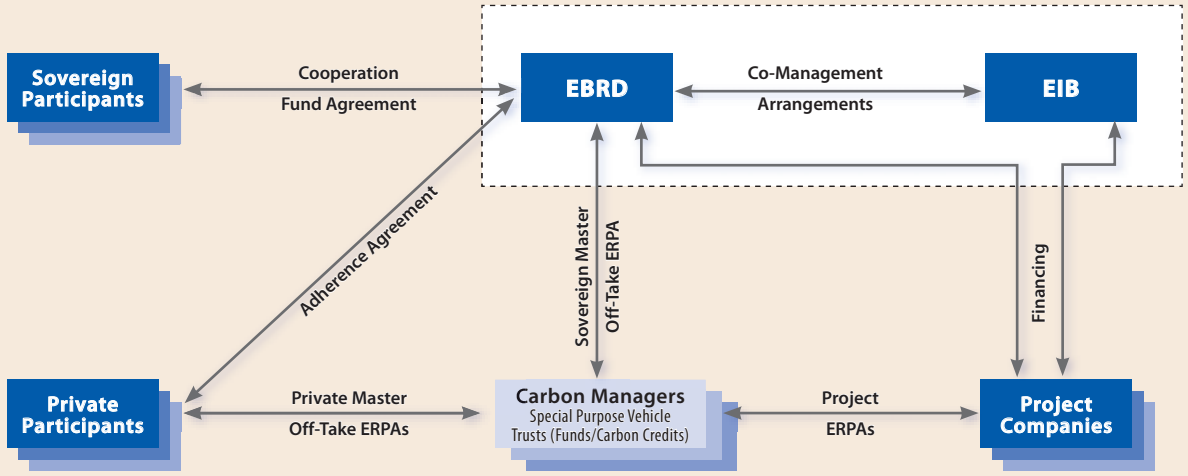
[4] The CCTAF provides advance conditional funding for activities associated with the development of project-based carbon assets (credits) under the Clean Development Mechanism (CDM) and Joint Implementation (JI) instruments of the Kyoto Protocol.

Advantages of the MCCF and the sale of carbon credits

- *The MCCF participants have sound credit ratings, which should especially benefit project finance operations and permit sellers to diversify their counterparties.*
- *The quality and prior experience of the carbon managers, selected by the EBRD and the EIB following a thorough due diligence process. The carbon managers will be supervised by the MCCF Secretariat, a dedicated team of experienced EBRD and EIB staff.*
- *Regional focus of MCCF – the carbon managers are familiar with the regulatory processes in the countries in question.*
- *Emission Reduction Purchase Agreement (ERPA) flexibility (e.g. fixed price, payment in EUR, upfront payments, can discuss beyond 2012).*
- *The EIB and the EBRD can assist in dealings with state and international agencies.*
- *Visibility – the involvement of the MCCF is a recognition of project quality.*

by Kristin Lang, Deputy Head of the MCCF Secretariat
Directorate for Lending Operations in Europe

MCCF: Contractual Framework



Biodiversity and the EIB

We are losing the world's biodiversity at an alarming rate, which in turn is placing a number of life-supporting ecosystem services, such as the carbon cycle, pollination, and protection of watersheds, under threat: 60% of ecosystems are threatened; extinction rate between 100 and 1 000 times higher than natural background rates.

The recent Millennium Ecosystem Assessment (MA) highlighted some of the main challenges that the global community faces to achieve the target created to significantly reduce the rate of biodiversity loss by 2010. In support of these findings, the European Commission adopted on 22 May 2006 a communication setting out the EU's approach to halting the loss of biodiversity by 2010. Along with the communication, an EU Action Plan has been developed, outlining the responsibilities of EU institutions and Member States.

The EIB recognises the significant value of biodiversity and is committed to securing favourable economic, environmental and social outcomes for all its financing activities. In all its activities, the EIB supports Community policy, and its approach to biodiversity is based on implementing the principles contained in the EU Nature Conservation Policy, namely the Habitats and the Birds Directives, as well as Natura 2000, as well as the Convention on Biological Diversity to which the EU is a signatory.

To meet the biodiversity challenges, the EIB has taken a balanced approach to managing its operations in order to minimise any negative impacts on biodiversity and to enhance biodiversity and natural habitats wherever practicable. All projects are screened for their potential impact on biodiversity and natural habitats[5]. Additionally, the Bank works with international organisations to explore how biodiversity concerns can best be addressed through its project activities.

The Bank recognizes that there is a need to work with others, through public consultation on individual projects and collective action. It has therefore joined the European Task Force on Banking, Business and Biodiversity, which looks at potential financing mechanisms for biodiversity projects. It has also been working closely with the

[5] For its projects outside the EU, the EIB is also guided by international conventions and the International Union for the Conservation of Nature (IUCN) classification of protected areas and the management regulations applicable to them.

Biodiversity Unit of DG Environment to improve its internal assessment process, discuss any potentially sensitive projects and train and raise the awareness of its staff on biodiversity and nature protection-related legislation and assessment tools and methodologies. In September 2006 the Bank signed a Memorandum of Understanding with the International Union for the Conservation of Nature (IUCN). The IUCN will assist the EIB with:

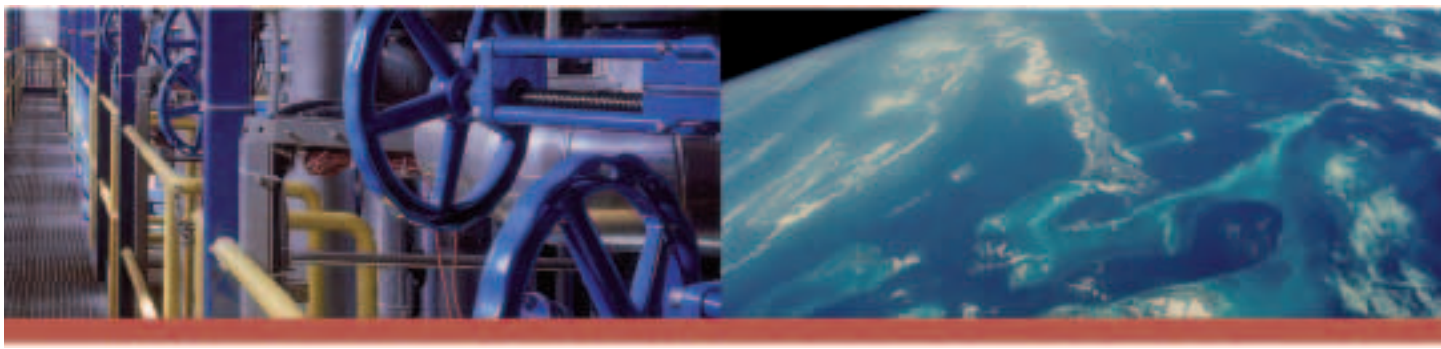
- consultation and advice on biodiversity concerns in investment projects;
- capacity-building of staff in the areas of impact assessment and integration of biodiversity concerns in proposed projects;
- monitoring of environmental biodiversity aspects of projects financed;
- formulating a biodiversity strategy for the Bank.

This relationship will allow for the development of joint initiatives and exchanges of information to strengthen efforts to manage biodiversity issues consistently on a long-term basis.

Moreover, the EIB maintains a dialogue with NGOs through discussions on general policy issues, such as its environmental activities. For individual projects where environmental issues could attract the attention of public interest groups, the EIB encourages dialogue. The Bank is initiating better contacts with NGOs, particularly nature conservation ones, in order to follow up on specific issues that may arise in a project and to foster a better understanding of the EIB's environmental appraisal process by NGOs.

Lastly, internally, the Bank has made awareness of biodiversity and the tools to preserve it a priority. The Environment Unit (ENVU) within the EIB is responsible for the programme of awareness-building and the related training sessions. The programme comprises a regular series of workshops addressing social and environmental issues in different sectors. The purpose of the programme is to provide an open forum for internal discussion. Biodiversity issues have so far been addressed in two sessions: firstly "Implementing investment plans or projects potentially affecting sites of the Natura 2000 network of protected areas" given by DG Environment of the European Commission, focusing on biodiversity assessment in the EU and Accession Countries; and a second session entitled "EIB projects and their interrelation with biodiversity in developing countries" provided by IUCN. Among other things, IUCN is helping the Bank to explore the potential of payments for ecosystem services, e.g. wetlands and watersheds, to enhance biodiversity through its project financing activities. □

by Matilde del Valle Serrano
Communication Department



Financing the Water Sector in Romania

To comply with EU Directives on environmental and public health standards, Romania will have to make huge investment in water supply and sewage networks and treatment plants over the coming decade.

On 23 November 2006, the EIB held a conference in Bucharest in cooperation with the Ministry of Environment and Water and the Association of Romanian Water Utilities (ARA) to address the sector's financing needs aimed at public and private stakeholders from Romania and beyond.

Since the launch of the first EU pre-accession grant funding programmes in 2000, new EIB-cofinanced projects in the Romanian water supply and sewage sector reached a total of EUR 1.5bn. To put this into perspective, the sector's turnover is EUR 1.2bn. "This market needs to find solutions to optimise service quality and attain higher efficiency", said Mr Vasile Ciomos, President of ARA.

The building of new and upgrading of old treatment plants and the extension of networks, especially in smaller towns and villages, is a major challenge. "The improvement of drinking water quality in the countryside is a further focus of investment", said Mrs Sulfina Barbu, Romania's Minister of Environment and Water Management. Water in the countryside in Romania is supplied mostly by wells, half of which are polluted by nitrates.

Speakers from Finland, Poland, Cyprus and Portugal explained how they were confronting similar challenges. One of the common themes was a need to merge smaller utilities to create technically and commercially viable service providers, whilst independently regulating the quality of those services. In Portugal, 18 regional companies provide bulk water and wastewater services to approximately 300 municipalities in charge of the distribution and collection networks. These are now undergoing mergers to create a few multi-municipal utilities. All presentations demonstrated the need for strong government leadership to achieve this kind of success story.

Against this backdrop, a number of important initiatives have been launched in Romania. The European Investment Bank recently granted the Romanian Government a loan to support the second phase of its SAMTID infrastructure development programme. SAMTID (Small And Medium-Sized Town Infrastructure Development) is integral to Romania's national water services reform programme. It aims to group together smaller towns to create regional companies operating services on an efficient scale. In this case, the EIB is lending alongside EC grants not only to build physical assets, but also to support institutional restructuring and capacity building.

Helping to clean up the water environment and improve water services is just one way the EIB is working to improve the lives of Romania's inhabitants. Other projects signed in 2006 include priority projects in the transport sector as well as support to private businesses financed through lines of credit intermediated by local banks. □

by Hellen Stoffels, Communication Department

Joint EIB-EIF support for SMEs in Spain and Portugal

The European Investment Bank (EIB) and the European Investment Fund (EIF) – the EIB Group – are increasingly working together to address jointly the needs of small and medium-sized enterprises (SMEs) and the financial sector and to examine the possibilities for the Group to exploit synergies. This can be done through EIF guarantees linked with EIB lending to SMEs through financial intermediaries[6].

by David Coker and Kristin Lang
Directorate for Lending Operations in Europe, Spain and Portugal Department

Through its intermediated lending, the EIB provides financing on attractive terms for the promotion of investment by SMEs, a high priority area for the EIB Group. Two main instruments are used in furthering this objective: first, funding channelled through appropriate financial institutions for on-lending to SMEs; and second, through subscribing market instruments in the form of covered bonds issued by an intermediary bank or via a securitisation structure. In the latter, the EIB purchases highly rated asset-backed securities (ABS) or notes issued by a bankruptcy-remote special purpose vehicle. Investors do not have recourse to the originator in ABS structures. EIB participation in market instruments provides liquidity to the originating banks to increase lending to SMEs (the scope and modalities of such lending are defined under an agreement with the EIB and are similar to those applicable in intermediated lending).

[6] Smaller-scale projects (costing less than EUR 25m) involving either small and medium-sized enterprises (SMEs) or infrastructure, and contributing to regional development, the Community's energy objectives or improvement of the environment, are financed via financial institutions (e.g. banks or leasing companies).

The EIF is an experienced player in SME-related capital market transactions and has participated, inter alia, as a guarantor in several Portuguese SME securitisations launched to date, in addition to being a frequent guarantor in the Spanish market.

Three out of the five operations in which the EIB and EIF joined forces in 2006 to support SMEs emanated from the Spain-Portugal lending department. Two involved securitisations, with the EIB purchasing a portion of a senior tranche and the EIF providing a guarantee to a subordinated tranche (BBVA SME GL I in Spain and BES GL VI in Portugal), and the other third comprised an EIF guarantee together with a covered bond (Santander Central Hispano GL RDI).

Spain: BBVA Securitisation:

The EIB and EIF participated in the same securitisation operation – BBVA-5 FTPYME, the first securitisation in Spain that had SME loans as the underlying assets. In different risk layers in the transaction, the operation combined EIB subscription of notes (EUR 200m) with an EIF guarantee and a Spanish Treasury guarantee. The combination of guarantees and the EIB presence is expected to increase the availability of loans and improve conditions for SMEs. Furthermore, the Spanish Treasury guarantee requires BBVA to reinvest at least 80% of the proceeds of the note sale in new loans to SMEs.

Portugal: Banco Espírito Santo ("BES") SME Securitisation

The EIB and EIF joined forces to support an SME loan securitisation by Banco Espírito Santo (BES). To improve the financing terms for SMEs the EIB subscribed EUR 150m of triple-A rated senior notes, almost 20% of the senior notes, issued by Lusitano SME No.1 plc, a special purpose vehicle. The issue was backed by a pool of SME loans originated and serviced by BES. BES is an established counterparty of EIB with a long-standing relationship in support of SMEs and is a regular player in the ABS market with significant experience in asset securitisation (such as mortgages, consumer loans and equipment leases). However, this was BES' first issue securitising SME loans directly. Complementary to the EIB's senior investment were the EIF's credit enhancements ("wraps" in market parlance) for mezzanine or lower rated tranches, which as a result acquired a AAA rating. Accordingly, the EIB Group's total involvement accounts for approximately 26% of the overall transaction of EUR 863m.

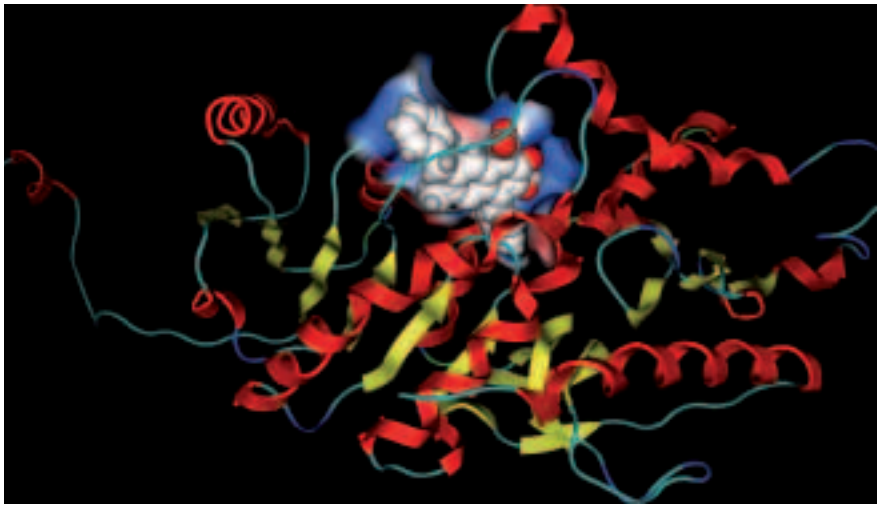
Spain: BSCH dedicated line for SMEs

"When a SME asks for a loan, all of Europe gets going" was the marketing campaign launched by Banco Santander Central Hispano (BSCH), a Spanish bank, to promote a facility dedicated to the research, development and innovation projects of SMEs. Posters, brochures and a mass mailing helped publicise this facility. Together with the European institutions (EIB and EIF), BSCH offered unique financing conditions for research, development and innovation (RDI).

This operation, the first fully dedicated RDI line provided through a Spanish commercial bank, was a pilot operation that combined an EIF counter guarantee covering half of the losses, up to a certain cap. The guarantee, provided under the MAP (Multi-Annual Programme for Enterprises 2001-2005), was combined with a EUR 60m EIB subscription of a covered bond, the proceeds of which were dedicated to RDI lending. The improved access to dedicated medium and long-term financing is expected to help accelerate activities relating to the EU's Lisbon strategy priority. In addition to being eligible under RDI, a large number of projects will be located in assisted areas (Objectives 1 and 2), along with being dedicated to SMEs. The projects are evaluated for BSCH by AIDIT, an institution founded by the Universidad Politécnica de Madrid and the Universidad Politécnica de Cataluña.

In each of the securitisation examples described above, the underlying assets are a portfolio of SME loans. These transactions reaffirm the EIB Group's commitment to its long-standing support for SMEs, while extending its range of actions to capital market operations. □

Bridging the gap in the funding of marketable research



Additional funding required for technology transfer in Europe. The EIF is working to better understand and address this weakness.

by Delphine Munro and Felicitas Riedl, Corporate Affairs and Finance, EIF

What is technology transfer?

Technology transfer is the process by which the results of research and development (R&D) are transformed into marketable products or services. This transformation can take place through:

- collaboration between the research organisations and industry;
- licensing;
- the creation of new companies.

Results of fundamental research are often considered to be 'too new' or 'too high-risk' to be transferred out of the research laboratory and pursued by the industry. New discoveries and technologies developed in academic laboratories or early-stage companies may fail to realise their potential unless they become attractive to industry or downstream investors, and this is where the EIF aims to play an important role.

Most universities and research organisations now have a "Technology Transfer Office" (TTO), dedicated to identifying research results of potential commercial interest and to developing strategies for exploiting those results.

Ideally, technology transfer offices should be multidisciplinary, involve scientists, engineers, economists, lawyers and – in particular – people with industry experience. This, however, is rarely the case. The reasons are manifold, but essentially TTOs are relatively newly established and technology transfer is not yet seen as a sufficiently attractive profession for which to leave a well-paid industry job.

Comparison of technology transfer in the US and Europe

Compared to the situation in the US, the European technology transfer landscape suffers from a number of weaknesses, in particular a lack of critical mass. US universities have the advantage of being resource-rich and of having access to strong capital markets. Successful technology clusters have been established on the East and West Coast and contribute significantly to the high commercialisation rate in the USA.

Comparison of licensing revenues at academic institutions in the US and Europe (2004)

US	
University/institution	Revenues €m
• Weizman Institute	> 115.4
• Columbia University	115.4
• University of New York	49.9
• Sloan Kettering Institute for Cancer Research	43.3
• Stanford University	40.0
• University of Rochester	33.5
• City of Hope National Institute	31.4
• MIT	30.2
• University of Wisconsin-Madison	25.6
• Florida University	25.2

Europe	
University/institution	Revenues €m
• Pasteur	32.6
• KU Leuven	27.4
• University of Edinburgh	4.5
• Utrecht	4.0
• INRIA	3.0
• VIB	2.7
• Cambridge	2.3
• Universities of Bern and Zurich	0.6
• LMU Munich	0.2

Source: EIF interviews, autumn 2004

A further key differentiating factor is that entrepreneurship is far more developed in the US than in most European countries. The greater level of investment in early-stage ventures in the US, either through business angels, government initiatives or venture capital, additionally explains why currently the US is more successful than Europe in exploiting research results.

In the 1980s the US implemented the Bayh-Dole Act, which allowed universities and their faculty members to stake patent claims on discoveries they made through research funded by such federal agencies as the National Institutes of Health, instead of leaving ownership of the intellectual property with the Government.

That change accelerated the use of academic breakthroughs such as gene splicing to develop biotech drugs and other products, giving rise to a three-way partnership of government, universities and start-up firms that is considered to be "the envy of every nation"[7]. As a consequence of this law, US universities also have a much longer history of technology transfer than European ones, where such a law was either implemented much later (e.g. in Germany in 2002) or not at all (e.g. Sweden still has "professor's privilege", i.e. professors/inventors own the intellectual property generated in their laboratories or faculties).

The table above shows the differences in licensing revenues generated through the commercialisation of intellectual property (IP) by the different universities or research organisations in the US and Europe.

European context

Through its experience in the European venture capital market, the EIF has recognised that needs for funding technology transfer are unmet and is working to better understand and address the weakness of the European technology transfer landscape.

In 2004, the EIF received a mandate from the European Commission's Directorate-General for Research to carry out a study to 'assess the feasibility and define the operational modalities of a new type of targeted risk capital and technology transfer investment vehicle linking centres of excellence in different European countries'.

The work was split into two phases. The first was focused on understanding the technology transfer market in Europe, benchmarking it with the US, Canada and Israel. During this phase, over 200 interviews were conducted with opinion leaders and market experts in the relevant areas (e.g. technology transfer offices, venture capitalists, industry, intellectual property rights experts, etc.). The second phase was focused on developing new financial instruments that would take into consideration the unmet needs – discovered during the research – of European technology transfer.

The EIF published its findings in the Technology Transfer Accelerator (TTA) Report in May 2005 – see the EIF website www.eif.org (http://www.eif.org/tech_transfer/).

The European Investment Fund's approach

As a result of the TTA study, the EIF is now investigating alternative investment models in the field of technology transfer, in addition to the traditional seed fund.

[7] According to Biogen Idec Inc. Chief Executive Officer James Mullen.

A possible example is a long-term partnership with a university

The proposed model is illustrated in the following diagram:

One possible approach consists of a long-term partnership arrangement with universities or research organisations whereby the EIF commits capital to fund technology transfer projects and in return shares in revenues and capital gains resulting from the technology transfer activity of the research organisation.

This approach combines a number of advantages:

• it allows for an industrial rather than purely financial approach:

The partnership effectively consists of an operational joint venture between the investor and the university whereby a joint professional team is responsible for commercialisation opportunities.

• it accelerates the process:

A funding budget is accessible by the partnership to fund promising projects and/or spin-offs, which greatly accelerates the start-up process. Furthermore, the partnership agreement defines arrangements for funding and supporting spin-offs (e.g. valuation, shareholder rights, etc.). This eliminates the need for lengthy negotiations at inception so that operational issues can be the main focus.

• it is scaleable and flexible:

Such structures can be put in place either for a whole university or specific laboratories only, although a minimum critical mass is required to make the proposition viable. Furthermore, if it is introduced for selected laboratories, the structure is sufficiently flexible to enable other laboratories to be added over time and the needs and flows of new projects to be managed.

The EIF's technology transfer investments

In 2006, the EIF's Board of Directors approved three technology transfer operations:

• the IP Venture Fund;

• a leading Scandinavian technology transfer office;

• CD3 (in collaboration with Katholieke Universiteit Leuven).

IP Venture Fund:

The IP Venture Fund had a first closing at EUR 23m with a cap of EUR 45m. It will invest in the spin-off companies arising from the partnership universities with which IP Group has contracts and also in the seed and pre-seed phases alongside other investors. Currently IP Group has partnerships with ten universities across the UK, including Oxford. The Fund's goal is to support spin-offs up to the point where critical mass is reached.

The technologies include:

• non-sticking chewing gum;

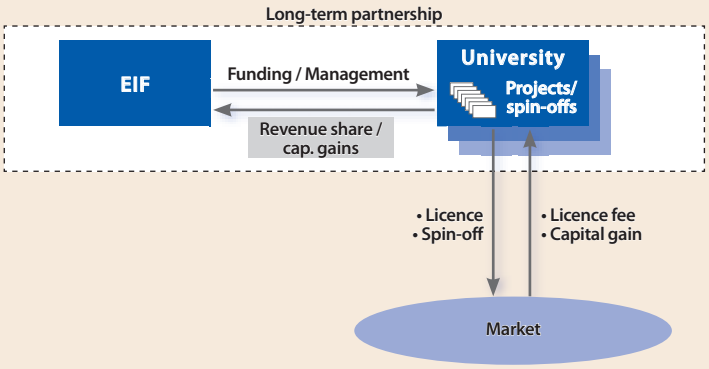
• fire-retardant clothing;

• non-abrasive hair colouring;

• a hand-held device for detecting the nature of materials.

Centre for Drug Design and Discovery (CD3):

Example of alternative tech transfer financing



The Katholieke Universiteit Leuven (Catholic University of Leuven) and the EIF entered into a partnership agreement to create a Centre for Drug Design and Discovery, to bridge the gap between academic biomedical research and the needs of applied industrial research. This initiative will boost research and technology transfer in the life sciences field. CD3 commenced operations on 1 January 2007.

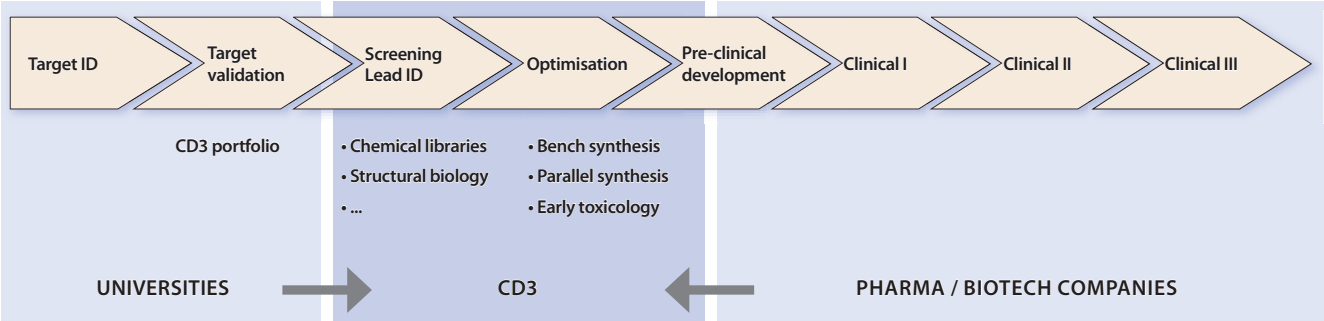
Advanced discussions are taking place with leading Scandinavian and British universities, which should lead to further investment by the EIF in the second quarter of 2007.

The EIF is also assessing other TTA investment opportunities with the prospect of EU funding from the Competitiveness and Innovation Framework Programme 2007-2013 and JEREMIE (Joint European Resources for Micro-to-Medium Enterprises) programmes.

Cooperation with the EIB

The EIB joined the EIF on the project Access to Funding in the Biotech Sector (AFIBIO), a consortium selected by the European Commission's Directorate-General for Research (Sixth Framework Programme funding) to analyse the biotechnology and healthcare sectors' needs in terms of funding and R&D commercialisation. A rating system for seed/early-stage investors will be developed as

Step in the drug development process



CD3 will have projects addressing the unmet need for several severe diseases such as Hepatitis B/C, HIV, Parkinson etc.

CD3 addresses a demand from both ends of the chain
• from Universities: be able to offer more finished drug candidates to the industry
• from the Industry: enrich their pipeline with more proven candidates

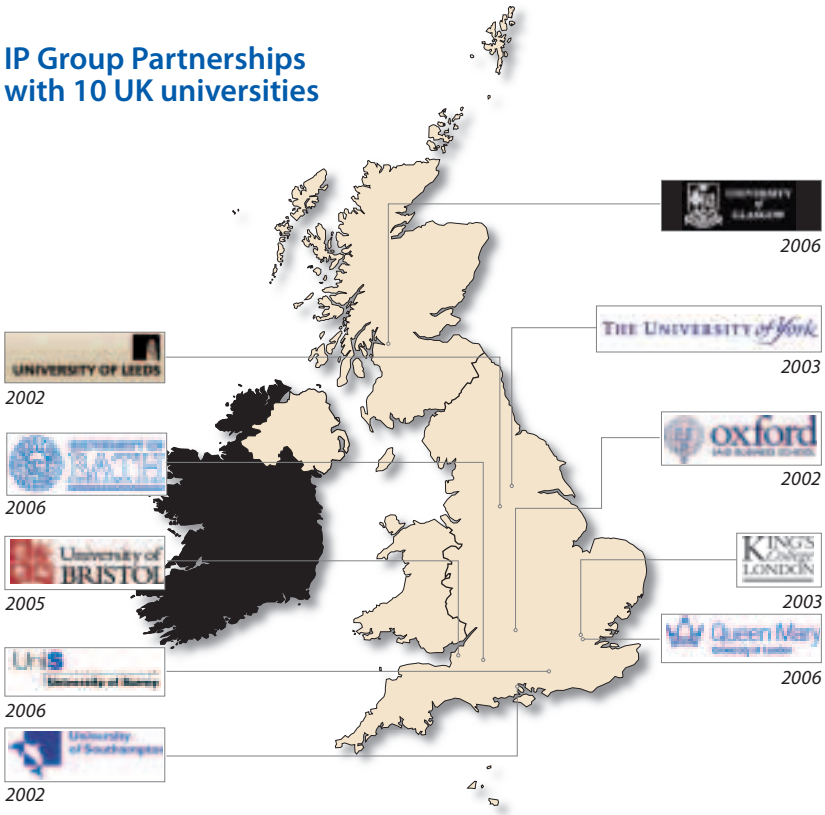
well as policy guidelines for improving this sector. The other members of the consortium are: the European Business Angels Network (BE); TechnologiePark Heidelberg GmbH (DE); the Institute of Baltic Studies (EE); Nantes Atlanpole (FR); Science Park Raf Spa (management company of the San Raffaele Biomedical Science Park) (IT); Cardiff University (UK); and Deloitte & Touche LLP Life Sciences Practice (UK).

The EIF is also participating in the consortium project "ACHIEVE", a second Sixth Framework Programme under the TTA initiative. This consortium focuses on ICT and the main activities include the development of business building tools such as financial modelling, strategic marketing and business planning, as well as the provision of individual support (e.g. mentoring) and small-team coaching. ACHIEVE aims to build a network of incubators and an associated accreditation system, which the EIF will help to design, in order to benchmark incubators and candidate enterprises. Consortium members are: the Chambers of Commerce of Nice-Côte d'Azur and Marseille (FR); UTC Compiègne, Centre de transfert université-entreprises (FR); City Council of Newcastle (UK); euConnect Ltd (communications firm specialised in disseminating European science and technology projects) (UK); and the University of Cambridge Entrepreneurship Centre (UK).

Conclusion

Investing in technology transfer is an important tool to ensure that new technologies are given the opportunity to develop to a stage where the innovation can be taken on by industry or be self-sustainable. Technology transfer is an innovative financial instrument that is complementary to the traditional venture capital and private equity models. □

IP Group Partnerships with 10 UK universities



EIB and microfinance in the African, Caribbean and Pacific regions

by Catherine Collin
Directorate for Lending Operations outside Europe
ACP-Investment Facility Department

The relevance of microfinance – that is the supply of loans, savings and other basic financial services to the poor – to alleviate poverty is nowadays widely recognised. Over the years, the Bank has developed knowledge and expertise in the field of microfinance in the African, Caribbean and Pacific (ACP) regions where it currently operates under the Cotonou Partnership Agreement[8].

[8] The Cotonou Partnership Agreement is the successor to the former Yaoundé and then Lomé Conventions between the EU Member States and the 79 ACP States and was concluded in June 2000 for a 20-year period. The Bank has been entrusted with a mandate to manage the Investment Facility, a risk-bearing, revolving instrument established to promote the development of the private sector, which is supplemented by lending from the Bank's own resources (covered by a guarantee from the EU Member States). For further information on the EIB's activities in the ACPs, please refer to www.eib.org/acp.

The Bank's microfinance strategy calls for a focus on the areas where it can add the most value: the provision of equity to existing or newly created institutions and of local currency, notably through guarantees. By the end of 2006, the Bank had committed a total of EUR 76.9m in debt and equity for microfinance in the ACPs. The geographical focus of EIB microfinance operations has progressively shifted to Africa, which remained until very recently the poor child of the industry. The introduction of new instruments such as guarantees and equity instruments has also allowed the Bank to reach a significantly larger number of microfinance institutions (MFIs), which, due to their relatively small size, could not have been included in traditional lines of credit. Microfinance investment funds have proved especially effective not only in providing funding to existing MFIs in countries such as Kenya, Uganda, Ghana and Mozambique, but also in starting or strengthening greenfield MFIs in Cameroon, the Democratic Republic of Congo, Madagascar, Nigeria and Chad. The setting-up of a guarantee scheme in Senegal allowing local MFIs to seek refinancing with local banks paved the way for the further integration of microfinance in the local financial market while at the same time enabling the use of often abundant liquidity in local currency, thereby simultaneously tackling the issue of foreign exchange exposure.

Through its operations, the Bank is seeking a triple return on investment: financial, social and a demonstration effect. A financial return is essential to ensure the sustainability of the MFIs concerned and their attractiveness for other investors. A social return needs to be measured in terms of income growth at the level of those benefiting from micro-credits. A demonstration effect is required to ensure future mobilisation of larger funding sources both in the North and the South. A good illustration of this last feature is the Africap Microfinance Fund in which the Bank is one of the largest founding investors. After a relatively slow start in 2001/02, Africap rapidly improved its performance by building a strong deal flow and making two exits. In 2005/06, the fund partially exited its investments in Equity Bank Ltd (EBL, Kenya), which was subsequently listed on the Nairobi Stock Exchange, thereby becoming the second MFI worldwide to be listed on a public exchange. Africap also sold its stake in First Allied Savings and Loan (FASL, Ghana). Both exits generated comfortable returns that were largely reinvested in the fund. The achievements of Africap have recently been recognised in the African investment community and in November 2006 Africap was awarded the Africa Investor "Venture Capital Deal of the Year Award" for its investment in Kenya's EBL. Thanks to its achievements, Africap should be able to raise funds for a new larger vehicle (Africap II) with current as well as new investors, including African ones.

Despite encouraging developments, the majority of poor people still have no access to basic financial services. A lot remains to be done and the EIB endeavours to contribute in a proactive manner by remaining at the forefront of the industry and taking pioneering risk on high-impact projects. However, the Bank's involvement in microfinance extends beyond strictly project-related activities and encompasses a continuous dialogue with the EU Member States, the European Commission and other important stakeholders: in September 2006 the Bank signed a Memorandum of Understanding with the Grand Duchy of Luxembourg establishing a framework for cooperation on funding technical assistance programmes related to the promotion of microfinance activities in ACP countries. The Bank also played a leading role in setting up the EU-ACP Microfinance Framework Programme, a pilot programme funded by the European Commission to provide technical assistance funding for microfinance operations. This programme is administered by the Consultative Group to Assist the Poor (CGAP), a consortium of public and private development agencies working together to expand access to financial services for the poor in developing countries. The Bank has been an active member of CGAP since 2005 and endeavours to be the voice of the ACP region within the organisation. □

info

The information magazine of the European Investment Bank Group

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

External Offices

Austria
Parkring 10 – A-1010 Wien
(+43-1) 516 33 31 95 – (+43-1) 516 33 30 00

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

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

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

Greece
1, Herodou Attikou & Vas. Sofias Avenue – GR-106 74 Athens
(+30) 210 68 24 517 – (+30) 210 68 24 520

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

Poland
Plac Piłsudskiego 1 – PL-00-078 Warszawa
(+48-22) 310 05 00 – (+48-22) 310 05 01

Portugal
Avenida da Liberdade, 190-4°, A – P-1250-147 Lisboa
(+351) 213 42 89 89 – (+351) 213 47 04 87

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

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

Egypt
6, Boulos Hanna Street – Dokki, 12311 Giza
(+20-2) 336 65 83 – (+20-2) 336 65 84

Kenya
Africa Re Centre, 5th floor – Hospital Road, PO Box 40193, KE-00100 Nairobi
(+254-20) 273 52 60 – (+254-20) 271 32 78

Morocco
Riad Business Center, Aile sud, Immeuble S3, 4e étage
Boulevard Er-Riad, Rabat
(+212) 37 56 54 60 – (+212) 37 56 53 93

Senegal
3, rue du Docteur Roux – BP 6935, Dakar-Plateau
(+221) 889 43 00 – (+221) 842 97 12

South Africa
5, Greenpark Estates – 27 George Storrar Drive
Groenkloof – 0181 Tshwane (Pretoria)
(+27-12) 425 04 60 – (+27-12) 425 04 70

Tunisia
70, avenue Mohamed V – TN-1002 Tunis
(+216) 71 28 02 22 – (+216) 71 28 09 98

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**

Please consult the Bank's website for the updated list of existing offices and their contact details.

QH-AA-06-126-EN-C
©EIB - 02/2007 - EN

Dates for the Diary...

- **22-23/03/07** – 2007 FEMIP Conference, Paris – France
- **05/06/07** – Board of Governors Annual General Meeting 2007, Luxembourg
- **27-28/09/07** – EIB Forum 2007, Ljubljana – Slovenia

Details and registration at www.eib.org/events

New EIB publications

December 2006

- JASPERS, an instrument serving the European Union's cohesion policy

January 2007

- EIB's Statute
- Evaluation of Cross-border TEN projects
- European Investment Bank loans in the Baltic States
- The EIB in the Water Sector: Supply and Sanitation Schemes
- Corporate Operational Plan 2007-2009
- Understanding the full range of your benefits

February 2007

- Technical Assistance for Project Preparation - JASPERS (update)
- FEMIP Trust Fund: Evaluation of Activities at 30.09.2006
- Guide to Financing Projects from European Technology Platforms

Coming soon:

- 2006 Corporate Responsibility Report
- EIB Papers 2007
- FEMIP and ACP Annual Reports
- EIB Group Annual Report

Brochures are available in various languages according to audience and business requirements. They can be downloaded free of charge at www.eib.org/publications.