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2006



Corporate Responsibility Report



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The vast majority of EIB documents referred to are available on our website, and as such are marked with the symbol → www.eib.org. This 2006 EIB Corporate Responsibility Report will also be published on our website with embedded links to the reference documents.

Nevertheless, this 2006 CR report is complemented with information provided in our 2006 Annual and Activity Reports as well as information available on our website, in order to enable our stakeholders to better assess the Bank's performance in terms of significant economic, environmental and social impacts.

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President's Foreword



One year on...

The topic "environment" is experiencing a renaissance, and following a number of landmark events, such as the completion of the Millennium Ecosystem Assessment and publication of the Stern Review on climate change, it has regained the political high ground. In turn, there is an increasing acceptance that we have a collective responsibility for taking care of our delicate planet Earth in the broader interests of sustainable development. In the financial and business community, the critical questions today relate to how to manage environmental, social and economic concerns, while ensuring the financial solvency and viability of enterprises.

While I believe the EIB must draw clear boundaries in terms of what positive changes it can and cannot drive and what it is and is not responsible for, I am convinced of the overwhelming need for truly sustainable development and I look forward to further strengthening the constructive dialogue with our stakeholders in this respect. I am therefore personally delighted to present you with our second Corporate Responsibility Report, which I hope reflects the EIB's genuine interest and belief in the area of Corporate Responsibility.

Corporate Responsibility is at the core of the business model of the EIB; it influences everything we do. I will highlight some of these aspects below.

In line with its Treaty-based mission of contributing "towards the integration, balanced development and economic and social cohesion of the Member Countries", the current framework for the EIB's action is the EU structural and cohesion funds policy. In 2006, total lending for regional development topped EUR 27bn, representing 67% of the EIB's aggregate lending within the EU-25.

Our Board approved the introduction of "Sustainable, Competitive and Secure Energy" as a new Corporate Operational Plan objective, and based on our own energy review (posted on the Bank's website) we have made energy a priority. Most of the key energy orientations support environmental objectives, notably renewable energy and energy efficiency. In 2006, the Bank's operational target of devoting between 30% and 35% of all individual loans in the EU-25 to projects safeguarding and enhancing the environment was once again achieved, with the share of environmental lending reaching 34%. The Bank is also on track to meet its operational target for renewable energy.

2006 was rich in the establishment of partnerships relating to environmental protection. The Bank has developed and launched, in close cooperation with the Commission, an initiative known as the European Principles for the Environment, which was signed in May together with the European Bank for Reconstruction and Development (EBRD), Council of Europe Development Bank (CEB), Nordic Investment Bank (NIB) and Nordic Environment Finance Corporation (NEFCO). The Principles are founded on the commitment of the five signatory European-based MFIs to ensuring environmental protection and promoting sustainable development globally and across all sectors of their activities, based on EU principles, practices and standards. We have also finalised the World Bank-EIB Carbon Fund for Europe (CFE), and officially launched the Multilateral Carbon Credit Fund (MCCF)

President's Foreword

jointly with the EBRD, as part of the EIB strategy for combating climate change. The Bank has also signed a Memorandum of Understanding with the World Conservation Union (IUCN) establishing the principles and framework for cooperation on matters relating to biodiversity.

The decision by the Council of the European Union adopted in December 2006 on the renewal of the EIB's external lending mandates for the 2007-2013 period provides for a total volume of lending of EUR 28bn for the seven-year period. Considering that some of the largest economies covered by the previous mandate have now joined the Union, this is a substantial increase of our responsibility towards sustainable development in partner countries. In this context, we are committed to paying increased attention to better serving the Millennium Development Goals. Reflecting this commitment, the existing Value Added approach has now been adapted by use of the Development Impact Assessment Framework (DIAF), which better reflects the specific nature of development finance in partner countries. After a successful trial period, the Management Committee decided that the DIAF should be applied to all operations in African, Caribbean and Pacific (ACP) countries and will be extended later to other mandates. Implementation of the DIAF provides a better understanding by the Bank of the expected impacts of the projects that it finances, thereby helping to improve project assessment throughout the project cycle from appraisal to ex post evaluation.

In 2006 we also approved the Statement on Social Assessment of Projects outside the European Union in order to clarify and consolidate the existing practices and address them more formally alongside the economic and environmental assessment work of the Bank. In this way, the Bank aims to establish a more proactive approach to social assessment.

Transparency has played a large part in our strategy. The positive response to our Public Consultation Process vis-à-vis our Public Disclosure Policy, which

finished in early 2006, has encouraged the Bank to launch a public consultation regarding our Policy to Fight Fraud, Corruption, Money Laundering and the Financing of Terrorism. As we forge new relations and stronger ties with our stakeholders, we will continue to address the various challenges associated with the development of more transparent and accountable procedures.

During the past year I have strongly encouraged the promotion of Corporate Responsibility as a sustainable way to conduct business, and I feel personally committed to pursuing this objective.

We are at the beginning of a process and we are forging a pathway through newly-navigated waters. We might not always get it completely right first time, but we wish to hear your comments so that we can constantly improve both our reporting procedure and the contents of our report, as well as our underlying approach to sustainability issues. In this way we can present you with the most accurate vision of our work to date and move forward in our common quest to safeguard our precious planet for the benefit of present and future generations.

Philippe Maystadt
President of the EIB Group



2006 Highlights

Key lending figures	
Total projects signed	45.8bn
European Union	39.8bn
Partner countries	5.9bn
Total disbursed	36.8bn
European Union	33.1bn
Partner countries	3.7bn
Economic and social cohesion in the enlarged EU	26.7bn
Energy	2.9bn
Transport	7.4bn
Telecommunications	1.4bn
Water, sewerage, waste	2.1bn
Urban and composite infrastructure	1.4bn
Industry	1.4bn
Services	1.2bn
Health and education	2.4bn
Credit lines for regional development	6.5bn
Innovative and knowledge-based European economy	10.9bn
Research, development and innovation	6.7bn
Education and training	2.0bn
Information and communications technology networks	1.7bn
Environmental protection	10.9bn
of which outside the EU-25	1.2bn
Sustainable urban transport	2.6bn
Urban renewal and regeneration	2.0bn
Addressing environmental and health issues	2.9bn
Tackling climate change: energy efficiency and renewable energy	2.3bn
Protecting nature and wildlife	0.5bn
Preserving natural resources and managing waste	0.6bn

2006 Highlights

Trans-European Networks	8.4bn
Small and medium-sized enterprises in the EU	5.8bn
Support for EU development and cooperation policies	5.9bn
Neighbouring South-Eastern Countries	3.2bn
FEMIP	1.4bn
Africa, Caribbean and Pacific	0.7bn
Republic of South Africa	0.08bn
Asia and Latin America	0.5bn

Resources raised	48.1bn¹
EU currencies	26.5bn
Non-EU currencies	21.5bn
Situation as at 31.12.2006	
Subscribed capital	163.7bn
Loans outstanding	310.9bn
Borrowings outstanding	246.6bn

¹ Resources raised under the global borrowing authorisation for 2006, including 'pre-funding' of EUR 2.9bn completed in 2005.

2006 Highlights



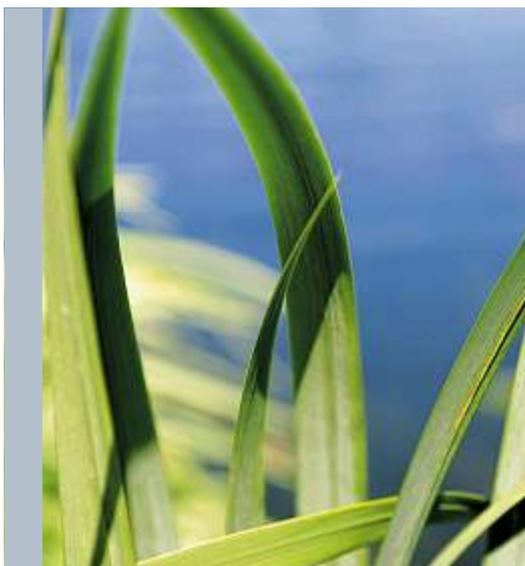
Environmental and social highlights

- Official launch of the European Principles for the Environment (EPE) by the European Investment Bank (EIB), the European Bank for Reconstruction and Development (EBRD), the Nordic Investment Bank (NIB), the Nordic Environment Finance Corporation (NEFCO) and the Council of Europe Development Bank (CEB), with the support of the European Commission and its Directorate-General for Environment (DG ENV)
- Official launch and finalisation respectively of two carbon funds: the Multilateral Carbon Credit Fund jointly sponsored by the EIB and the EBRD; and the Carbon Fund for Europe (CFE) jointly sponsored by the EIB and the World Bank
- Enlargement of the Climate Change Financing Facility (CCFF), which provides long-term loan finance to EU companies participating in the Emissions Trading Scheme (ETS) and to companies operating outside the EU developing Joint Implementation (JI) and Clean Development Mechanism (CDM) projects, and making the Climate Change Technical Assistance Facility (CCTAF) fully operational (in order to facilitate carbon credit development)
- Completion and approval of new social assessment guidelines, "Taking Social Issues into Account in Projects outside the EU"
- Completion and approval of an updated set of internal guidelines on environmental and social assessment and rollout of an environmental and social awareness-raising programme within the Bank
- Following a trial period of one year of the Development Impact Assessment Framework (DIAF), which was designed to better assess the quality and soundness, notably in the social area, of projects outside the EU, it was decided that the DIAF should be applied to all operations in the African, Caribbean and Pacific (ACP) countries and that it could be extended to other mandates once the negotiations on these are terminated

Corporate Responsibility

- Creation within the Strategy and Corporate Centre Directorate of a division dedicated to Corporate Responsibility policies
- First steps towards implementation of the internal management framework for Corporate Responsibility using the first Corporate Responsibility Report and a commitment to annual reporting
- Launch of process for Corporate Responsibility internal self-assessment

Responsible Reporting



Corporate Responsibility (CR) reporting is the practice of measuring, disclosing to internal and external stakeholders, and taking responsibility for organisational performance leading to sustainable development, which “meets the needs of the present without compromising the ability of future generations to meet their own needs”².

The Bank considers CR reporting to be a key element of transparency and accountability. Reporting serves as a tool for engaging with stakeholders and securing useful inputs into organisational processes. Furthermore, CR reporting is a living process, which does not begin or end with a printed publication. Indeed, for the EIB reporting fits into a broader process of setting and implementing strategies and policies and evaluating their outcomes. Thus, reporting enables a robust assessment of our performance and supports improvement over time.

² World Commission on Environment and Development, *Our Common Future*. Oxford University Press, 1987.

Commitment to reporting

The EIB Group Corporate Social Responsibility (CSR) Statement was published on the Bank’s website in May 2005. In publishing this statement, the Bank committed itself to periodically reporting on the implementation of CSR. The first integrated Corporate Responsibility report was published in June 2006.

For this second CR report, the Bank has shortened the production cycle to enable early publication in February 2007 in order to provide our different stakeholders with timely information. This meant a rather short production timeframe in which to produce 2006 information and figures. We hope this demonstrates our firm commitment to a valuable and timely CR annual reporting cycle.

The 2005 CR report was predominantly built upon the previously existing Environmental Report, which was enriched by elements of the Bank’s corporate governance and various other developments regarding transparency and integrity. This report also highlighted ethical and social issues. It was widely distributed and given a warm welcome by the Bank’s various stakeholders. The Bank regards CR reporting as a learning process and stakeholder participation is of paramount importance to us. Accordingly, the 2005 CR report was presented to, and discussed with, many civil society organisations at the Bank’s 2006 autumn workshop in Berlin. The Bank also made a targeted distribution to the investor community and will invite investors and analysts specialising in socially or ethically responsible investment to a presentation of the 2006 CR report. For each category of stakeholder, engagement activities are under way to ensure useful inputs to improve our CR reporting and other organisational processes. We warmly welcome all types of participation in this learning process and aim to find new dimensions for an effective dialogue with our stakeholders.

Report content

Compared with 2005, the 2006 CR report is less descriptive of the way the Bank does business and concentrates much more on 2006 activities and new strategies, policies and procedures. It also includes impact assessment and future goals. As a comprehensive and informative document, the 2006 CR report follows the same format and structure as the 2005 report.

In compiling this report we have taken into consideration the reasonable expectations of our stakeholders regarding disclosure. Our stakeholders include our shareholders, customers and other business partners, our staff, our peers, EU institutions, specialised rating agencies and investors, civil society organisations and the general public. The report covers all EIB activities, products and countries of operation.

According to our mission, objectives and strategies, in the context of the EU institutional and regulatory framework, and in line with the interests expressed by our stakeholders and with market challenges, we have identified the following areas for reporting:

- The way the Bank ensures proper governance, transparency and accountability;
- The economic, environmental and social aspects and impacts of the Bank's lending activities;
- The new strategies, policies and procedures regarding sustainability;
- The environmental and social footprint of the Bank's internal housekeeping.

Nevertheless, this 2006 CR report is complemented with information provided in our 2006 Annual and Activity Reports as well as information available on our website, in order to enable our stakeholders to better assess the Bank's performance in terms of significant economic, environmental and social impacts.

Assurance has been provided by our internal control systems on quantitative data presented in this report. Moreover, the financial data has been subject to the statutory audit and verification process. The report itself is the outcome of a careful in-house editorial process. Additionally, an internal CR self-assessment and stakeholder identification exercise helped to shape the report. This was undertaken with the assistance of external experts in the field of corporate responsibility and sustainability, the Brussels-based consultancy firm "Centre for Sustainability and Excellence (CSE)", which also provided us with an independent certification of this report.

For the 2006 report the Bank followed the new version (G3) of the Global Reporting Initiative (GRI) standards published in October 2006. This provides an improved and better-structured framework and consolidates the existing guidelines and standards. The Bank believes it has applied the GRI Reporting Framework to meet a "B" Application Level.

Further development

For next year's CR report (2007), the Bank intends to improve the reporting method, making it more web-based. In this context a dedicated Corporate Responsibility website will be created in 2007. This will substantially reduce the size of the paper version and improve integration with existing reports as well as enhancing compliance with the GRI Reporting Framework. We also intend the 2007 CR report to apply to the whole EIB Group; the European Investment Fund (EIF) will therefore be included in the process for the first time.

I – WHO WE ARE



The bank promoting European objectives



The European Investment Bank, with its headquarters situated in Luxembourg, is the investment bank of the European Union (EU)³. Membership of the EIB comprises the EU Member States. While the Bank enjoys its own legal personality and financial autonomy within the Community system, its mission is to ensure that its various activities support Community policies on a non-profit-making basis.

³ The European Union was established in 1993 after the ratification of the Maastricht Treaty by members of the European Community, which forms its core. In establishing the European Union, the treaty expanded the political scope of the European Community, especially in the area of foreign and security policy.

Within the EU, the EIB promotes the economic and social cohesion and development of the Member States through its lending operations. Outside the EU, EIB lending helps to realise the EU's development aid and co-operation policies.

The EIB is the majority shareholder (61.9%) of the EIF, a public-private partnership whose tripartite shareholding includes the European Commission (30%) and a number of European banks and financial institutions (8.1%). The EIF devotes itself to supporting small and medium-sized enterprises (SMEs) through financial intermediaries.

The Bank also owns 3% of the share capital of the European Bank for Reconstruction and Development (EBRD), which is charged with helping to build market economies in countries from central Europe to central Asia.

The bank promoting European objectives



Mission Statement

Our mission is to further the objectives of the European Union by making long-term finance available for sound investment.

We are at the service of the Union.

We were created by the Treaty of Rome, our shareholders are the 27 Member States, and our Board of Governors is composed of Ministers designated by each of the Member States, usually Finance Ministers.

We provide service and value added

- *through our appraisal and follow-up of investment projects and programmes:*

To receive our support, projects and programmes must be viable in four fundamental areas: economic, technical, environmental and financial. We appraise each investment project thoroughly and follow it through to completion.

- *through our financing:*

Through our own lending operations and our ability to attract other financing, we widen the range of funding possibilities. Through our borrowing activities, we contribute to the development of capital markets throughout the EU, Acceding, Accession and Candidate countries and elsewhere.

We offer first-class terms and conditions.

Our financial soundness derives from the strength and commitment of our shareholders, the independence of our professional judgments and our record of achievement. It enables us to borrow on the finest terms, which we pass on in our lending conditions.

We work in partnership with others.

Our policies are established in close coordination with the Member States and the other institutions of the European Union. We also cooperate closely with the business and banking sectors and the main international organisations in our field.

We attract qualified and multilingual staff from all the Member States.

We are motivated by our direct participation in the construction of Europe.

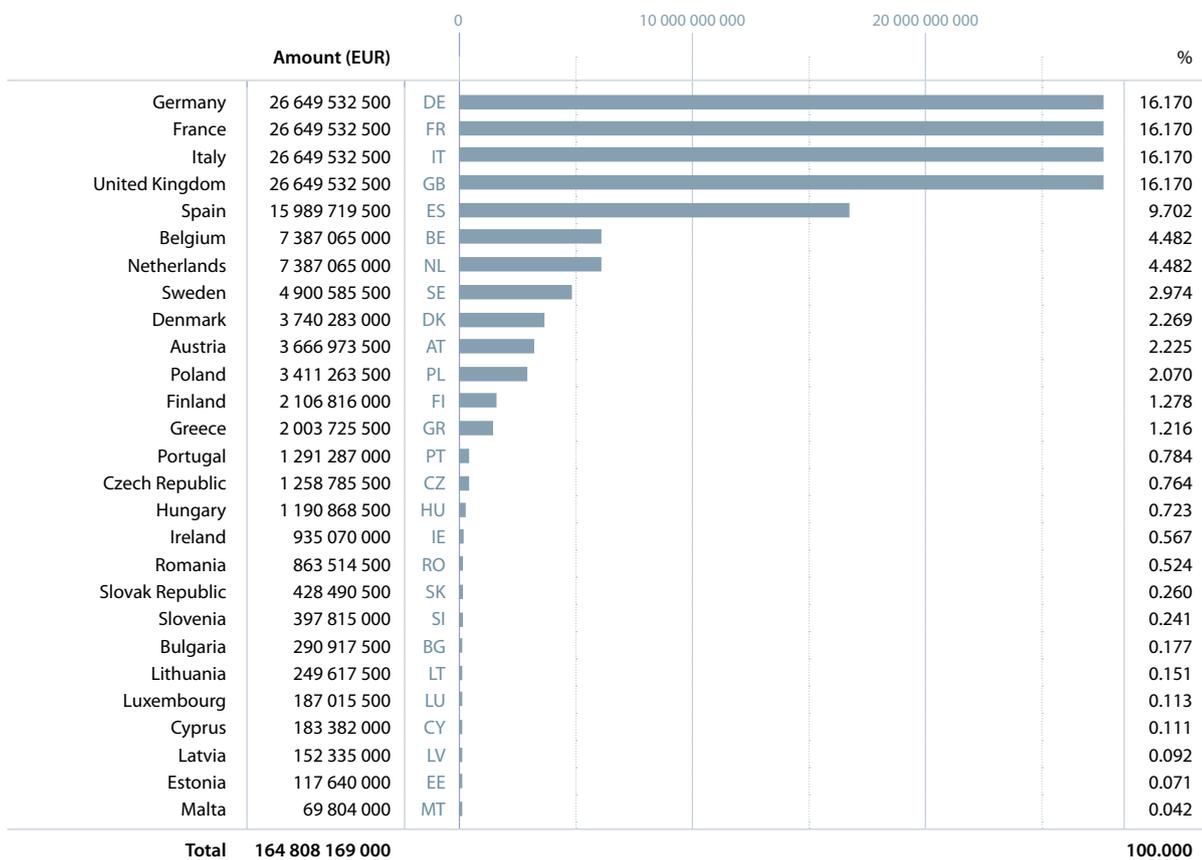
The bank promoting European objectives

Shareholders

Each Member State's share in the Bank's capital is based on its economic weight within the European Union. In the context of EU enlargement, the provisions of the EIB's Statute have modified the Bank's capital shares and governance. Under its Statute, the Bank is authorised to have maximum loans outstanding equivalent to two and half times its capital.

Bulgaria and Romania became EU Member States on 1 January 2007.

Breakdown of the EIB's capital as at 1 January 2007



The bank promoting European objectives

Governance structure

The governance structure of the EIB contains the checks and balances necessary to ensure a healthy equilibrium between the need to remain a competitive banking entity and the requirement to take ethics to the heart of our business. According to the Bank's Statute, the governance bodies are as follows:

The Board of Governors comprises Ministers designated by each of the 27 Member States, usually Finance Ministers. It lays down credit policy guidelines, approves the annual accounts and balance sheet, and decides on the Bank's participation in financing operations outside the European Union as well as on capital increases. Furthermore, it appoints the members of the Board of Directors, the Management Committee and the Audit Committee.

The Board of Directors has sole power to take decisions in respect of loans, guarantees and borrowings. As well as seeing that the Bank is properly run, it ensures that the Bank is managed in keeping with the provisions of the Treaty and the Statute and with the general directives laid down by the Governors. Its 28 Directors and 18 Alternates are appointed by the Governors for a renewable period of five years following nomination by the Member States and are responsible solely to the Bank. In order to broaden the Board of Directors' professional expertise in certain fields, the Board is able to co-opt a maximum of six experts (three Directors and three Alternates), who participate in the Board meetings in an advisory capacity, without voting rights.

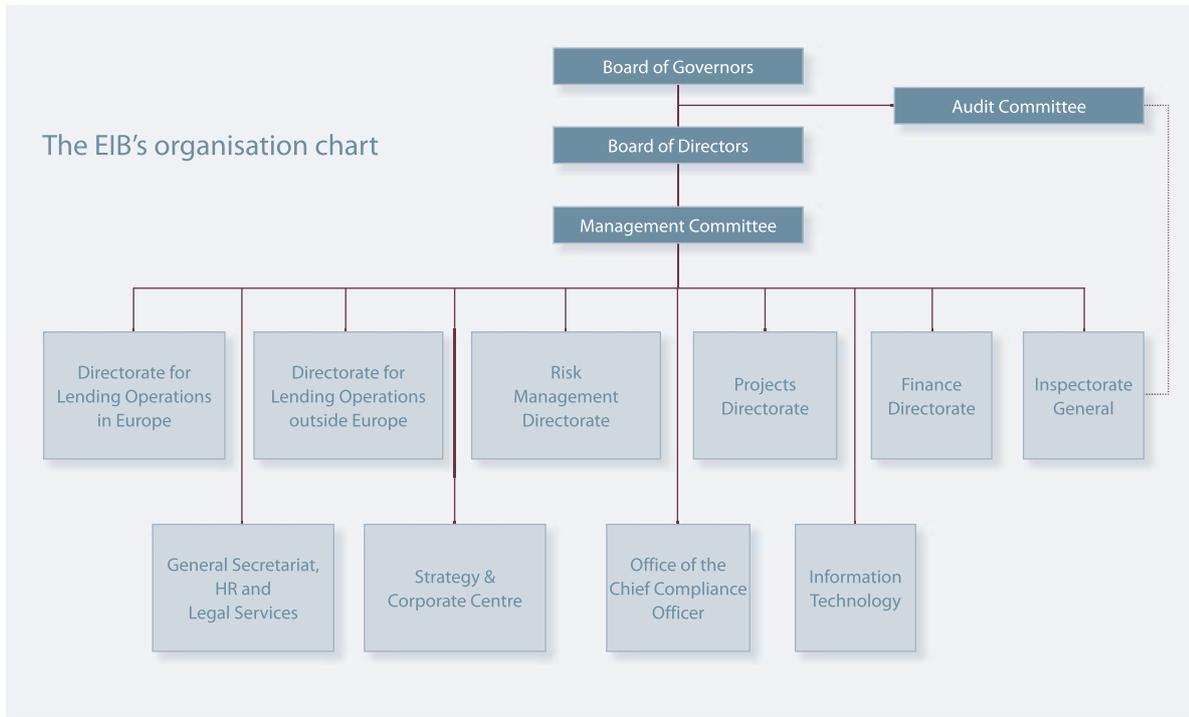
The Management Committee is the Bank's permanent collegiate executive body. It has nine members. Under the authority of the President and the supervision of the Board of Directors, it oversees the day-to-day running of the EIB, prepares decisions for Directors and ensures that these are implemented. The members of the Management Committee are responsible solely to the Bank; they are appointed by the Board of Governors, on a proposal from the Board of Directors, for a renewable period of six years. According to the Bank's Statute (Article 11⁴), the President is also Chairman of the Board of Directors.

The Audit Committee is an independent body answerable directly to the Board of Governors. It is responsible for verifying that the operations of the Bank have been conducted and its books kept in a proper manner. It reports to the Board of Governors and, at the time of approval by the Governors of the Annual Report of the Board of Directors, issues a statement on the audits carried out. The Audit Committee is composed of three members and three observers, appointed by the Governors for a term of office of three years.

⁴ Article 11 of the Bank's Statute states: "The President of the Management Committee or, in his absence, one of the Vice-Presidents, shall preside over meetings of the Board of Directors but shall not vote".

The bank promoting European objectives

The EIB's organisation chart as at 1 January 2007



The bank promoting European objectives

EIB lending activity

EIB lending activity in Europe focuses on six operational priorities:

- Economic and social cohesion and convergence in the enlarged Union;
- Implementation of the "Innovation 2010 Initiative";
- The development of trans-European and access networks;
- Environmental protection and improving the quality of life;
- Small and medium-sized enterprises;
- Sustainable, competitive and secure energy.

The Bank recently integrated support for **energy** initiatives as a specific objective in the Corporate Operational Plan (COP) for 2007-2009. Through the EIF, the European Commission, EU Member States and financial intermediaries, the EIB Group is also involved in equity investments in venture capital funds and business incubators that support SMEs, particularly those that are technology-oriented and at an early stage of implementation.

Lending in partner countries: developing partnerships

Outside the EU, the EIB's priorities are to better serve the development and cooperation objectives and policies of the European Union in partner countries, and to help fight poverty and improve the living standards of people in the developing world. The key challenge here is to prepare for future EU enlargement and to illustrate the Bank's worth as a development institution, as well as to meet stakeholders' expectations regarding its contribution to achieving the goals of development aid (please see our activity report 2006 for specific country details).

Lending products:

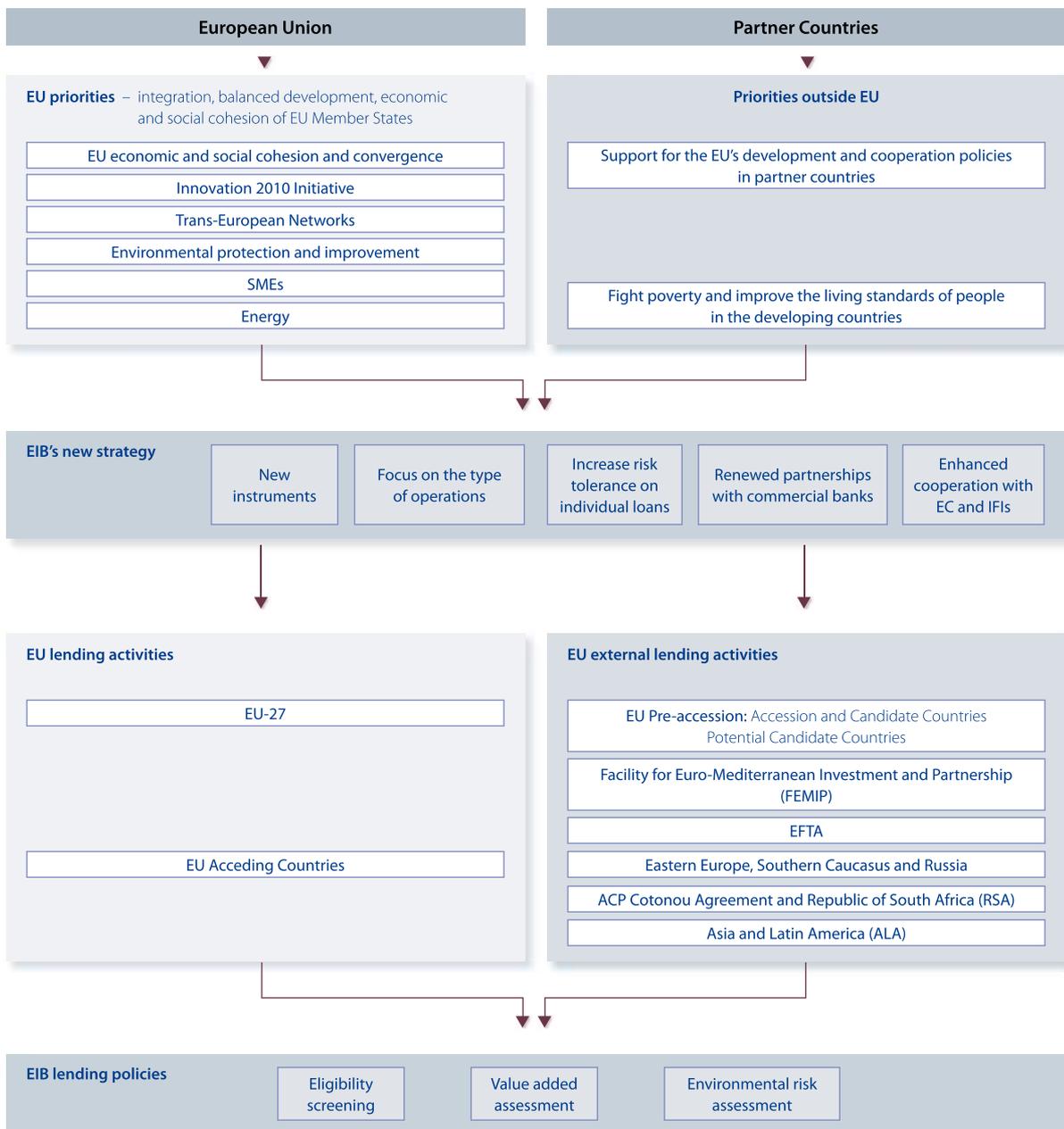
Individual Loans: Individual loans are made available directly to the promoter, or through banks, for capital spending programmes or projects and are available to promoters in both the public and private sectors.

Credit Lines: Credit lines are made available to banks, leasing companies or financial institutions, which onlend the proceeds for small or medium-scale investment projects meeting the Bank's criteria. In these cases, the responsibility for appraisal and follow-up lies with the financial intermediary.

Framework Loans: Framework loans are financial operations relating to multi-scheme investments. Due to incomplete information at the appraisal stage, decisions concerning the financing of specific schemes have to be taken after Board approval at the time of the approval and monitoring of the schemes.

The bank promoting European objectives

Investing according to EU policy



II – GOVERNANCE AND ACCOUNTABILITY



Corporate Governance

Corporate Governance

"Governance" or "corporate governance" is generally taken to mean the system by which businesses are managed and controlled. According to the Organisation for Economic Development and Cooperation (OECD) Principles of Corporate Governance (2004): "Corporate governance involves a set of relationships between a company's management, its board, its shareholders and other stakeholders. Corporate governance also provides the structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring performance are determined."

The Bank's guiding principles on governance take into account its dual role:

- as a bank, the EIB ensures that its financial statements give a true and fair view of its financial situation; it ensures that its business is conducted in accordance with the rules and procedures laid down in the Statute and the Rules of Procedure, and in line with best banking practice;
- as a European body promoting the policies of the EU, the EIB carries out its statutory role and the tasks assigned to it in a transparent manner, in accordance with the provisions that are applicable to it.

The EIB's principles of sound governance are in accordance with the Commission Action Plan and the European Parliament's resolutions on corporate governance and the supervision of financial services. The publication in 2004 of the Bank's Statement on Governance, and of subsequent annual updates, bears witness to the EIB's continued commitment to good governance.

The principles of Governance at the Bank extend to the EIB Group at large; the EIF applies these principles, *mutatis mutandis*, in the course of its own activity. As from 2007, the Bank will draw up a Joint Statement on Governance within the EIB Group.

Conflicts of interest

Appropriate codes of conduct are applicable to all of the EIB's decision-making bodies and staff members to satisfy conflict of interest requirements.

The EIB's codes of conduct

- *Code of Conduct for the members of the Board of Directors of the European Investment Bank;*
- *Code of Conduct for the members of the Management Committee of the European Investment Bank;*
- *Code of Conduct for the members of the Audit Committee of the European Investment Bank;*
- *EIB Staff Code of Conduct;*
- *EIB Code of good administrative behaviour for staff in relations with the public.*

Concerns vis-à-vis conflicts of interest are addressed at the highest levels by the use of individual declarations by members of the Management Committee. Furthermore, details of these declarations are published by the EIB on its website, www.eib.org. Any abstentions from voting on the grounds of conflict of interest by members of the Board of Directors are recorded in the minutes of meetings.

Fighting Corruption, Fraud, Money Laundering and the Financing of Terrorism

The EIB's commitment

The EIB regularly revises and updates its general policy on fighting corruption, fraud, money laundering and the financing of terrorism. As stated in the OECD's Guidelines for Multinational Enterprises⁵, "corruption is not only damaging to democratic institutions and the governance of corporations, but [it] also impede[s] efforts to reduce poverty. In particular, the diversion of funds through corrupt practices undermines attempts by citizens to achieve higher levels of economic, social and environmental welfare". The Bank's current strategy in this area is described below, drawing on published documents such as our codes of conduct and our guide to procurement and also on European Union directives, international regulations and recommendations and internal rules, including conditions and clauses contained in the EIB's finance contracts.

A fraudulent practice is any act or omission, including a misrepresentation, that knowingly or recklessly misleads, or attempts to mislead, a party to obtain a financial or other benefit or to avoid an obligation. A corrupt practice is the offering, giving, receiving, or soliciting, directly or indirectly, of anything of value to influence improperly the actions of another party⁶. In terms of money laundering and the financing of terrorism, the EIB has adopted the definitions set out in the directives of the European Union and proposed by the OECD's Financial Action Task Force (FATF).

The EIB declares that it has a zero-tolerance policy where credible evidence of corruption, fraud, money laundering or the financing of terrorism exists among its staff or in connection with EIB-financed projects. As the policy-driven investment bank of the European Union, the EIB supports and promotes the guidelines, measures and procedures adopted by the EU Member States to fight corruption, fraud, money laundering and the financing of terrorism. The Bank is also committed to implementing the recommendations for financial institutions on preventing money laundering and the financing of terrorism issued by the FATF, as well as cooperating with the Member States' authorities and the Union's Anti-Fraud Office (OLAF) in combating all forms of fraud.



Preventive measures introduced

The Bank has, inter alia, established a Compliance Office, the objective of which is to oversee conformity with standards and act as a first-line detector of potential incidents of non-observance of rules on ethics and integrity so that appropriate measures can be taken in line with the texts and procedures in force⁷.

In the context of the European Union's development policy, the EIB has received specific mandates to finance projects in countries outside the European Union, some of which have been identified by the OECD as tax havens. The EIB has adopted a special policy not only in this matter but also with regard to jurisdictions that are considered by the International Monetary Fund (IMF) to be inadequately regulated or fail to apply the FATF's recommendations for combating money laundering and the financing of terrorism. The aim of this policy is to ensure that the Bank does not support or undertake any project, structure or investment intended to permit fraud or encourage money laundering or the financing of terrorism. This policy applies to both lending and treasury operations.

Fighting Corruption, Fraud, Money Laundering and the Financing of Terrorism

Rules governing allegations of fraud, corruption and other forms of illegal activity

The Bank has formulated a set of rules to govern the handling of allegations of fraud, corruption and other forms of illegal activity affecting the financial interests of the EIB and/or the European Communities in the course of EIB Group activities. Their purpose is to provide clear guidelines for members of the EIB Group, including the Inspectorate General (IG), in the handling of allegations.

In its operations outside the EU Member States and the Acceding Countries, each loan contract between the Bank and a State-owned borrower, or borrower whose commercial risks are assumed by a State, contains provisions against fraud and corruption. The borrower undertakes to inform the Bank if it is aware or ever becomes aware of any evidence of fraud or corruption within its organisation in connection with a project financed by the Bank. Furthermore, the borrowing entity must maintain its own records concerning the project and designate a senior officer who is empowered to deal with the Bank on matters of fraud and corruption.

As part of the measures it takes to help combat money laundering and the financing of terrorism, particularly in its activities outside the European Union, the EIB has undertaken to ensure that it works only with reputable promoters or intermediaries, checks their identity and integrity, applies strict procedures for the disbursement of funds and verifies the destination and movement of the funds. Loan agreements signed with private sector borrowers undertaking projects in non-EU Member States require the borrower to ensure the legitimacy of the funds invested in the company and project.

⁵ The OECD Guidelines for Multinational Enterprises: Text, Commentary and Clarifications.

⁶ These definitions are taken from the "Uniform Framework for Preventing and Combating Fraud and Corruption", agreed in September 2006 by the leaders of the seven major international financial institutions, including the EIB.

⁷ The Annual Report on the activities of the Group Chief Compliance Officer was presented to the Board of Directors in 2006.

Procurement and project execution

The EIB requires that project promoters, as well as tenderers, contractors, suppliers and consultants under Bank-financed contracts, observe the highest standard of ethics during the procurement and performance of contracts. If the EIB determines that there are signs of prohibited practices during the procurement procedure or during the performance of the contract, it may either refuse to accept a promoter's preferred choice for the award of a contract or it may cancel all or part of the Bank financing allocated to a contract for works, supplies or services. As a general rule, for international procurement procedures the Bank will require the promoter to insert in the tender documents a clause that grants the promoter, the Bank and auditors appointed by either of them, the right to inspect the records of the contractor, supplier or consultant in connection with any Bank-financed contract. Additionally, the contractor, supplier or consultant is obliged to keep these records for the period generally stipulated by law (at least six years) and to make them available to the Bank.

Further public consultation

Following on from the success of the public consultation process vis-à-vis the EIB's disclosure policy, a similar review will begin in 2007 for the EIB's policies, guidelines and procedures on fighting corruption, fraud, money laundering and the financing of terrorism. The objective of this process is to benefit from the expertise of a wider range of individuals and organisations.

Strategy and Planning

The new strategy

The strategic objectives approved by the Bank's Board of Directors at its Annual Meeting on 7 June 2005 were incorporated into the Corporate Operational Plan (COP) for 2006-2008 resulting in:

- an increased focus on value added;
- a progressive increase in risk-taking activity including in relation to small and medium-sized enterprises (SMEs);
- the use of new financial instruments;
- further cooperation with the European Commission;
- enhanced monitoring.

With a view to maintaining financial self-sufficiency, the impact of the new strategy on the various elements of the Profit and Loss Account was also highlighted. 2006 was the first full year of implementation of the new strategic orientations. The COP for 2007-2009 builds on initiatives approved under the COP for 2006-2008 and also encompasses decisions taken by the European Council, Board of Governors and Board of Directors during 2006, responding to numerous external influences, notably new policies at EU level and emerging best banking practices.

The Bank's 2007-2009 planning process was conducted at a time of significant change at EU level. Whilst the Bank's performance as an EU institution will be measured against many criteria, amongst them will be its responsiveness to EU policy change and the effects of the progressive enlargement of the EU.



Aligning EIB objectives with EU policy

The EIB Group's future operating environment is influenced by factors such as developments in the capital markets as well as the future adoption of the EU financial perspectives for the period 2007-2013 and the external mandates.

There is close and continuous consultation and cooperation between the EIB Group and the EU institutions (notably the Commission, Council and Parliament) in order to maintain coherence between EU priorities and EIB objectives.

The operational lending priorities in Europe have been adjusted to reflect EU policy developments as foreseen in the 2007-2013 financial perspectives and related new co-financing mechanisms between EU budgetary funds and EIB loans and new initiatives involving the EIB, the Commission and the Member States. These major developments will have a significant impact on aligning even more closely EIB activities (as lender, provider of advisory services but also manager of EU funds and programmes) and EU priority objectives.

In particular in 2006, the Bank started to integrate the decisions of the European Council concerning the renewed cohesion policy for 2007-2013 into its lending activities in the EU, although the transitional period will last until end-2007.

The Bank is also looking at ways to better incorporate EU priority objectives into the implementation of its funding programmes.



Sustainable, competitive and secure energy

Energy has become a key item in the EU policy agenda, in particular following the release in March of the Green Paper "A European Strategy for Sustainable, Competitive and Secure Energy", followed by a number of Council conclusions and dedicated initiatives. The Bank has been associated with these developments and, in parallel, has launched several internal actions. On this basis, the Bank integrated energy as a specific objective into the COP for 2007-2009 with appropriate guidelines and monitoring. The projects considered under this objective should belong to one of the following areas, the importance of which is also being stressed in both EU policy orientations and the recommendations of specialised international organisations:

- Renewable energy;
- Energy efficiency;
- Research, development and innovation in energy;
- Security and diversification of internal supply (including TENS-E);
- External energy security and economic development (neighbouring and partner countries).

Guidelines have been defined for each of these areas. An overall target for supporting this objective, reflecting EU priority, has also been included in the COP for 2007-2009.

Sustainable development

Across all activities of the Bank, but particularly through the financing of sustainable projects, sustainable development continues to be a core requirement. There are commonly three objectives associated with sustainable development:

- Environmental protection;
- Social equity and cohesion;
- Economic prosperity.

These were recently reaffirmed by the European Council in June 2006 when adopting a renewed EU sustainable development strategy.

The renewed strategy sets overall objectives, targets and concrete actions for seven key priority challenges for the period up to 2010, many of which are predominantly environmental:

- Climate change and clean energy;
- Sustainable transport;
- Sustainable production and consumption;
- Public health threats;
- Better management of natural resources;
- Social inclusion, demography and migration;
- Fighting global poverty.

Against this background, the Bank is refining its project identification, appraisal and monitoring techniques to ensure that sustainability is sufficiently and consistently considered when the value added of a project is assessed. The Bank will continue to strive to develop its capacity in the field of sustainable development and to communicate its actions and associated results externally. In this context, the Bank is reviewing its web statement on sustainable development.

Communication, Information and Transparency



Communication vectors

As part of its communication strategy, the EIB published a broad range of country, sector, thematic, annual and evaluation reports and brochures in 2006, in Community languages as appropriate. However, the single most important tool for transparency and communication is the Bank's website, www.eib.org, which over the years has received an ever increasing number of visitors. In 2006, more than 3 million visitors browsed the EIB site, up from 2.4 million in 2005 (and 1.8 million in 2004). 2006 also saw the start of a major overhaul of the content of the website, which should be finalised at the end of 2007.

The project pipeline plays an important role in the EIB's public disclosure policy. The Bank is committed to publishing summary information on projects that it is considering for financing on its website. All projects appear on a project list before Board approval unless prevented by legitimate confidentiality reasons, for example in the case of private sector projects. In those cases where the project necessitates an Environmental Impact Assessment (EIA), the Bank

endeavours to provide a link to the Non-Technical Summary of the EIA and, for projects outside the EU, its equivalent along with the Environmental Impact Assessment. Once approved and signed, all projects financed by the Bank are listed in the Annual Report.

Reaching out

During 2006 the EIB had many opportunities to promote itself to large groups of professionals that were potentially interested in its activities and the finance on offer. The Bank was present at some 25 conferences and seminars, with communication specialists manning business contact points. Bank representatives participated in the Carbon Expo in Cologne and the Green Week in Brussels in May 2006, and at the Carbon Expo in Beijing in October. Furthermore, Bank staff also participated in the open days of the European Week of Cities and Regions in Brussels in October, bringing together thousands of representatives of local and regional authorities.

Communication, Information and Transparency

European Development Days

From 15-17 November 2006 the EIB participated in the European Development Days. This large-scale event, organised by the European Commission for the first time in 2006, brought together more than 2 200 participants from the Member States' official aid agencies, the World Bank and UN organisations, the ACP Secretariat, CDE/ProInvest and many NGOs. Side events were organised in the form of round-table discussions between representatives of donor and beneficiary countries, NGOs and specialist agencies.

These European Development Days were attended by personalities such as José Manuel Barroso (President of the European Commission), Louis Michel (EU Commissioner for Development and Humanitarian Aid), Guy Verhofstadt (Prime Minister of Belgium), Marjatta Rassi (State Secretary for Development – Finland, Presidency), Saïd Djinnit (African Union), Mark Malloch Brown (Deputy Secretary General of the UN), Paul Wolfowitz (World Bank), Donald Kaberuka (ADB) and Aminata Traoré (African Social Fund) and leaders of 18 African Nations, notably President Sirleaf of Liberia, President Museveni of Uganda, Prime Minister Zenawi of Ethiopia, President Touré of Mali and Archbishop Desmond Tutu.

The EIB will also participate in the next European Development Days, to be held in Lisbon in 2007.

A prime occasion to reach out will be the 50th anniversary of the Treaty of Rome in 2007 and the EIB's own 50th anniversary in 2008. Preparatory work is under way to align the Bank with the other EU institutions in the 2007 celebrations, including the business and political summits and conferences envisaged. Rather than an occasion to look back on past achievements, the EIB's own 50th anniversary will be used to look forward and to highlight its role as the EU investment bank for European Union citizens. The emphasis in a series of internal and external events, publications and promotional activities will be on transparency, modern corporate governance, new lending products, and

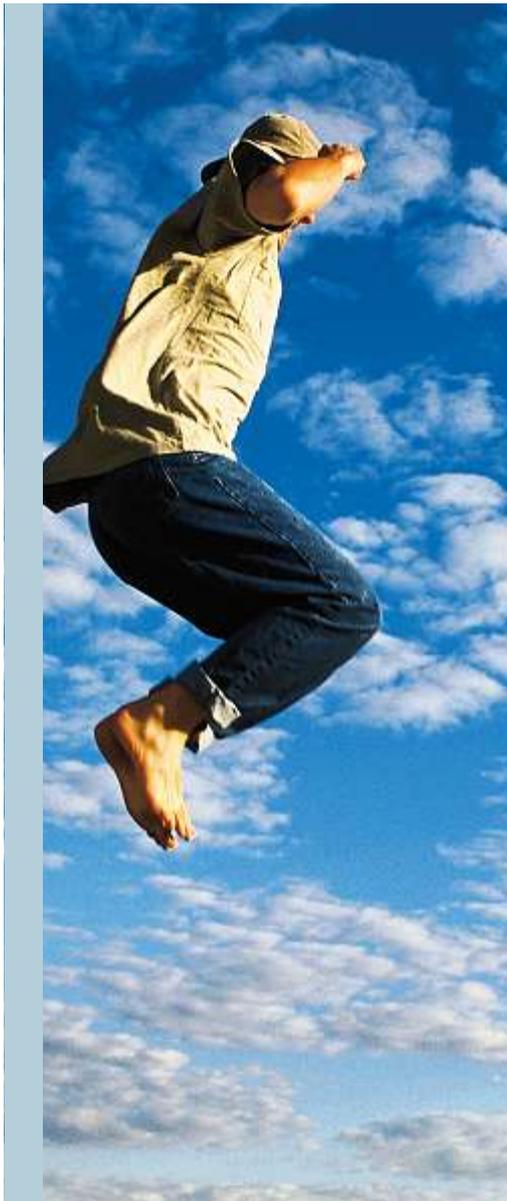
the Bank's value added in operations both in and outside the European Union. The commissioning of the EIB's new building is due to coincide with the Board of Governors' meeting in June 2008, underscoring one of the high points of the EIB's 50th birthday.

Stakeholder engagement**Relations with civil society organisations**

The Bank's relationship with civil society organisations (CSOs), including non-governmental organisations (NGOs) and other interest groups, is based on the acknowledgment that these can have a valuable input into its policy development. They can also contribute to the Bank's awareness of local issues and provide useful information on projects.

A Civil Society Unit within the Communication Department coordinates the Bank's contacts with NGOs and other interest groups. As the EIB's interface with these organisations, its task is to ensure consistency and quality of communication and to engage with civil society in an active way. It increasingly seeks closer contacts with organisations that can help the public and, more specifically, citizens affected by EIB operations, to access information about the Bank. Inside the Bank, the unit provides coordination on civil society contacts and issues. It also runs, together with the Human Resources Department and external experts, in-house awareness and capacity-building programmes on the Bank's interaction with civil society. This builds and improves the knowledge base and also the commitment among staff for communication with civil society representatives.

The current interaction with CSOs is characterised by new ways of engagement. First of all, the Bank began partnering with expert organisations on shared issues such as the EU's Lisbon agenda, sustainable development, environmental protection, or poverty alleviation. Another key development contributing to the quality of relations with CSOs is the Bank's new practice of public consultation on selected policies,



strategies or guidelines. In particular, NGOs are undeniably one of the major stakeholder groups taking a great interest in consultation. This was demonstrated through their substantial contribution to the first public consultation that the Bank conducted and which was related to a review of the EIB's public disclosure policy (completed in March 2006).

A first example of the Bank's cooperative relationship with expert CSOs is a Memorandum of Understanding that it signed in September 2006 with the World Conservation Union (IUCN) on biodiversity issues. This agreement provides a framework for joint initiatives and collaboration on matters relating to the biodiversity aspect of EIB activities. The IUCN provides expert advice on the Bank's initiatives, policies and strategies, such as reviews of guidelines on due diligence or assistance to monitor aspects of EIB-financed projects. IUCN is also assisting in the Bank's in-house training and awareness-building on biodiversity issues. The Bank is exploring with CSOs other opportunities for cooperation based on expertise and pragmatism.

A key event encouraging these expert relationships was a special briefing that the President of the EIB gave in February 2006 to Brussels-based CSOs on the occasion of the Bank's annual release of the results of the previous financial year. From this event evolved bilateral contacts with various organisations. For instance, in October 2006 the Bank hosted a seminar organised by a CSO named the "Lisbon Council" for technology-intensive small and medium-sized enterprises on "Financing for Innovation". In the same month, the Bank participated in a conference on "Intelligent Energy in Municipalities of the New Member States, Candidate Countries, Western Balkans and Ukraine" organised by "Energie-Cités" in Riga.

Communication, Information and Transparency

While the Bank will further pursue such targeted working relations, it is also keen on sustaining and improving its contacts with critical policy advocacy NGOs campaigning on the Bank's activities. These organisations in particular made important contributions to the public consultation process on the EIB's public disclosure policy review. Contacts and dialogues with these organisations have increased over the last few years. This is underscored by the Bank's participation in events planned by such organisations on EIB-related issues, for example a conference on an independent compliance and appeal mechanism for the Bank that CEE Bankwatch Network and other NGOs held in Brussels (November 2006).

As part of its regular workshops for NGOs and other CSOs, the Bank held two workshops in 2006. As is usual, the EIB and interested CSOs together set the agenda and provided speakers. The spring workshop in Brussels tackled R&D and Innovation in the framework of the Lisbon process, human capital formation, and the role of civil society in the Bank's project cycle. The autumn workshop in Berlin addressed issues relating to the linkages between the environment, climate change and energy. Corporate responsibility was also part of the agenda. The workshops also offer CSOs an opportunity to arrange side events with EIB staff on bilateral issues, notably lending operations.

In 2006, the Bank received some 97 enquiries and requests for disclosure of information from NGOs⁸. Due to the complexity of their content or association with activities of other parties, these requests required a certain level of coordination within the Bank or with external parties, in particular project promoters and borrowers, the European Commission and other international financing institutions. A third of these requests covered road transport projects,

the majority relating to schemes in the new Member States and Accession Countries. Another considerable number of letters related to disclosure of information. In total, the information desk received some 30 000 requests for information during 2006.

Public consultation

The public consultation process for the Bank's disclosure policy was completed in early 2006. Due to its success, a similar review will begin in 2007 for the EIB's policies, guidelines and procedures on fighting corruption, fraud, money laundering and the financing of terrorism. Furthermore, the Bank also intends to conduct a consultation on its environmental and social principles and standards, as well as a separate consultation on a Manual of EU Environmental Standards. This consultation will be run in cooperation with the co-signatories of the European Principals for the Environment.

⁸ A number of projects and topics attracted more than one enquiry.

Working with Others

The European Investment Bank: a strategic partner to the European Union at the service of its institutions, enterprises and citizens and a close partner to the international financial institutions

As the long-term financing institution of the European Union, the EIB operates to further the Union's policy objectives by implementing guidelines defined and formulated by its shareholders, the Member States, in the forum of the Board of Governors and in the framework of the Council of the European Union. Consequently, a constant and open dialogue with the European institutions that prepare, propose and decide on the Union's policies is of crucial importance in order to achieve these common objectives.



Working together with the Council of the European Union

During the year under review, cooperation with the Council of the European Union was again intensive. The March European Council underlined once more the increasing importance of the EIB Group's role: indeed, alongside the re-launch of the Lisbon Strategy with a special focus on investment in knowledge and innovation as well as on SMEs, the Council attached great importance to the EIB supporting innovation and reinforcing R&D activities through the creation of a Risk-Sharing Finance Facility to be structured and implemented with the Commission. In the same context the EIF was invited to further develop its role in facilitating the development of financial products by concentrating on R&D, innovation-driven and early-stage investments.

Another important subject was the adoption by the Council in December of the decision on the renewal of the external lending mandates for the period 2007-2013. In its decision, the Council substantially increased the amount of external lending from the EIB, particularly for the pre-accession and neighbourhood regions. It also referred to the need to further strengthen the dialogue and cooperation with the Commission and continue intensifying the Bank's relationship with other international financial institutions.

The EIB continued actively contributing to the work of the ECOFIN Council and ECOFIN's preparatory bodies, making its investment financing expertise available. The main focus was on the new EIB lending mandates for projects carried out in countries outside the European Union. The Bank likewise worked in close cooperation with several committees and working groups to coordinate the preparation of other Council meetings.

Working with Others



The Council reaffirmed its appreciation of the Bank's contribution to further developing the European Action for Growth with new financial instruments combining multi-annual EU and EIB resources. Having achieved agreement on the financial perspectives, the Council also reiterated the importance of close cooperation between the EIB and the Commission as well as between the EIB and the EBRD in order to fully exploit their catalytic function in fostering economic growth and employment.

Finally the Council endorsed the membership of the EIB in a high-level working group to promote the EC Environmental Technology Action Plan (ETAP) in support of the Lisbon Strategy.

Intensive partnership with the European Commission

Overall the operational cooperation with the Commission was particularly intensive and productive during 2006, notably in the context of the preparation of the 2007-2013 financial programming cycle, resulting in the launch of a number of new joint initiatives:

JASPERS (Joint Assistance to Support Projects in European Regions) is an ambitious technical assistance partnership between the Commission (DG REGIO), the EIB and the EBRD. Drawing on the expertise and country experience within both banking institutions, some project preparation activities in the beneficiary countries were rolled-out before year-end. These were aimed at helping these states to access more rapidly and efficiently the financial support from the European Regional Development Fund (ERDF) and Cohesion Fund available during the years 2007-2013 mainly for environmental and transport projects.

The **JEREMIE** initiative (Joint European Resources for Micro to Medium Enterprises) will enable EU Member States and regions to use part of their structural funds to obtain a set of financial instruments specifically designed and engineered to support micro and small and medium-sized enterprises.

Alongside this initiative there is the launch of the Competitiveness and Innovation Programme (CIP), which provides guarantees and venture capital to enhance SME finance and will succeed the 2000-2006 Multi-Annual Programme for Enterprises (MAP).

JESSICA (Joint European Support for Sustainable Investment in City Areas) is an initiative mounted jointly by the Commission, the Council of Europe Development Bank and the EIB, aimed at combining grants under the ERDF programmes for urban development and renewal or social housing with the loans and existing expertise of the two banking institutions.

RSFF: Besides the above initiatives, good progress has been made in the definition of the institutional framework for the Risk Sharing Finance Facility (RSFF), following the agreement between the European Council, Commission and Parliament on the 7th Framework Programme for Research, Technological Development and Demonstration activities (FP7). The RSFF is due to be launched in early 2007. Managed by the EIB and supported by the FP7- budget and EIB own resources, the combined EU and EIB funding of the RSFF will increase the reserves for provisioning and capital allocation for Structured Finance Facility operations and stimulate investment in European Research, Development and Innovation projects and research infrastructures.

Working with Others



LGTT: The Loan Guarantee for TEN-Transport projects is another financial instrument aimed at supporting project acceleration in the field of Trans-European and Access Networks through close cooperation between the EIB, the Commission (DGTREN) and the international banking sector. The facility, to be managed by the EIB, is designed to guarantee revenue risks during a limited period following the construction of projects, notably under Public-Private Partnership (PPP) structures.

With regard to the EIB's support for EU external policies, 2006 was marked by intensive cooperation with the Commission and Member States in the context of the next generation of the EIB's external mandates, other than the one covering the African, Caribbean and Pacific (ACP) countries. From 2007 onwards, the new lending mandates will give priority to the pre-accession and neighbouring regions alongside continued support in Asia, Latin America and South Africa. Following an assessment of the performance of the Facility for Euro-Mediterranean Investment and Partnership (FEMIP), the Council also invited the EIB in November to further develop the FEMIP instruments to include southern and eastern neighbouring countries.

The Bank's operations in the ACPs and Overseas Countries and Territories (OCTs) are covered by the 20-year Cotonou Agreement and the OCTs Council Decision, for which the 2008-2013 financial package was finally agreed in June 2006. The possible pool-

ing of the Bank's and the EC's expertise as well as the identification of financing opportunities where EC grant resources can be used alongside Investment Facility (IF) or Bank funds is a major area of concerted action. Recent efforts have translated into a number of innovative instruments based on the blending of EC grants and EIB loans, which was identified as the most appropriate mechanism to increase EU financial assistance for developing countries, notably the ACPs. The EU-Africa Partnership for Infrastructure Trust Fund between the EC and the EIB was signed in July 2006. It is also open to Member States' agencies and will focus on cross-border infrastructure projects (or national projects with a clear international focus) in the energy, water, transport and communications sectors. Initial financing under the partnership is expected to commence in the first half of 2007.

Furthermore, apart from participating in a High-Level Group on Competitiveness, Energy and the Environment, initiated by the Commission, the EIB Group also contributed to a high-level public hearing organised by the Commission regarding the Strategic EU Energy Review. Particular emphasis was put on three major issues: sustainability, competitiveness and security of the energy supply.

The increased activity of the Bank in the Commission inter-services consultation process for new legislation and communications served to strengthen the efficiency of the cooperation between the two institutions. Additionally, this activity fosters better

Working with Others

integration and recognition, at an early stage in the decision-making process, of the role of the Bank in the implementation of major EU policies.

Finally, the EIB participated in the 2006 Green Week, an annual event organised by the European Commission's Directorate General for the Environment, held this year in Brussels from 30 May to 2 June. The central theme was "Biodiversity is life", with a focus on four main issues: (i) biodiversity as a global issue; (ii) the management of natural resources; (iii) space for nature and (iv) biodiversity and society.

Each year Green Week aims to provide an opportunity for the exchange of experience and best practice among non-governmental organisations, businesses, various levels of governance and the public. It consists of a range of conferences and round tables, as well as an exhibition, including an EIB stand.

Constructive dialogue with the bodies representing the European citizens

During 2006 the Bank pursued a constant, open and dynamic dialogue with the European Parliament. President Maystadt presented the EIB Group's strategy and activities before several parliamentary committees such as the Committee on Economic and Monetary Affairs and the Committee on Budgets. In light of the EU financial perspectives 2007-2013, the planned new financial instruments of both the EIB and the EIF were presented to the Committee on Economic and Monetary Affairs.

Members of Parliament showed a clear interest in further enhancing the dialogue with the EIB and a delegation from the Committee on Economic and Monetary Affairs visited the Bank in Luxembourg in the autumn.

Furthermore, both the EIB and the EIF were regularly invited to attend discussions in parliamentary committee meetings and to present the Group's views on specific issues: a debate in the Committee on Regional Development on the synergy between EU cohesion

policy and the EIB's lending activities; a first exchange of views with the parliamentary Committee on International Trade regarding the Community guarantee to the EIB; a presentation and exchange of views in the Committee on Industry, Research and Energy regarding the EIB Group's role in the 7th framework programme of the Commission for research, technological development and demonstration activities. All these discussions took place in the context of the EU financial perspectives 2007-2013. These fair and open dialogues contributed to a better mutual understanding of concerns and opinions.

In its role of permanent observer, the Bank participated at a high level in the meeting of the Committee on Economic and Financial Affairs, Social Affairs and Education of the Euro-Mediterranean Parliamentary Assembly to debate on the parliamentary recommendations to be forwarded to the European Council on the future of FEMIP. The EIB was also invited by the Committee on International Trade to participate in an exchange of views on the establishment of a Euro-Mediterranean free trade area.

The EIB also maintained a regular and open dialogue with the **European Economic and Social Committee**. President Maystadt was invited by the President of its Economic and Monetary Section to have a broad exchange of views on EIB strategy implementation and 2005 lending activities.

"Open Days 2006" was jointly organised in October by the Committee of the Regions and DG REGIO under the headline "Investing in Europe's Regions and Cities: Public and Private Partners for Growth and Jobs". EIB staff actively participated as speakers in various workshops and panels, while the Bank organised and chaired a workshop on "EIB financing the municipalities" with external participants from various countries.

The Bank also organised a workshop with representatives of numerous **non-governmental and civil society organisations** to exchange views on the EIB's strategy and lending activities, while the **representatives of Europe's press** were invited to a meeting with President Maystadt at which he presented the Bank's lending activities outside the European Union.

Cooperative relationship with other international financial institutions

Keen to further enhance the effectiveness of its operations, the Bank continued to develop operational partnerships with other international financial institutions (IFIs) involving co-financing arrangements or the exchange of information on operational or corporate issues. Such forms of cooperation are often consolidated through the signing of a formal Memorandum of Understanding (MoU).

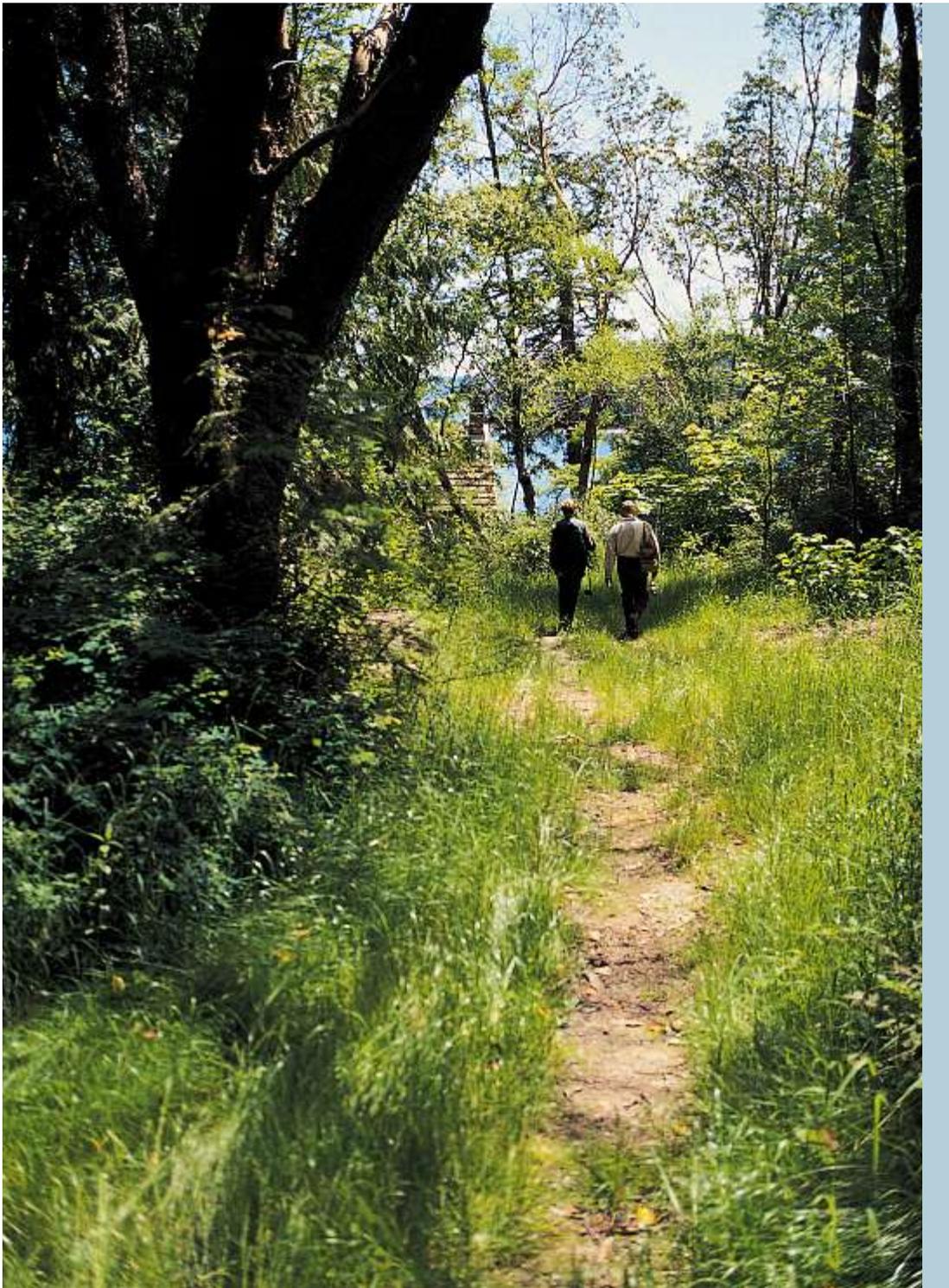
2006 was characterised by intensified cooperation between the EIB Group and both the European Bank for Reconstruction and Development (EBRD) and the Council of Europe Development Bank (CEB) in the context of the various joint initiatives undertaken notably with the European Commission. Noteworthy is the signing of the tripartite MoU between the Commission, the EIB and the EBRD, defining the modalities of operations in Russia, the eastern neighbouring countries and Central Asia, in the framework of the new external lending mandates for the Bank.

As mentioned above, the JASPERS technical assistance initiative was the result of a partnership between the Commission, the EIB and the EBRD.

Furthermore, an MoU between the Commission (DG Regio), the EIB and the CEB was signed in respect of a coordinated approach to the financing of urban renewal and development for the programming period 2007-2013 of the Community structural funds.

Finally, the EIB was directly associated with three major events that dominated the environmental agenda in 2006: one related to the establishment of the EIB-EBRD and EIB-IBRD Carbon Credit Fund. The second concerned the development and launch by the EIB, in close cooperation with the Commission (DG ENV), of an initiative known as the European Principles for the Environment, which was signed in May together with the EBRD, CEB, NIB and NEFCO. The last event was the signing of an MoU between the EIB and the World Conservation Union establishing the principles and framework for cooperation on matters relating to biodiversity.

Working with Others



Corporate Responsibility

The Bank understands Corporate Responsibility to be a set of the “less-tangible” or “extra-financial” issues covering governance, ethical, environmental and social aspects. These issues are:

- increasingly the focus of public concern in general, and investors in particular;
- qualitative and not readily quantifiable in monetary terms;
- reflecting externalities not yet well captured by market mechanisms;
- becoming the focus of a tightening policy and regulatory framework;
- progressively seen as a major policy feature by the financial sector.

The EIB Group Statement on Corporate Social Responsibility was published in 2005. It includes the CSR High-Level Policy. More particularly in 2006, the Bank:

- pursued its Internal CSR Awareness Programme (2005-2006);
- issued the first report on Corporate Responsibility (June 2006);
- started the implementation of the internal management framework for Corporate Responsibility using the EFQM framework for CSR;
- launched a process for Corporate Responsibility internal self-assessment, including stakeholder mapping.

We are now committed to reporting annually on Corporate Responsibility and we intend to facilitate this reporting and communication process through the creation of a dedicated Corporate Responsibility website.

Corporate Responsibility self-assessment and stakeholder mapping

The European Foundation for Quality Management (EFQM) framework for CSR was utilised for this exercise, illustrating the CR implementation process as a continuous one. It also helped to locate the Bank in terms of its CR maturity level. This self-assessment and stakeholder mapping process is a key tool for CR integration within the EIB. Since the EIB has clearly identified its stakeholders and their respective needs, it has successfully passed the start-up phase. The Bank is now moving towards greater CR maturity, whereby CR is more fully embedded within its policies and strategies and stakeholder expectations are both measured and actioned.

Creation of a Corporate Responsibility Division

As part of the process of improving the way it manages corporate responsibility and/or sustainability, the Bank decided to create, as of 1 January 2007, a Corporate Responsibility Division within the new Strategy and Corporate Centre (SCC) Directorate. This division will be responsible for the management, development, implementation, monitoring and assessment of corporate responsibility strategies and policies. In this context, global performance indicators relating to corporate responsibility have been developed, which are already part of the COP for 2007-2009.

The EIB Foundation

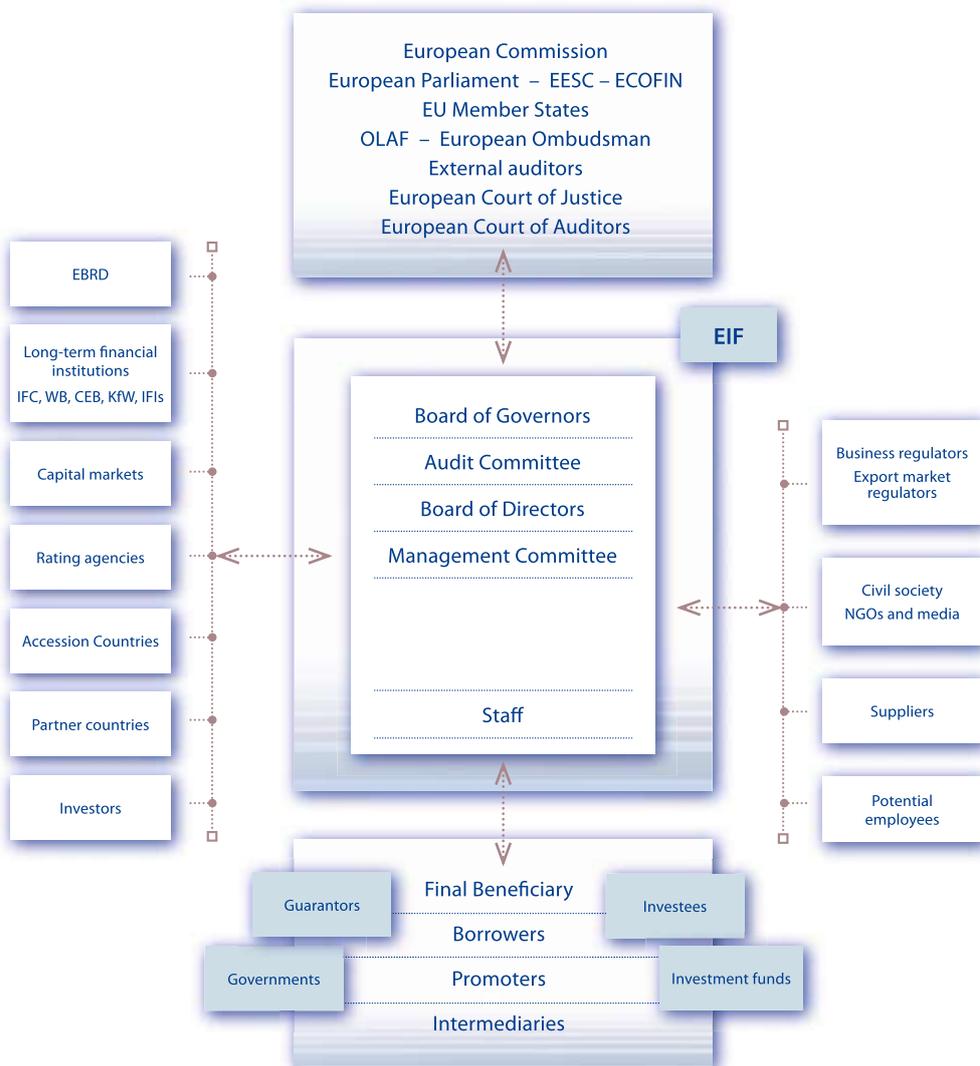
The EIB has started the process of creating a separate and autonomous legal entity – the “EIB Foundation”. The Foundation will group together the various Bank initiatives that are not directly related to its operational activities and fit within the framework of the Bank’s Corporate Responsibility policy. This encompasses activities such as sponsorship and subsidies, the Arts Committee work, cultural, charitable, scientific and possibly academic initiatives as well as local and international solidarity actions.

Mapping our stakeholders

The Bank is committed to building long-term relationships of trust, respect and integrity with our stakeholders.

Through the on-going stakeholder mapping process we aim to take a structured approach to properly identifying our different stakeholders and their needs and determining the corresponding levels of engagement.

EIB Stakeholders



Handling Complaints

Complaints mechanisms

Maladministration

- Secretary General (internal)
- European Ombudsman (independent recourse)
- Inspector General (independent recourse)

Fraud and Corruption

- Inspectorate General – Fraud Investigations Unit
- OLAF

Legal

- Court of Justice

Any natural or legal person affected, or feeling affected, by a decision of the EIB may lodge a complaint to the EIB's Secretary General. A complaint can be lodged via a simple written letter addressed to the Secretary General or via email to the Bank's dedicated address complaints@eib.org. The Bank cannot accept complaints from anonymous parties, but a complainant has the right to request that his or her complaint be dealt with confidentially. The subject of the complaint – which may be access to information, handling of external requests, project procurement, environmental impacts, suppliers' contract management, job applications, or others – must be clearly stated as well as what the complainant expects to achieve with the complaint.

If EU citizens or natural or legal persons residing or having their registered office in an EU Member State feel that the Bank has not dealt with their complaint in a timely and/or correct manner they can, in accordance with Article 195 of the EC Treaty, lodge a complaint of maladministration⁹ against the Bank with the European Ombudsman, www.ombudsman.europa.eu.

Citizens or residents of non-EU countries whose complaint is rejected by the European Ombudsman on the sole basis of their non-EU origin can lodge a complaint with the Bank's Inspectorate General, whose independence is ensured by its direct reporting line to the Bank's Audit Committee, under the Independent Recourse Mechanism (Inspector.General@eib.org).

The Complaints Office

A Complaints Office under the direct combined authority of the Secretary General and the Director General of the Strategy and Corporate Centre was created in 2006 in order to deal with the treatment of external complaints received directly by the Bank.

The Complaints Office ensures the centralised handling and registration of complaints, a structured investigation, internal and external reporting and a proactive approach. It is responsible for the following:

Review

- Gathering and reviewing existing information;
- Investigating the object of the complaint to assess whether the Bank's policies and procedures have been followed;
- Ensuring coordination of different services involved with a view to establishing an EIB position;
- Contacting the complainant, if necessary;
- Reporting on the findings;
- Coordinating with other institutions, if necessary;
- Ensuring that imposed and/or agreed deadlines and notices are respected.

Problem-solving

- Trying to resolve the underlying issues giving rise to the complaint or grievance;
- Possibly fact-finding, mediation, conciliation, dialogue facilitation;
- Finding and communicating appropriate solutions;
- Drafting appropriate answers;
- Proposing improvements to existing procedures.

A new complaints policy and procedures were also defined and implemented internally in 2006. This policy establishes the broader lines governing the presentation, review, handling and resolution of external complaints. In 2007, the complaints policy will be communicated externally.

⁹ Maladministration occurs when a public body fails to act in accordance with a rule or principle that is binding upon it.

Handling Complaints

Independent recourse mechanism**The European Ombudsman**

The European Ombudsman conducts investigations into alleged instances of maladministration by the Community institutions and bodies. The Treaty vests the Ombudsman with full independence in the performance of his duties. The Ombudsman publishes the results of his enquiries.

In accordance with his mandate, the Ombudsman considers representations from EU citizens or any natural or legal person residing or having his/her registered office in an EU Member State. The Ombudsman also has the power to open inquiries on his own initiative. Using this capacity, the Ombudsman may investigate a possible case of maladministration raised in a complaint, even if the complainant does not meet the abovementioned eligibility criteria. In fact, there has never been an instance of a complaint being rejected for the sole reason of non-EU origin.

Pursuant to his mandate and if a problem is found, the European Ombudsman may:

- propose an amicable solution;
- issue a draft recommendation;
- address a critical remark;
- address a special report to the European Parliament.

Statistics on complaints**Complaints received**

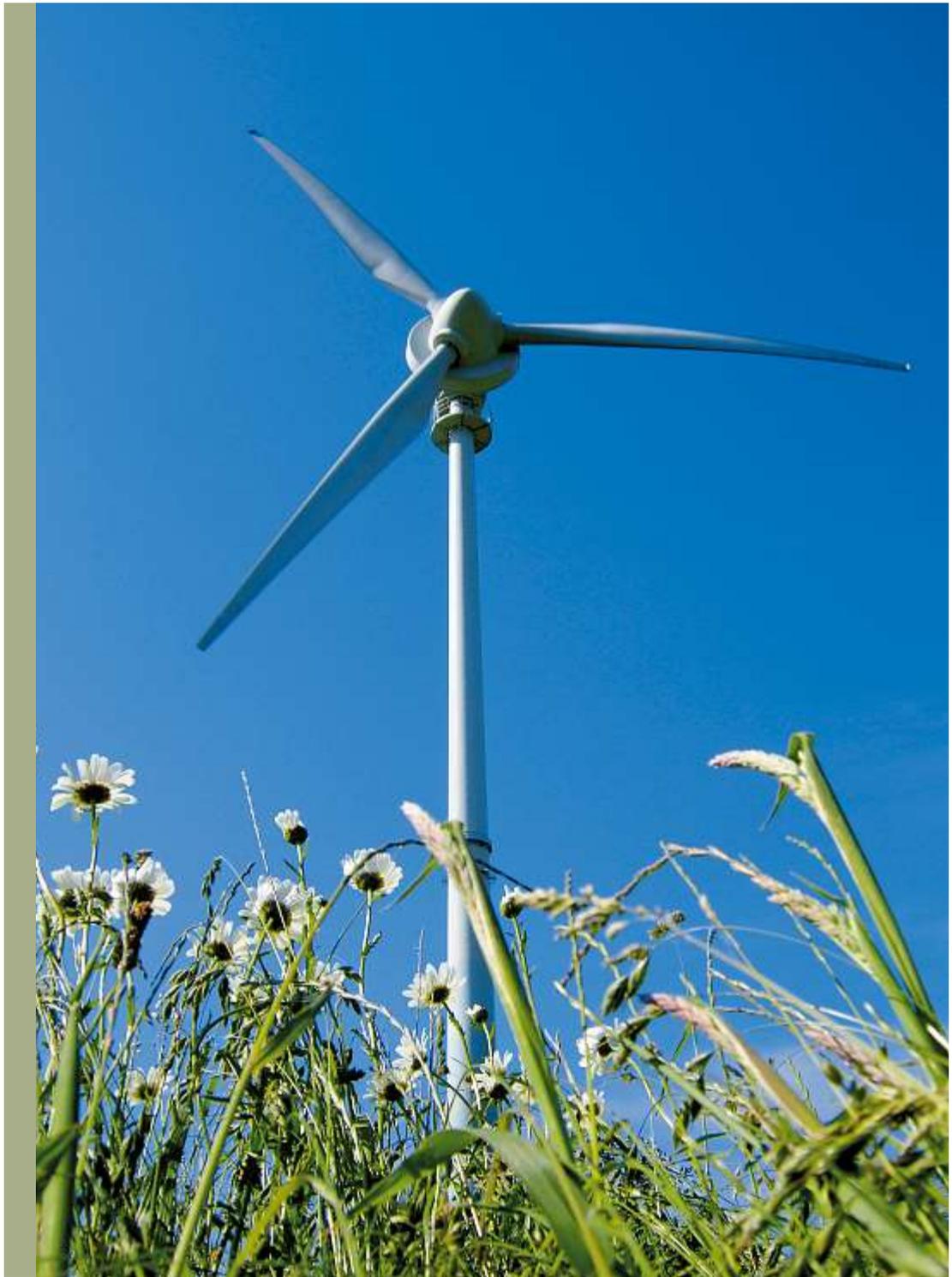
European Ombudsman	2005	2006
CSOs	1	4
Corporate	1	-
Individuals	1	-
Total	3	4

Secretary General	2005	2006
CSOs	3	4
Corporate	-	4
Individuals	2	3
Total	5	11

	2005	2006
Environment	2	5
Procurement	-	5
Projects	1	1
Access to information	2	2
HR	3	1
Corruption	-	1
Total	8	15

Conclusion by the Ombudsman	Closed in 2005	Closed in 2006	Total issued (since 1998)
Recommendations issued	2	-	2
Critical remarks	-	1	1
Partial maladministration	-	1	1
No maladministration	2	1	13
No case	1	-	1
Case dropped by the complainant	1	-	1
Case closed pending legal proceedings	-	-	1
Open	-	-	4
Total	6	3	24

III – RESPONSIBLE FINANCING



Operating Practices

Environmental Issues

The EIB's definition of environmental responsibility

The EIB has three main objectives for defining its environmental responsibility. The first and most important is that it seeks to ensure that the **projects that it finances are compliant with EU environmental principles and standards in support of EU policies**. This is summarised in the Environmental Statement 2004. The requirements for the projects are to:

- comply with EU environmental policies, principles and standards;
- take into account local conditions in countries outside the EU;
- use EU standards as benchmarks for measuring performance;
- comply with the EU Directive on Environmental Impact Assessment;
- apply best available techniques as appropriate;
- apply good environmental management practice during implementation and operation;
- adhere to international good environmental practice;
- accord with internationally recognised social safeguard measures, including labour standards;
- implement applicable multilateral environmental agreements.

The second main objective is for the Bank to **promote projects that protect and improve the natural and built environments and foster social well-being in the interests of sustainable development**. The EIB applies a relatively broad definition of the term "environment". It covers the natural and the human living and working environment and a number of social aspects. Provided that the projects are economically, technically and financially viable, the EIB supports specific environmental investments that focus on:

- tackling climate change;
- protecting and enhancing biodiversity;
- safeguarding the environment;
- promoting the sustainable use of natural resources and waste management;
- improving the quality of life in the urban environment.

The third objective is for the Bank to **assume environmental responsibility for its corporate environmental footprint**. Although the Bank's footprint in this sense does not have the same magnitude as its footprint from financing projects, the EIB works continuously to improve the environmental performance of its buildings and the housekeeping of its offices. The main areas of activity are improving energy efficiency, collecting and recycling waste streams and gradually introducing environmentally responsible procurement, as part of an integrated environmental management system.

Development of EU environmental policies in 2006

The twin themes of climate change and the EU strategy to limit carbon dioxide (CO₂) emissions remained the principal policy priorities in 2006. The EU Emissions Trading Scheme has illustrated its capacity to deliver a significant proportion of the required emission reductions. The recent Stern Review of the economics of climate change has given further impetus to the opportunities that climate change policies provide to engender market opportunities and to develop technologies with both domestic and export potential.

All seven 'thematic strategies' required under the Sixth EC Environment Action Programme (EAP) have now been adopted by the Commission. They define the EU policy approach on:

- air pollution;
- prevention and recycling of waste;
- the marine environment;
- soil;
- sustainable use of pesticides;
- the urban environment;
- the sustainable use of resources.

The thematic strategies represent the next generation of EU environmental policy. The Commission's Green Paper on an EU strategy on adaptation to climate change is due to be published in 2007 and will further develop strategies to protect people, property and nature against the increasingly severe impacts we will face in the future. The EIB will promote the implementation of these strategies wherever possible within its environmental lending framework.



The EIB's environmental policies and procedures

The European Investment Bank promotes environmental sustainability in line with EU policy in this area. The general approach of the Bank is described in its "Environmental Statement" and "The EIB and its Contribution to Sustainable Development".

EU environmental policy is also expressed through the Treaty on the European Union as well as an extensive range of secondary legislation, including a number of Multilateral Environmental Agreements (MEAs). It is also informed by various other official EU documents, including Communications on specific topics.

The EIB exerts most influence on the environment through its financing activities. The way in which environmental concerns are integrated into its project-related work is central to its environmental management system. The Bank aims to maximise the environmental benefits and to minimise the environmental costs of the projects that it finances through appropriate screening, mitigation and compensation measures.

The EIB has in place a set of policies and procedures to ensure the application of good environmental practices based on the "European Principles for the Environment" (EPE).

European Principles for the Environment

On 30 May 2006, the EIB and four other leading European Multilateral Financing Institutions (Council of Europe Development Bank, European Bank for Reconstruction and Development, Nordic Environment Finance Corporation and the Nordic Investment Bank) signed up to the European Principles for the Environment. This initiative was launched in response to the drive for increased harmonisation of environmental principles, practices and standards associated with the financing of projects. It is a joint effort to implement the “fundamental right of present and future generations to live in a healthy environment”.

This approach aims to ensure that the Multilateral Financing Institutions (MFIs) promote responsible stewardship and provide a consistent and visible mechanism for engaging with project sponsors in addressing environmental issues. In turn, this allows the MFIs to better manage credit and project risk relating to the environment.

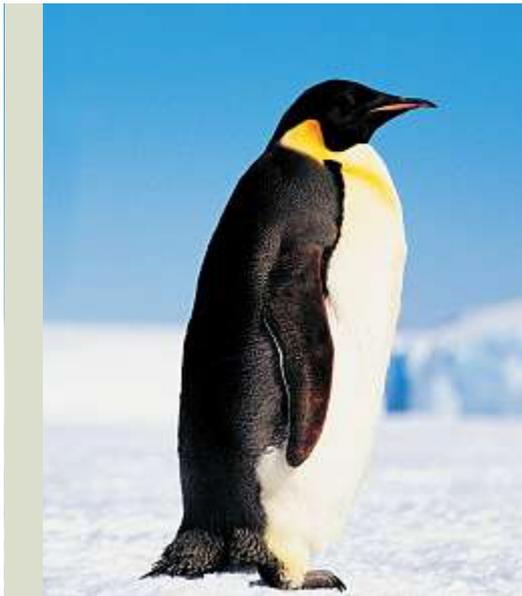
The European Principles for the Environment are defined as:

- the guiding environmental principles in the EC Treaty;
- the practices and standards incorporated in EU secondary environmental legislation.

The EPE apply to the respective regions of operations for each signatory institution. For projects located in the EU, the European Economic Area countries, and all pre-accession and potential Candidate Countries, the EC Treaty and the relevant secondary legislation is the logical, uncontested and mandatory reference. The projects in this region should also comply with any obligation and standards upheld in relevant Multilateral Environmental Agreements.

In all other countries, projects financed by the signatories should comply with the appropriate EU environmental principles, practices and standards, subject to local conditions. The signatories will apply the EPE, with reference to local circumstances. The MFIs will build up the capacity to meet and enforce the requirements of the principles. Environmental considerations are taken into account at all stages of the EIB project cycle. Staff members are provided with appropriate guidance for this purpose.

Operating Practices



The main responsibility for the environmental aspects of projects lies with the Projects Directorate, which has about 80 engineers and economists with general environmental skills. For each project a project team is formed. Project teams are made up of economists, engineers, financial analysts and lawyers. These teams carry out the environmental assessment of projects at the EIB, applying EIB policies to each project. Whereas the project team has front line responsibility for managing environmental issues, environmental management at the Bank is reinforced by a number of dedicated units, at the centre of which is its Environment Unit.

These arrangements are designed to ensure a consistently high quality of assessment, improve visibility and create a stronger capacity for external dialogue. The Bank believes that, in general, these objectives are being met.

Improving environmental management

A number of areas requiring improvements were identified in 2006. These are currently being implemented, including:

- *fulfilment of all quantitative environmental lending targets;*
- *completion and approval of an updated set of guidelines on social assessment;*
- *rollout of an environmental and social awareness-raising programme within the EIB;*
- *full operationalisation of the Climate Change Technical Assistance Facility (CCTAF) and enlargement of the Climate Change Financing Facility (CCFF);*
- *official launch and finalisation respectively of two carbon funds, the Multilateral Carbon Credit Fund (MCCF) jointly sponsored by the EIB and EBRD, and the Carbon Fund for Europe (CFE) jointly sponsored by the EIB and the World Bank;*
- *completion and approval of a public document, "The social assessment of projects outside the EU".*

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Dealing with biodiversity

There is little doubt that we are losing the world's biodiversity at an alarming rate. The recent Millennium Ecosystem Assessment 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. On 22 May 2006, the European Commission adopted 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. The EU is also a signatory to the Convention on Biological Diversity. This policy is espoused in the EIB Environmental Statement 2004 and the COP.

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 habitats¹⁰. Additionally, the Bank works with international organisations to explore how biodiversity concerns can best be addressed through its project activities.

The EIB is a member of the European Task Force on Banking, Business and Biodiversity, which looks at potential financing mechanisms for biodiversity projects. The EIB has also been working closely with the 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.



¹⁰ 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.



Tackling climate change

The Conference of the Parties to the Convention met in Montreal as part of the United Nations Framework Convention on Climate Change (UNFCCC) and Kyoto Protocol where an agreement was reached to take multilateral action against climate change in the post-2012 period, reducing uncertainty about the sustainability of the long-term carbon market. Elsewhere, evidence of the pace and severity of climate change grows; the science is no longer disputed in mainstream discussions and the urgency for significant changes towards more sustainable production and consumption patterns globally is increasingly acknowledged. In the EU, the European Climate Change Programme (ECCP) came under review, with the expectation that the second programme will be developed to give more emphasis to carbon capture and storage, adaptation, and energy and technology policies. Additional policies and measures will be required if the EU-15 is to meet its Kyoto Protocol target of -8% compared to 1990 (European Environmental Agency, 2005). Additionally, a recent Environment Council suggested the need to consider EU emissions reductions of 60-80% by 2050.

At the core of the ECCP is the EU Emissions Trading Scheme (ETS). Under the ETS, about 12 000 industrial plants located in the EU are subject to caps on their carbon dioxide emissions and are able to buy and sell permits to meet their legal obligations in this respect.

Recent changes in EU policy in several fields, notably renewable energy, energy efficiency, bio-fuels and research and development (R&D) have been influenced by climate change considerations. The same is true of many aspects of EC external policy. For example, in relations with China the aim is to promote clean coal technology, while adaptation is now recognised as being of critical concern for poverty reduction and sustainable development, particularly in the ACP area.

In tandem with these new developments, the EIB has supported efforts to achieve lower carbon emission trajectories through investments involving fuel switching or supporting the development of renewable energy and energy efficiency. The Bank has also

Operating Practices

been streamlining its approach to energy efficiency. This covers three main areas:

- to systematically explore whether there are possibilities to increase the energy efficiency of all its projects;
- to finance combined heat and power (CHP) plants and support the upgrading of district heating networks;
- to finance programmes to increase energy efficiency in different sectors (social housing, schools, industry, etc.).

The EIB has a specific lending target to finance renewable energy projects. The objective is to increase lending for renewable energy projects to 50% of lending for electricity generation by 2010. Additionally, the Bank's aim is to contribute to a wider geographical coverage, notably in the new Member States, and to the development of the potential of biomass. Similarly, the Bank is stepping up its support for the development of renewable energy and energy efficiency in neighbouring and partner countries, for instance through the targeted use of its technical assistance (TA) funds (see further details in the next section on renewable energy and energy efficiency).

Good progress was made during 2006 regarding the implementation of the EUR 500m **Climate Change Financing Facility (CCFF)**, which covers the period 2005-2007. The Facility was established to provide long-term loan finance to EU companies participating in the ETS and to companies operating outside the EU developing joint implementation (JI) and clean development mechanism (CDM) projects. So far 60% of the CCFF sub-window I (of EUR 400m earmarked for investments that would help companies meet their obligations under the ETS) has been committed for projects such as the modernisation and environmental upgrading of pulp and paper mills in Portugal, the construction and operation of two run-of-river hydro-power plants in Slovenia, and a wind power project in Spain. As yet, no commitments have been made under sub-window II (of EUR 100m for projects that would result in the generation of Kyoto Protocol JI and CDM carbon credits), because of the long lead time

between the identification of JI and CDM potential projects and financial close.

As the CCFF was restricted to financing projects that directly contribute to emissions trading of CO₂-based allowances under the EU ETS, the Facility (CCFF II) was renewed in May 2006 with the broader goal of financing any project that significantly reduces greenhouse gas emissions, regardless of region, sector or type of greenhouse gas.

The **Climate Change Technical Assistance Facility (CCTAF)** provides advance funding for activities associated with the development of project-based carbon credits under the JI and CDM mechanisms of the Kyoto Protocol on a conditional loan basis. The working procedures and guidelines for accessing and managing the CCTAF have been finalised and are available to the public. When applied fully to any one project, the CCTAF involves three stages of support:

- Phase I (carbon feasibility);
- Phase II (preparation up to project registration with the CDM Executive Board (or JI equivalent));
- Phase III JI/CDM project validation.

The CCTAF is now fully operational.

The EIB recently began to systematically incorporate climate change aspects into its internal appraisal procedure, so that all projects are now routinely screened for their potential to mitigate climate change and generate carbon credits, which could be used for Kyoto compliance purposes and/or in the EU ETS. More recently, projects are also being screened systematically for the need to incorporate adaptation measures. The EIB lending pipeline has about 20-30 projects with JI/CDM potential. The best opportunities are in the fields of:

- renewable energy, especially in hydropower and biomass, with projects located in Brazil, Fiji, Madagascar, Mongolia and Ethiopia;
- the waste management and wastewater treatment sectors;
- some gas transportation and power transmission and distribution projects.

The EIB continues to cooperate with a number of IFIs, with a view to establishing one or a number of carbon credit funds, as vehicles for acquiring carbon credits on behalf of participants in the funds and also as a carbon credit sales outlet for its project promoters. In partnership with the EBRD and the World Bank, the EIB has officially launched and finalised respectively two carbon funds and is in the process of developing other such funds with other institutions, notably the KfW Bank Group. Cooperating with other financial institutions in the development of carbon funds should serve to catalyse the carbon market and help EIB shareholders and EU companies meet their carbon emission reduction obligations by purchasing project-based carbon credits.

*The **Multilateral Carbon Credit Fund (MCCF)** developed by the EIB and the EBRD, was officially launched on 13 December 2006. The MCCF is designed to develop the carbon market in countries in transition to market economies by helping EBRD and EIB shareholders and other parties to meet their mandatory or voluntary greenhouse gas emission reduction targets. The Fund will source and purchase carbon credits from projects financed by the EBRD and/or the EIB in countries in transition eligible for EBRD operations. The Fund will also facilitate "Green Investment Schemes" in which the proceeds of state-to-state trading of carbon credits are used to finance climate-friendly projects in the selling country.*

The MCCF aims to stimulate and complement the participation of the private sector in the carbon market. Specialised private firms known as Carbon Managers will play a key role in the MCCF operations. These Carbon Managers will work under the supervision of the MCCF Secretariat, a team of dedicated staff from the EBRD and the EIB. The size of the Fund has been capped initially at EUR 150 m for project-based carbon credits. At the moment both states and private companies have expressed interest in participating, with pledges exceeding EUR 150m.

*The **Carbon Fund for Europe (CFE)** will be co-managed by the World Bank and EIB, with a first tranche of EUR 50m, which can be followed by subsequent tranches up to a total of EUR 100m. The CFE is designed to facilitate the transition of market activities from the public to the private sector, catalysing the development of projects and helping EIB shareholders and clients meet their carbon emission reduction obligations. This means the CFE would mostly purchase emission rights (ERs) from projects with relatively short lead times, as the value of credits after 2012 is highly uncertain, targeting carbon credits that are compatible with the requirements of the EU ETS. The Fund places an emphasis on Clean Development Mechanism (CDM) projects and a key differentiator of the Fund is that it would primarily purchase verified emission rights (VERs), prior to CDM Board approval. Another interesting feature is that the CFE can also buy ERs for delivery post-2012, i.e. after the first Kyoto commitment period. The EIB is already actively working on proposals for carbon funds for the post-2012 period.*

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Social Issues

Traditionally, the EIB has applied a broad definition of the term “environment” to include a number of related social issues, and these are now being given greater attention as the general approach of the Bank evolves into a more holistic treatment of the interrelated environmental, social and economic strands of sustainable development.

Statement – The Social Assessment of Projects outside the European Union¹¹: the Approach of the European Investment Bank

The European Investment Bank takes social issues into account in its project-related work. As their relevance is increasingly recognised, it has become necessary to clarify the existing practices and address them more formally alongside the economic and environmental assessment work of the Bank and to develop a more proactive approach to social assessment. This work is currently focused on countries located outside the European Union.

Existing guidelines that are applied by the EIB in social assessment work outside the EU are based on established good international practices, with particular reference to the guidelines developed by other international financial institutions, as well as the requirements of relevant EU principles, practices and standards.

¹¹ The EIB undertakes social assessment in all its regions of operation except in EU Member States, since EU law is applicable in these areas; in the Acceding, Accession and Candidate Countries, social assessment is carried out as circumstances require.



Social assessment and sustainable development

According to the Treaty, the task of the European Union is to promote sustainable development (Articles 2 and 6). In 2001-2002, the European Council endorsed a number of documents in this respect, including a strategy for sustainable development outside the EU, which is currently under review. Sustainable development incorporates social as well as economic and environmental considerations, all of which are inextricably linked.

The social component of sustainable development is concerned with the general well-being of people, including their rights, health, knowledge and skills. Just as environmental policy aims to protect and improve the natural and built environments, the rights and responsibilities of human beings should be protected and promoted.

A body of national, EU and international law, as well as international good practices and codes of behaviour, provide the context in which social concerns are addressed. In developing countries and emerging economies, where the legal and administrative environment may be weak, concern for the rights of locally affected communities has led international financial institutions to develop "safeguard" policies in, for instance, the fields of involuntary resettlement and indigenous people that are linked to potential threats to the well-being of possibly disadvantaged groups in society.

Poverty alleviation is a key driver of EU policy in developing countries and emerging economies. There are often close relationships between social concerns and the quality and sustainability of investments, the growth of a competitive market and job creation.

Social concerns may also be intertwined with the protection and improvement of the natural environment. In some cases, the relationship is direct, e.g. the effects of clean air and water on public health and amenity values. In others, it is indirect, e.g. improved resource management, including stakeholder participation in investment decisions, and the opportunities this affords for the pursuit of more sustainable livelihoods.

The role of the EIB

As a European Union body, the EIB finances a variety of investment activities that support sustainable development. The Bank carries out assessments of its projects to ensure that they are economically, environmentally and socially sustainable. Outside the EU, for instance, the Bank is providing investment finance through the EU Water Initiative launched at the World Summit on Sustainable Development (2002).

In recognition of the three inter-related pillars of sustainable development (social, economic and environmental), the EIB's Projects Directorate (PJ) already carries out an economic analysis as well as an environmental assessment of all projects considered for Bank financing.

- The **economic analysis** includes an assessment of any significant impacts on income distribution, including the likely impact on poverty alleviation. This attempts to quantify and value environmental externalities, where significant.
- The **environmental analysis** already incorporates a number of social concerns, such as occupational health and safety, as related to economic and environmental considerations.
- More recently, a broad **social assessment** has been introduced selectively according to the practices described here.

As per its external mandates, the EIB takes social concerns into account in its project financing. For instance, the ACP-EU Partnership (the Cotonou Agreement) signed in 2000 states in Title 1, "Support shall be given to the rights of the individual ... the promotion of social development ...", and this is likely to increase in importance as the EU-Africa Infrastructure Partnership evolves.

In this context, an adaptable Development Impact Assessment Framework (DIAF) has been launched to promote an integrated approach to assessment in the ACP region.

Ingredients of social assessment

There are a number of social concerns that arise with varying degrees of regularity in EIB operations in developing countries and emerging economies that are taken into account, both to fulfil the sustainable development objectives of the EU outside Europe, but also to protect the interests of the Bank. The approach of the Bank to social assessment in these countries is to integrate the analysis of selective social concerns into the economic cost-benefit and environmental assessment frameworks that already exist.

There are a number of existing good practice policies, procedures and standards for mitigating social concerns, including those that have been developed by IFIs to handle social assessment in developing countries. The general approach focuses on the identification of potentially adverse social impacts and associated mitigation and compensation measures.

Parallel to this, a more proactive approach is evolving to ensure that projects also have a beneficial developmental impact on surrounding populations that goes beyond mitigating their direct adverse human impacts. This includes greater attention being paid to issues of transparency and accountability, and to the development of a variety of voluntary principles, practices and standards for ensuring sustainability, such as regular social responsibility reporting.

EIB staff are provided with guidance on particular social concerns that is grounded in international good practices as well as relevant EU and international legislation, practices and standards. As experience in these fields is gained and practice evolves, this guidance is subject to periodic review. Current attention focuses on the potential impacts of investment projects on population movements and resettlement, and on vulnerable groups of various kinds. Attention is given to establishing acceptable labour standards, ensuring the health and safety of the workforce and of the surrounding communities. Emphasis is also placed on securing acceptable levels of consultation and participation with affected shareholders and stakeholders.

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The general approach of the EIB has now evolved from mitigation of adverse impacts to wider considerations of the social opportunities that its projects might bring to the local communities and wider societies in which they are embedded. This includes such things as income generation and improved access to social and economic services for the poor.

Human rights and their associated responsibilities are an integral element of the concerns for both the mitigation of adverse impacts and the promotion of positive outcomes. The EIB encourages adherence to the various international conventions and other laws governing the protection and promotion of human rights in the countries in which it operates, and will not disburse funds in a country that has been declared "off limits" for EU financing.

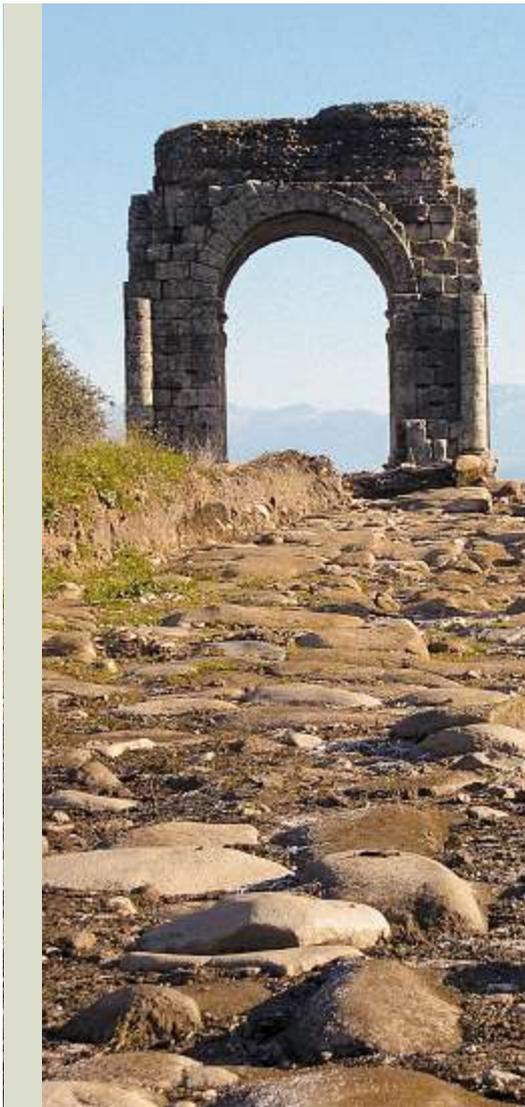
Where occupational health and safety are significant issues in developing countries and emerging economies, the EIB may refer to EU law as a benchmark against which to judge the acceptability of national requirements. Dealing with communicable diseases (notably HIV/AIDS, malaria and tuberculosis) is of particular concern, given changing disease patterns and the potential impacts on project performance.

The practices and standards advocated by various international and UN conventions, the inclusion policies of the EU and the safeguard policies of the major IFIs underpin the EIB's approach to the position of vulnerable groups (particularly women but also including minorities, indigenous peoples and excluded groups).

The EIB assesses core labour issues (relating to the abolition of forced labour, elimination of harmful child labour, freedom of association and the right to organise and bargain collectively and equality of opportunity and treatment) with reference to the Conventions of the International Labour Office (ILO) and the safeguard policies of the other major IFIs.

Physical cultural heritage issues are already assessed by the EIB within its existing environmental assessment framework; they may form part of a formal environmental impact assessment, according to Directive 85/337/EEC, as amended by Directives 97/11 and 2003/35 (on the assessment of the effects of certain public and private projects on the environment). The Bank also refers to the requirements laid down in the International Convention on Cultural Heritage, as well as major IFI guidelines.

Operating Practices



Working in partnership

Outside Europe, the EIB often cofinances large complex projects with other IFIs and/or a major international European corporation. In such cases, the task of social assessment can be shared with these institutions to the extent that such partners are committed to the application of international good practices on social issues.

Protecting cultural heritage

The restoration of the Via de la Plata in Spain received a top prize for the conservation of cultural landscapes from Europa Nostra, the pan-European Federation for Heritage in the summer of 2006. This is an old Roman road, long used as the main trading and military route between the Mediterranean and the Atlantic. The project was partly financed with EUR 15m from European Economic Area (EEA) grant funds managed by the EIB.

Physical cultural heritage issues are always taken into consideration in projects that require an environmental impact assessment. In the EU, this is integral to project preparation and is normally the responsibility of the competent national authority. Outside the EU, where local capacity may be lacking, greater attention to such issues may be required. Physical cultural heritage is only one of the issues taken into account in the social and environmental assessment of projects. With the growing importance of such issues the Bank is paying greater attention to social assessment in its project work, particularly outside the EU. Internal guidance has been strengthened and awareness-raising seminars have focused on urban water supply in Africa, energy projects and urban development.

Close involvement in small-scale restoration projects is unusual for the EIB. When the Bank finances small-scale heritage projects, it normally delegates project design and implementation to the expert project promoter and limits itself to carrying out the necessary due diligence. In the case of the Via de la Plata road to Santiago de Compostela in northern Spain, the Bank's Projects Directorate closely followed the project from the design phase on. This project involves the restoration of a Roman road and 32 historical monuments and is one of 50 projects, comprising 250 smaller sub-schemes.

Development Impact Assessment Framework (DIAF)

As discussed in last year's Corporate Responsibility report, the EIB's Management Committee approved the establishment of a Development Impact Assessment Framework (DIAF), to be used on a pilot project basis for a period of one year for direct projects financed in African, Caribbean and Pacific (ACP) countries.

The DIAF is closely related in spirit to the value added approach used by the Bank in general for direct operations. However, it aims to take this process one step further, so as to better reflect the specific nature of development finance in developing countries and to meet the demands of the Commission and Member States. Indeed, the assessment of project quality and soundness, which normally constitutes the second value added pillar, is significantly expanded under the DIAF to take into account a broader range of issues, notably in the social area. In addition, financial value added only accounts for part of the Bank's specific impact on a project, hence the broader definition of pillar three in the DIAF than in the Bank's standard value added framework.

Assessment of the DIAF pilot phase

The trial period of one year has now come to an end and a working group with participation from all relevant Directorates was established in order to assess the outcome of the pilot phase. During that period, the DIAF was applied to seven direct operations covering both private and public sector projects.

Five of the projects to which the DIAF was applied had an overall rating of "high" (the highest rating category) and two had a rating of "medium" (the second-highest rating category). No project was rated moderate or low.

Implementation of the DIAF certainly led to a better knowledge by the Bank of the expected impacts of the projects that were covered. It was seen as a significant improvement over past practice, which should improve project assessment throughout the project cycle from appraisal to ex post evaluation.

The working group's assessment suggests that the DIAF, as implemented during the past year, represents a significant step in the right direction. But there is scope to further improve the framework and its implementation by adopting a number of changes to its structure, content and methodology and also to enhance the level of information and capacity of relevant Bank staff to properly carry out the required analysis.

Looking ahead

One of the important advantages of the proposed DIAF/value added framework is that, by explicitly identifying the likely impact of a given project, it should provide a sound basis for future monitoring and ex post evaluation.

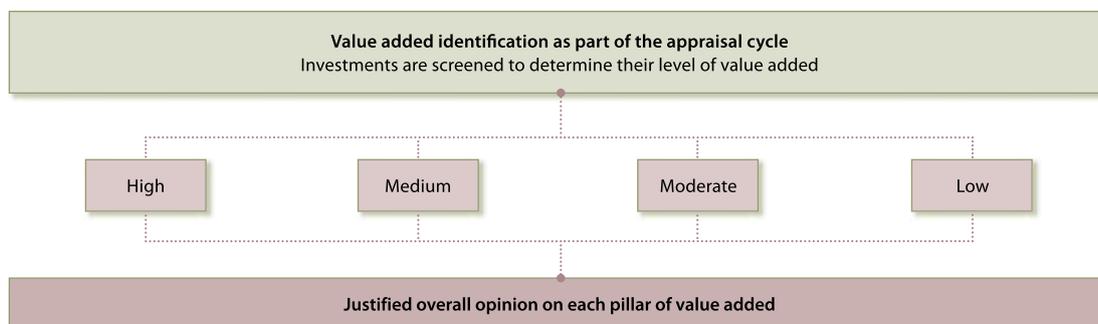
In 2006, the Management Committee decided that the DIAF should be applied to all operations in ACP countries. Following the completion of the external mandates negotiations the DIAF could be extended to other mandates.

Value Added

As stated in last year's report, the EIB has introduced a system for the identification of the value added of its operations within Europe. Value added screening is underpinned by a 'three pillars' methodology:

- **Pillar I:** Consistency with the priority objectives of the EU
- **Pillar II:** Quality and soundness of the underlying investment or of the intermediary, focusing on identifying the economic and environmental sustainability of the operation
- **Pillar III:** the particular financial benefits obtained by the use of EIB funds

In this way potential projects are assessed to make certain that they contribute to various EU priority objectives, as well as ensuring that the economic and environmental sustainability issues of the project in question are robust. EIB funds can also offer distinct advantages to promoters, for example, longer maturity periods or the availability of currencies that might otherwise be difficult to obtain.

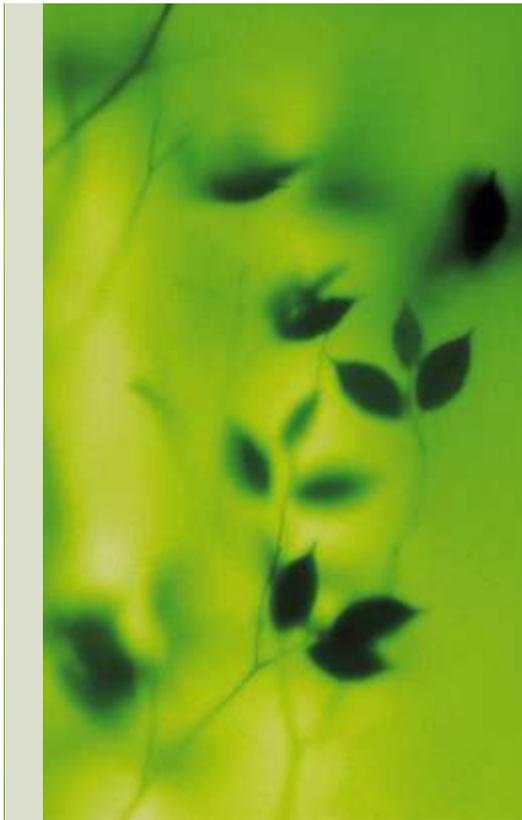


In 2006, 97% of EIB investments screened against value added pillar II proved to be sustainable projects integrating economic, environmental and social sustainability concerns.

Sustainability of EIB investment

Nr. of projects	Total projects				EU-25				Europe non-EU			
	Pillar 1	Pillar 2	Pillar 3	Pillar 2 / total	Pillar 1	Pillar 2	Pillar 3	Pillar 2 / total	Pillar 1	Pillar 2	Pillar 3	Pillar 2 / total
High	222	161	132	55%	195	147	101	56%	27	14	31	42%
Medium	69	125	128	42%	63	107	126	41%	6	18	2	55%
Moderate	5	10	36	3%	5	9	36	3%	0	1	0	3%
Low	0	0	0	0%	0	0	0	0%	0	0	0	0%
Total	296	296	296		263	263	263		33	33	33	

Overall Lending Activity



i2i

Following the establishment of the Lisbon Agenda in 2000, the EIB launched the Innovation 2010 Initiative (i2i) as a lending window to finance investment underpinning the Lisbon Agenda. i2i centres on three areas of investment to pave the way for technological modernisation and the tailoring of human capital: research, development and innovation (RDI), education and training, and the diffusion of technologies, and the development of information and communication technology (ICT).

Lending for RDI has been the most important part of i2i in recent years (EUR 6.7bn in 2006 and EUR 6.1bn in 2005) and the largest chunk of the i2i investments supported has tended to concentrate in the poorest parts of the EU. Since i2i was set up 69% has gone to projects in assisted areas.

In 2006 the EIB reached almost the same level of contract signatures as the year before, although a shift can be seen towards RDI investment – which is central to the Lisbon Agenda, but also the area where the EIB can add most value.

i2i loans divided by sub-sector 2000-2006 (EU)

	2006	2005	2000-2006
RDI	6.7bn	6.2bn	23bn
Education/Training	1.9bn	2.3bn	11.1bn
ICT	1.3bn	1.9bn	9.9bn
Total i2i	10.4bn	10.7bn	44.8bn

Overall Lending Activity

TENs

The EIB is a leading source of bank finance for the Trans-European Networks in the Union and Accession Countries, thus underpinning the fundamental developmental and integration aims of the European Union. The development of TENs will provide:

- High-quality infrastructure supporting the links between the 27 EU Member States and connecting the EU to its neighbours;
- Interconnection and interoperability of existing national networks;
- Access to the basic transport networks;
- Benefits of integrated pan-European networks over the whole of the EU.

From the inception of the TENs policy of promoting pan-European transport networks in 1993 to December 2006, the EIB has signed loans amounting to EUR 77.4bn for TEN-T.

In 2006 the EIB signed EUR 7.3bn of TEN-T operations within the EU, representing an increase in signatures of TEN-T projects from 2005 (EUR 6.8bn), and the TEN-T pipeline remains healthy with many projects expected to be signed in the first quarter of 2007. Loans amounting to EUR 737.8m were also signed in 2006 in favour of projects along major transport axes in neighbouring countries.

SMEs

Small and medium-sized enterprises (SMEs) are a major source of employment, entrepreneurial skills and innovation as well as economic and social cohesion in the EU. Support for SMEs has become a key operational priority for the EIB Group, in line with the strategic orientations approved by the Board of Governors in 2005.

Together the EIB and EIF have supported an estimated 209 000 SMEs. About 26 000 SMEs in the EU-25 benefited from EIB lines of credit of EUR 5.8bn. EIF venture capital (EUR 688m) and guarantee (EUR 2.0bn) activities helped to finance around 183 000 SMEs, of which nearly a third were micro-enterprises.

Sustainable, Competitive and Secure Energy

Significant developments in energy matters have taken place at EU level, which have established new policies for the sector. The European Commission's recent "Strategic Energy Review" (January 2007) emphasised the need to take effective action to tackle climate change and also the need to enhance the security of supply in the energy sector of our internal market.

In order to enhance its contribution to the objectives of EU energy policy, the Bank has decided to focus on five priority areas: renewable energy; energy efficiency; research, development and innovation; diversification and security of internal supply; and external energy security and economic development. To this end, a number of quantitative targets have been set:

- A global amount in the order of EUR 4bn for projects belonging to at least one of the five priority areas described above;
- An annual sub-target of EUR 600-800m for renewable energy projects with, as at present, 50% of EIB lending for electricity generation associated with renewable energy technologies.

Overall Lending Activity

In 2006 the EIB signed loans totaling nearly EUR 3bn for projects within the EU in the energy sector. Outside the EU, about EUR 1bn went to energy projects in Turkey, the Mediterranean and ACP partner countries.

Renewable energy projects signed in 2006 totalled EUR 524m (EUR 490m in 2005), bringing the total amount for EIB-financed renewable energy projects in the last five years to over EUR 2.2bn.

Signatures for TEN-E projects in 2006 totalled EUR 321m. The signature pipeline for the first quarter of 2007 remains strong. In terms of the cumulative quantitative objective for the financing of TEN-E projects by 2013 (EUR 0.5-1bn annually), the EIB remains well on-target.

Details of environmental lending, lending for economic and social cohesion and lending to support EU development and cooperation policies in partner countries may be found on pages 59, 80, and 82 respectively.

Summary lending data 2002-2006 (in EUR million)

	2002	2003	2004	2005	2006
Total Lending	39 623	42 332	43 214	47 406	45 761
EU	36 614	38 213	39 661	42 273	39 850
Partner Countries	3 009	4 119	3 543	5 133	5 911
Total Lending, Individual Projects	26 535	30 158	31 448	37 242	33 509
EU	23 835	26 975	28 776	33 215	28 514
Partner Countries	2 701	3 183	2 672	4 027	4 994
Credit Lines	13 087	12 174	11 767	10 164	12 252
EU	12 779	11 238	10 885	9 058	11 335
Partner Countries	308	936	882	1 106	917

Environmental Lending

The EIB's lending for a sustainable environment

The EIB's Environmental Statement and Corporate Operational Plan (COP) define lending objectives and eligibility for environmental projects. The COP for the period 2007-2009 includes the following environmental objectives:

- to start to prepare in 2007 a new Environmental Policy Statement that defines the environmental principles and standards of the EIB, due for release in 2008;
- to contribute to the environmental objectives of the EIB through the JESSICA initiative, notably in the area of the Urban Environment – Sustainable Cities;
- to achieve an environmental lending target for Europe of 25-30% of the EIB's overall lending activity, irrespective of type, i.e. also including credit lines;
- to achieve an annual sub-target of EUR 600-800m for renewable energy (RE) projects with 50% of EIB lending for electricity generation associated with RE technologies.

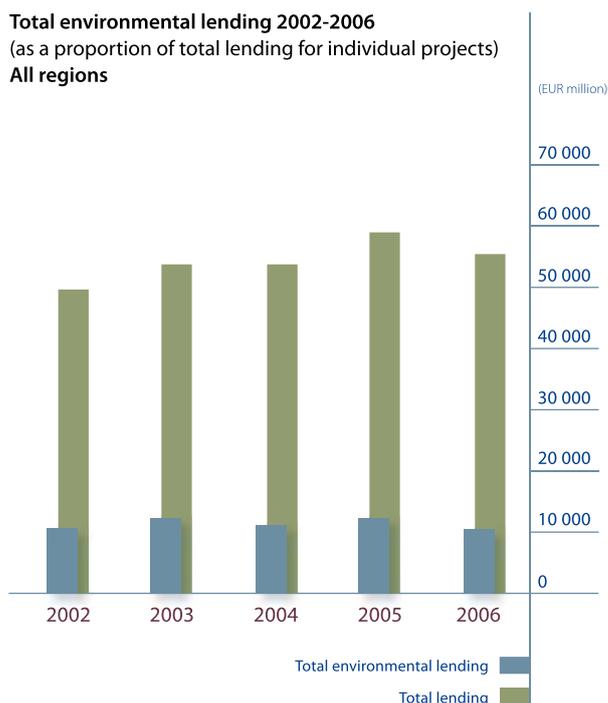


Summary environmental lending data for comparison 2002-2006 (in EUR million)

	2002	2003	2004	2005	2006
Environmental Lending	10 688	12 329	11 176	12 313	10 883
EU	10 382	11 572	10 378	10 924	9 649
Partner Countries	306	757	798	1 390	1 234

Environmental Lending

Total environmental lending 2002-2006
(as a proportion of total lending for individual projects)
All regions



Environmental loans within individual lending

In 2006, the European Investment Bank signed loan agreements for 96 environmental projects, amounting to EUR 10.9bn, which represents 32% of its total lending.

The EIB finances a wide variety of activities, including renewable energy projects in the EU, programmes for environmental infrastructure improvements supported by EU funds, and water and sanitation programmes in the ACPs. The Bank also provides finance through financial intermediaries. These are referred to as 'credit lines' and may be dedicated to environmental objectives or contain environmental components.

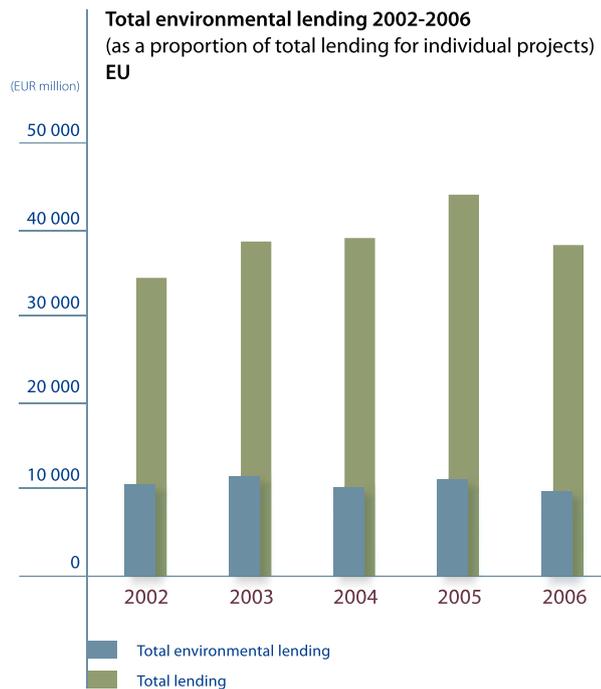
Environmental lending 2006 for individual projects by eligibility (in EUR million)

Tackling climate change	2 346
Renewable energy	530
Energy efficiency	317
Reduction of GHG emissions from transport	1 499
Protecting nature and wildlife	477
Protecting nature	3.5
Natural disasters	474
Addressing environmental and health issues	2 850
Water	2 618
Industrial pollution	190
Reduction of transport pollution	42
Preserving natural resources and managing waste	624
Waste management	624
Improving the quality of life in the urban environment	4 586
Sustainable transport	2 620
Urban renewal	1 966

Environmental Lending

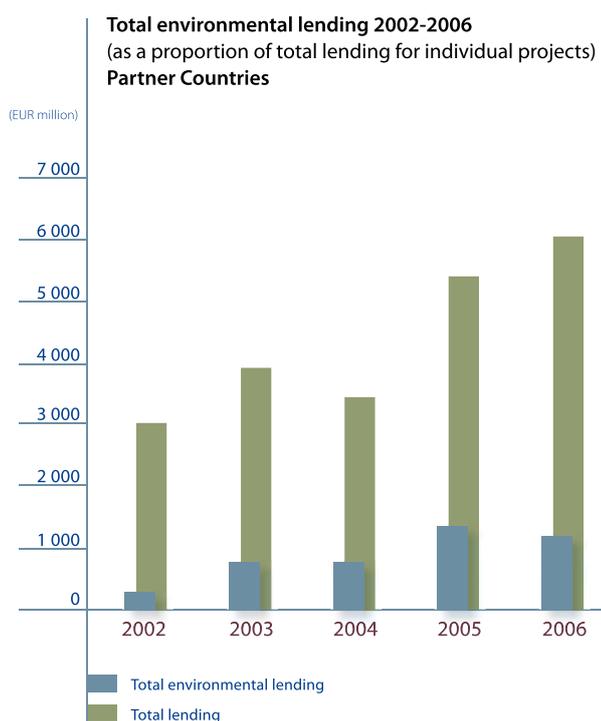
Environmental individual loans in the EU

The bulk of environmental lending goes to EU countries: in 2006, the EIB provided direct financing for 78 environmental projects for a total of EUR 9.6bn in the European Union, equivalent to 34% of the overall individual lending total in the EU over that period. *This is fully in line with the current COP objective for environmental lending of 30-35% of the EIB's overall lending in the EU.* These figures do not include environmental components of projects where the overall objective is not directly related to the environment. This component is currently not recorded by the Bank.



Environmental individual loans in Acceding, Accession and Partner Countries

In the Acceding (Bulgaria and Romania – now Member States of the EU) and Accession (Croatia and Turkey) Countries the volume of environmental protection projects was EUR 786m or 30% of total lending devoted to the environment in 2006. In the Mediterranean Partner Countries, EUR 325m in individual loans was advanced for environmental schemes. A further EUR 94m went to environmental projects in the ACP countries, EUR 31m to a water project in Mozambique, a EUR 17m loan to a water project in Ethiopia, a EUR 10m loan to a wind farm in Barbados, a EUR 45m loan to Syria, EUR 200m to a sanitation project in Israel, a EUR 40m loan to Tunisia, a EUR 40m loan to Morocco, and a EUR 5m loan to Montenegro, all contributing to the Bank's overarching goal of promoting environmentally sustainable development in the partner countries.



Environmental Lending

Share of environmental loans in 2006 (in EUR million)

	Individual loans	Environment	%
EU-25	28 514	9 649	34
Accession and Acceding Countries	2 606	786	30
EU-25 + Accession and Acceding Countries	31 121	10 435	34
Other Partner Countries	2 388	448	19
Total	33 509	10 883	32%

Environmental components of credit lines

The above figures for overall environmental lending do not include small-scale environmental schemes financed through credit lines to financial intermediaries, which are mostly carried out by local authorities. Out of total lending of EUR 45.8bn, credit lines amounted to EUR 12.4bn. EUR 290m, distributed via three credit lines, was specifically dedicated to projects with environmental objectives using specialist financial intermediaries, notably in Italy, Germany and Egypt. Most credit lines have multiple objectives; many projects may qualify for one or more objective, including environmental improvement. The trend in environmental lending through credit lines shows an increase in relative terms but remains at a rather moderate level in absolute terms.

Environmental performance indicators

The Bank is following the recommendations in the Sustainability Report Guidelines issued by the Global Reporting Initiative (GRI). The environmental performance indicators relating to EIB strategy, are reported on in the section on the Direct Footprint of the Bank, beginning on page 96.

The Bank's environmental policy covers all operations of the Bank, regardless of the location or size of the project. The policy was adopted in 2004 giving guidance for assessing and screening the environmental aspects of projects. A review is planned in 2007 and the new policy will be launched in 2008.

All loans regardless of size, apart from credit lines, are screened for environmental purposes by the Bank's staff, using EU requirements as the benchmark. However, for credit lines and some other forms of intermediated lending, the Bank focuses its environmental assessment on the intermediary's own capacity to carry out the environmental assessment requirements of the Bank. It is estimated that the percentage of projects that required an EIA as a proportion of the total number of signed projects in 2006 was in the range of 15-20%.

The monitoring of a client's implementation of and compliance with environmental aspects raised in the assessment process is dealt with in different ways. If, at the time of appraisal, a project is deemed to have environmental components that need monitoring, then the various monitoring requirements considered to be appropriate are included in the loan agreement as a loan condition. The Bank has recently recruited a number of monitoring officers that will manage this aspect of project activity. Prior to most appraisal missions a detailed questionnaire on environmental and social issues relating not only to the project but also to the general activities of the promoter is sent out. All relevant issues are discussed with the Bank's clients prior to project approval.

Environmental Lending



The Bank carries out systematic training of its staff dealing with environmental assessment. Regular training is carried out in the area of environmental impact assessment, climate change, biodiversity, social assessment, and European environmental laws and regulations. The main target audience is staff responsible for project appraisal; however, most training sessions are open to all staff members. The more general training sessions are usually carried out by the Bank's own staff members, but for some specialised topics the Bank invites external speakers and trainers.

The Bank's evaluation unit (EV) carries out the evaluation of the projects that the Bank finances on a regular basis. As an integral part of the evaluation process, a report is produced which summarises the findings of the evaluation and makes recommendations for direct implementation. EV focuses on how the Bank conducts its operations, given the framework of relevant EU policies.

Environmental lending in support of the EU's 6th EAP

Environmental issues transcend all sectors. In 2001, in the spirit of the Rio agenda, the European Commission identified in the 6th Environment Action Programme "Environment 2010: our future, our choice" four areas where new effort and impetus is needed:

- Tackling climate change,
- Protecting nature and wildlife,
- Addressing environmental and health issues,
- Preserving natural resources and managing waste.

The four key areas of the Action Programme and the new urban environment strategy translate into the five different eligibility criteria that the EIB uses for its environmental lending. The number of environmental projects signed in 2006 is presented for each of these objectives in the table on the next page.

Environmental Lending

How EIB environmental lending supports EU policy

Strategic references and objectives of EU policy	Corresponding eligibility categories for the Bank's operations	2006: number of projects
<p>Tackling climate change</p> <p>To stabilise greenhouse gas (GHG) levels to help prevent unnatural variations of the earth's climate thanks to the ratification and implementation of the Kyoto Protocol to cut greenhouse gas emissions by 8% over 1990 levels by 2008-12. This must be considered as a first step towards the long-term target of a 70% cut.</p>	<ul style="list-style-type: none"> • Energy efficiency • Renewable energy • Measures to reduce GHG other than CO₂ • Biological sequestration and carbon storage • Significant reduction of GHG emissions from transport 	15 projects
<p>Protecting nature and wildlife</p> <p>To protect and restore the functioning of natural systems and halt the loss of biodiversity in the European Union and globally. More attention will be given to protecting the marine environment.</p>	<ul style="list-style-type: none"> • Protection/improvement of areas of nature conservation • Protection and management of natural resources; sustainable forestry • Natural disaster prevention and alleviation • Rehabilitation of contaminated land 	3 projects
<p>Addressing environmental and health issues</p> <p>To achieve an environmental quality where the levels of man-made contaminants, including different types of radiation, do not give rise to significant impacts on or risks to human health, with account taken of particularly vulnerable groups such as children and the elderly.</p>	<ul style="list-style-type: none"> • Reduction of industrial pollution • Reduction of pollution from transport • Drinking water/wastewater treatment 	31 projects
<p>Preserving natural resources and managing waste</p> <p>To ensure the consumption of renewable and non-renewable resources does not exceed the carrying capacity of the environment. To achieve a decoupling of resource use from economic growth through significantly improved resource efficiency, dematerialisation of the economy, and waste prevention. To encourage recycling and waste recovery.</p>	<ul style="list-style-type: none"> • Measures to improve eco-efficiency; environmental technologies • Waste management 	4 projects
<p>Improving the quality of life in the urban environment</p> <p>To provide, support and promote best practice in the Member States in land-use planning, public transport and planned development.</p>	<ul style="list-style-type: none"> • Urban renewal and regeneration; cultural heritage • Sustainable urban transport 	44 projects

Environmental Lending

Renewable energy and energy efficiency

EIB lending in the energy sector in the EU ranges from upstream exploration to the supply of energy in its various forms. Many projects meet environmental objectives because they significantly improve the efficiency of existing facilities (through plant upgrades) or promote the use of cleaner and more renewable fuels.

Key legislative drivers for energy efficiency and renewable energy (RE) in the EU include:

- the directive on the promotion of electricity from renewable energy sources (2001/77/EC);
- the European Commission's biomass action plan;
- the 2005 Green Paper on energy efficiency;
- the action plan to prioritise aspects of the Green Paper;
- the directive concerning the promotion of co-generation (reinforced by measures taken to implement the Kyoto Protocol within the EU).

The targets set by the European Commission include increasing the share of renewable energy consumption from 6% to 12%, the amount of electricity produced from renewable energy sources to 22% of electricity production, and the proportion of transportation fuel needs met by biofuels to 5.75% by 2010.

The Bank has set increasingly ambitious targets for renewable energy lending with the aim of stepping up its support for the European Union's climate change policies. The initial target set in 2001 was to double the share of renewable energy projects in overall EIB energy sector financing between 2002 and 2007 from 7% to 15%. This target was made more ambitious in 2004 when the Bank pledged to increase its lending for renewable energy from 15% of new

electricity generation capacity to 50% by 2010. In 2006 the renewable energy lending target for 2007-2009 had two sub-targets:

- to achieve an annual sub-target of EUR 600-800m for renewable energy projects;
- to aim at 50% of electricity generation being associated with renewable energy technologies.

In addition, the Bank has adopted a policy of supporting new and innovative renewable energy technologies with the potential to provide competitive long-term solutions to reducing the dependence on fossil fuel-fired generation, including loans signed during 2005-2006 for offshore wind farms and concentrating solar power generation.

In 2006, loans for renewable energy projects in the EU totalled EUR 456m, or 38% of lending for electricity generation. This is significantly lower than the figure for the previous year of 44%. In the five-year period from 2002 to 2006, this proportion reached an average of 42%. The average target for 2007-2013 is 50%.

A new development at the Bank in 2006 was the preparation of the "EIB Energy Review" (25 October 2006), which has been posted on the Bank's website. The energy review presents selected global and European energy issues, as well as necessary orientations for the Bank in energy matters in order to support EU objectives (with particular reference to the Green Paper on energy released in March 2006). Most of these key energy orientations also support environmental objectives. Another development in 2006 was that the Board approved the introduction of "Sustainable, Competitive and Secure Energy" as a new COP objective.

Environmental Lending

Hydropower Plant Investment Loan, Slovenia

This project consists of the construction and operation of two run-of-river hydro power plants: Blanca and Krsko on the lower Sava river in the east of Slovenia with capacities of 42.5 MW_e and 39.5 MW_e respectively. It also comprises a pumped-storage power plant at Avče with a capacity of 178 MW_e on the Soča River in the west. The project promoter Holding Slovenske Elektrarne (one of Slovenia's leading power providers) is engaged in an ambitious long-term investment programme to expand its generation capacity, following the National Energy Plan of Slovenia. The plan's main objectives are to meet the country's growing electricity demand while maintaining self-sufficiency and raising the share of renewable energy by exploiting the remaining hydro potential in the country to the extent that it is economical. Both rivers are already being used extensively for hydropower generation.

The run-of-river hydro plant components contribute to meeting national and EU policy objectives to abate climate change, raise the share of renewable energy and increase security of supply. Additional benefits consist of improved protection from flooding through improved regulation of the lower Sava river. The pumped-storage power plant contributes to the objective of rational use of energy. All schemes are located in regions where they will generate both temporary and permanent employment.

**ANDASOL Solar Thermal Power, Spain**

The ANDASOL project is the first large-scale application of a concentrating solar thermal power generation plant in the EU. The plant will have a capacity of 50 MWe, to be developed in a wide valley north of the Sierra Nevada, some 60 km southeast of Granada in Spain. The area benefits from relatively high annual average solar radiation, availability of groundwater for cooling and ready access to the national grid. The project is based on a new generation of parabolic solar trough technology that has been tested at a facility in the Mojave Desert in California. Although the average solar radiation is not as strong as that found in California, the site has one of the highest radiation levels in the EU¹², due to its southerly location, dry climate and high elevation (around 1 000m above sea level).

This project promotes EU energy policy by the use of indigenous renewable energy and by contributing to national and EU efforts to combat climate change. It also positively illustrates the benefits of a new generation of concentrating solar power (CSP) technology, including several components that justify support under the i2i initiative.

¹² DNI value of approximately 2 200 kWh/m²a.

Environmental Lending

Flood relief and natural disaster prevention and alleviation

In recent years, the EIB has seen an increase in lending for reconstruction and rehabilitation projects following natural disasters, for example floods, forest fires and earthquakes. This has been the result of:

- the growing frequency of these events;
- the willingness of public authorities to fund the reconstruction process through loans rather than grants;
- the Bank offering special loan conditions for rebuilding after catastrophic events within the EU and neighbouring countries.

While EIB loans have concentrated principally on the reconstruction of damaged infrastructure and short-term clean-up operations, a number of projects financed by the Bank have focused on preventive measures, in particular flood prevention, the main purpose being to safeguard the urban environment. In this instance, decision-making is essentially based on the economics of damage prevention rather than the environmental impact of the defences themselves. In some countries a transition is being made from hard to soft defences, although the greening of flood defence policies is a slow process. In 2006, the Bank signed a flood protection project in the Czech Republic, which consists of more than 400 schemes protecting against floods in particular major conurbations.

Accelerated Flood Prevention, Czech Republic

In the last decade, Europe has been hit hard by more than 100 major floods that have killed 700 people, displaced half a million others and caused at least EUR 25bn in economic losses. The Czech Republic suffered 97 casualties and EUR 4.7bn in flood damages, thus topping the list of affected EU-27 countries in terms of the cost of flood damages as a percentage of gross national product. Floods are natural phenomena that cannot be fully prevented; however, risks associated with flooding can be mitigated. The EIB has been funding extensive programmes in the Czech Republic and other affected EU countries for reconstruction and rehabilitation of infrastructure in the aftermath of major floods. It is complementing these efforts with increasing support for the preparation and implementation of flood prevention measures. The Czech Republic approved its National Strategy for Protection Against Floods in the year 2000. The implementation has been split into two phases, both of which are supervised by the Ministry of Agriculture and are receiving total co-funding of EUR 322m from the EIB. The first phase (2002-07) concerns more than 400 schemes protecting against floods in particular major conurbations. The second phase (2007-12) will include a wide range of further measures to mitigate flood risks in all Czech river basins and complement the increased protection of a total of 850 000 people. The project is compliant with the objectives of the EU Water Framework Directive as well as with the new Directive on Flood Management (currently under preparation). Flood prevention measures are often environmentally sensitive and can have a significant impact on Natura 2000 areas. In addition to standard assessments, Strategic Environmental Impact Assessments (SEAs) for river basins will be carried out. At the Bank's request, an independent environmental expert is assessing the soundness and quality of the environmental analysis and also provides support to the implementing entities.

Environment and health

A wide range of projects contribute to the quality of the environment in terms of improving air quality, reducing the pollution of land through industrial activities, and protecting and improving water resources. All have a direct impact on both the natural environment and human health.



Reduction of industrial pollution

The European industrial sector is witnessing a general improvement in the efficiency of its operations and a shift to cleaner products and processes. Direct emissions to air and water have substantially decreased, and important progress has been made in reducing energy and material inputs and the generation of waste. The European environmental legal framework has in part encouraged these improvements, in particular through the application of the Integrated Pollution Prevention and Control (IPPC) Directive (96/61/EC), as well as by sound business practice.

The EIB's support for the industrial sector is in line with European policy and aims to ensure better protection of the environment while maintaining a competitive industrial base. The chemical industry in the EU is responding to the need to improve its environmental performance by developing new, cleaner technologies and by implementing efficiency-improving management standards such as EMAS and ISO 14001. Projects in this sector improve the environment by promoting eco-efficiency through the update of existing processes and/or products. Under its Innovation 2010 Initiative (i2i) the EIB supports the development and marketing of new environmentally friendly technologies.

In Central and Eastern Europe, major investments are still needed to raise the environmental standards of the industrial sector to ensure its sustainability. This leaves considerable scope for financing the rehabilitation, modernisation and expansion of existing industrial installations.

In 2006, loans for EU-based projects improving the environment by reducing industrial pollution totalled EUR 190m.

Environmental Lending

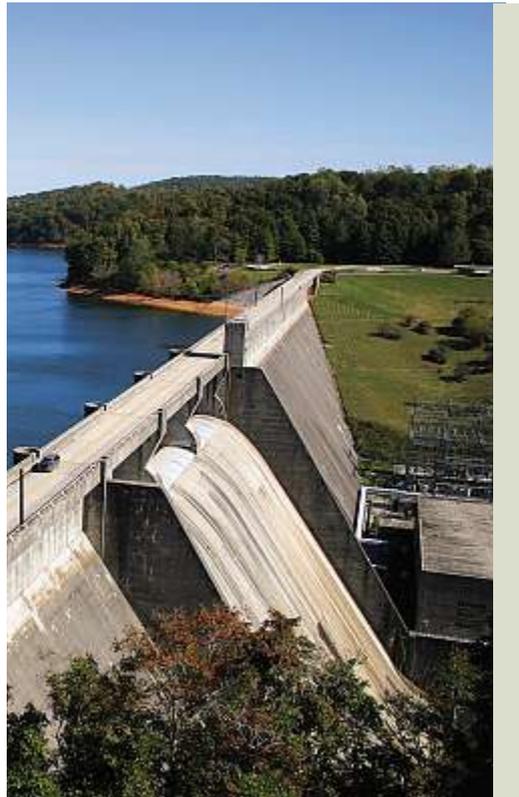
Horizon 2020, an environmental initiative for the Mediterranean

Despite nearly 30 years of international efforts to protect the unique ecosystem of the Mediterranean, its condition is still deteriorating. The European Commission has created an initiative, known as Horizon 2020, to implement a number of activities in this region:

- Projects to reduce the most significant sources of pollution. The initial focus will be on industrial emissions, municipal waste and urban wastewater, which are responsible for up to 80% of Mediterranean Sea pollution.
- Capacity-building measures to help neighbouring countries create national environmental administrations that are able to develop and police environmental laws.
- Research, to develop greater knowledge of environmental issues relevant to the Mediterranean and ensure this is shared. The experience built up from the EU's LIFE programme and the Short and Medium-Term Action Programme (SMAP) will be shared between the partners.
- Developing indicators to monitor the success of Horizon 2020.

The European Investment Bank will focus on the first component and create a pipeline of bankable investment projects, in close cooperation with the World Bank and the United Nations Environment Programme (UNEP)/Mediterranean Action Plan (MAP) and the European Commission Environment Directorate-General (DG ENV).

The Bank is also planning to carry out a survey in 2007 to identify the three to five largest sources of pollution for a number of countries on the south side of the Mediterranean. The aim is also to assess the need for future technical assistance support. The overall goal is to develop an investment programme for Mediterranean pollution hotspots, in support of the Horizon 2020 initiative.



Environmental Lending

**Egypt Pollution Abatement Programme (EPAP) II, Egypt**

The Second Egypt Pollution Abatement Programme, EPAP II, is an encouraging example (under the Horizon 2020 initiative) of how a combination of various instruments such as long-term financing, funds for technical assistance, grants and interest subsidies can be used to reduce pollution significantly in an efficient and coordinated manner.

This approach is now being tested in Egypt with EPAP II, in which there are two international financial institutions involved (the EIB and World Bank) and two bilateral financial institutions, namely France's Agence Française de Développement (AFD) and the Japan Bank for International Cooperation (JBIC). All four institutions provide long-term loans on favourable terms. Other key players include the Government of Egypt through the Egyptian Environmental Affairs Agency (EEAA) and the National Bank of Egypt, which will together disburse a total of EUR 160m in loans. These loans will be invested in pollution abatement by creditworthy public and private companies in major pollution hotspots in the Alexandria and Greater Cairo areas, targeting the industrial sector at large. The Government of Finland is supporting EPAP II with grant financing, while FEMIP technical assistance funds are used for supporting the Project Management Unit (PMU). In addition, the clients benefit from interest subsidies from the European Union. It is expected that the PMU will present some 100-200 Egyptian pollution hotspots for financing, to allow the complete use of the loan during the period 2007-2012

Environmental Lending



Water and wastewater treatment

Within the scope of the EU Water Framework Directive (WFD), the EIB supports investment projects and programmes, often co-financed with other EU instruments, aimed at complying with investment-intensive directives, for example those on urban wastewater, drinking water and bathing water. The Bank promotes the sustainable management of water resources through demand management, integrated river basin planning and integrated flood defence management. Outside the EU, water and wastewater infrastructure accounts for almost 40% of all environmental lending. The EIB adds value by assessing project viability and ensuring financial sustainability through pricing and cost recovery, while encouraging affordability, the use of the appropriate technology, the phasing of investment and efficiency gains prior to new production. It supports the development of financially viable and efficient water service companies and assists pilot project preparation with upstream technical expertise. The main risks in the water sector include poor management of projects, low tariffs, low affordability and over-ambitious projects supported by grants or subsidies.

Water and wastewater treatment remains a key area for EIB lending, attracting more than EUR 2.1bn in the EU in 2006. In total, 29 water and wastewater treatment projects for an amount of EUR 2.6bn were signed in 2006, of which several were notably in the United Kingdom and Belgium.

SPGE and Aquafin water treatment, Belgium

The Bank has approved and signed four major projects in the water and wastewater sector in Belgium for an amount of EUR 521m. Two examples of such projects are SPGE Wastewater and Aquafin Wastewater Treatment. Both projects will assist the local authorities in complying with the requirements of the EU Urban Wastewater Treatment Directive (UWWTD) 271/91EC.

SPGE Wastewater project in Wallonia aims to improve wastewater treatment in municipalities with more than 10 000 inhabitants by secondary and tertiary treatment reducing the load of oxygen-consuming substances, nitrogen and phosphorous. The programme also includes secondary treatment of wastewater in municipalities with 2 000-10 000 inhabitants. The project is expected to decrease the load of nutrients in the North Sea.

Aquafin Wastewater Treatment Project (WWTP) in Flanders comprises 218 schemes for the construction of collector sewers, storm overflows, pumping stations and small and medium-sized wastewater treatment plants, plus some upgrading of existing WWTPs for tertiary treatment. The works are located in the Flemish Region comprising the northern provinces of Belgium, e.g. east and west Flanders, Antwerp, Flemish Brabant and Limburg. The project is expected to have a high positive environmental impact on surface water quality in the Flemish Region, which has been declared sensitive, and on bathing water quality in Belgian and Dutch coastal tourist areas.

Environmental Lending

*Águas de Portugal water treatment, Portugal*

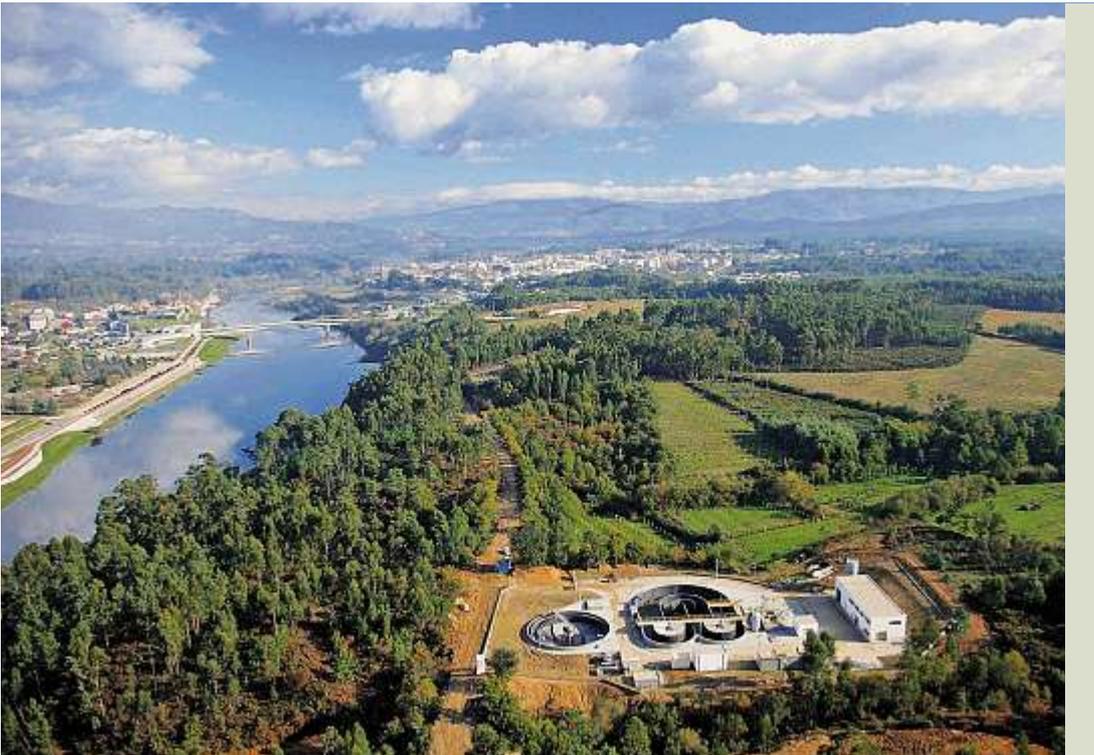
This project concerns investment in 11 regional public utility concessions for bulk water supply and wastewater collection and treatment throughout Portugal with a total investment cost estimated at around EUR 1.9bn. This is the third operation with Águas de Portugal after two earlier operations approved in 1997 and 2003. Eight of the 11 regional systems considered in the current operation have received EIB support for earlier investment phases and three systems are proposed for EIB assessment for the first time.

The direct purpose of the project's investment is to help the country comply with environmental requirements set by EU directives on drinking water (EC 98/83), urban wastewater collection and treatment (EC 91/271)

and the quality of bathing water (EC 76/160). It aims at a significant improvement in the provision of water supply as well as wastewater collection and treatment services for around 5 million residents across Portugal, i.e. about 50% of the Portuguese population. 1.7m people will benefit directly from the water supply provided by the project and 4.5m will be served by the new wastewater collection and treatment facilities. Industry will also be served, corresponding to a 2.5m population equivalent in terms of wastewater pollution to be treated by the project.

The project forms part of a carefully structured national investment programme that has been designed in line with the principles of the EU's Water

Environmental Lending



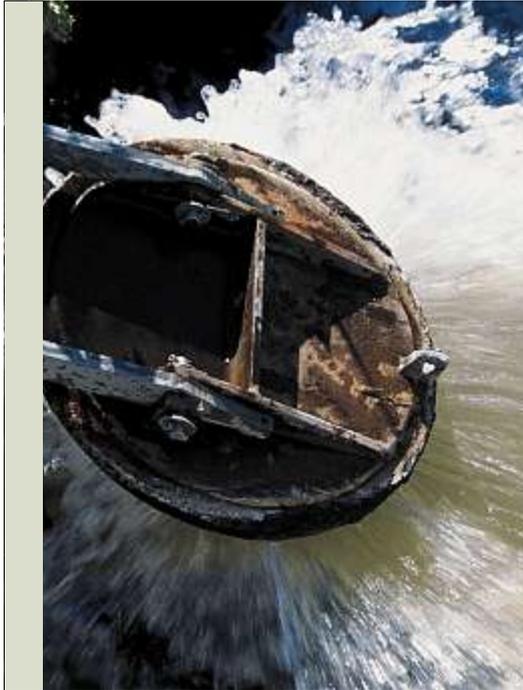
Framework Directive and aims at further developing Portugal's water sector. It allows for lowering risks to public health by improving the quality of water resources in the region, for example groundwater, rivers and coastal areas. This results from a rapidly decreasing use of septic tanks as sewage disposal facilities and also contributes to lowering the supply cost of potable water and enhancing the recreational potential of surface waters.

The upgrading of existing facilities and construction of new wastewater treatment plants will significantly improve the quality of polluted surface water, thus benefiting the environment. It will protect the quality of potable water supply sources by limiting the

risk of pollution. The concessionaires will put into place stricter quality control measures in compliance with the EU directives, namely better drinking water standards, thus improving the present poor performance of the municipal services.

In all, the project will provide significant environmental benefits to a large part of the country with minimal adverse effects.

Environmental Lending

**ONAS IV waste water treatment, Tunisia**

The sanitation sector in Tunisia has for several years been receiving technical and financial assistance from bilateral finance providers, such as France via AfD and Germany via KfW, and international funders such as the World Bank. These share the Bank's desire to support the promoter in order to improve the sanitation sector in Tunisia. An appraisal of the last projects financed by the Bank with FEMIP resources made it possible to evaluate the previous EIB-funded investment programmes and draw up an action plan and recommendations that have been approved by the promoter and form an integral part of the project. The implementation of this action plan under this new project is highly important to ensure compliance with EU directives and strengthen coordination between the different finance providers operating in the sector. This is why the project includes disbursement conditions and undertakings designed to guarantee its implementation.

The project consists of an investment programme for the period 2007-2012 revised and put forward by ONAS at the end of 2005. It comprises the necessary investment to build or expand treatment plants and to construct or rehabilitate primary and secondary collection networks, transfer chains and sewage collectors. The investment will largely target the capital Tunis, but also the country's interior in the towns of Hammamet, Menzel Temime, Enfida/Hergla, Tazarka/Somaa, the island of Kerkennah, and the governorates of Monastir, Mahdia, Gabès, Médenine, Tataouine and Gafsa. ONAS currently serves 155 municipalities with an urban population of 5.8 million and nearly 1.3 million subscribers, representing a connection rate of around 86% in the areas served. The project includes the extension of primary networks to some 280 000 inhabitants not yet connected to the system.

Environmental Lending



Waste management

The EU Framework Directive on Waste (75/442/EEC), the Incineration Directive (2000/76/EC) and the Landfill Directive (1999/31/EC) continue to drive waste management investment in the European Union. Under the requirements of the Landfill Directive, the waste management industry is focused on reducing the amount of biodegradable waste going to landfills. This is likely to provide an increasingly important niche for developing technologies to process bio-waste, including bio-methanisation and other energy-generating processes. In 2006, the Bank supported four waste management projects in France, Germany, Italy and the United Kingdom with loans amounting to a total of EUR 624m.

TDU Paris Issy-les-Moulineaux, waste-to-energy incinerator, France

The project includes the construction and operation of a new waste incineration plant to treat 460 000 tonnes per year of municipal (non-hazardous) solid waste and to recover energy through combined heat and power production. The project will also include a sorting plant and materials recycling facility. The site is located in the southwest of central Paris and benefits from easy access to rail, road and river transport. The project is replacing a nearby existing facility, which is around 40 years old and now technically obsolete.

The service provided by SYCTOM concerns the treatment and disposal of domestic waste and does not cover hazardous material or waste from industry, commerce or hospitals. The project will enable the municipalities concerned to comply with national legislation that prohibits the landfilling of untreated municipal waste, in line with EU policy. In addition, it will enable the efficient recovery of energy from the combustion of waste by co-generating steam and electricity. This will contribute to reducing regional consumption of primary energy for heat and power generation and thereby to cutting the emission of atmospheric pollutants and "greenhouse" gases, including CO₂ and NO_x emissions.

Improving the quality of life in the urban environment and promoting sustainable transport

Urban renewal



The protection and enhancement of the urban environment has become a key objective for European action. Public policy analysts have also become increasingly aware of the consequences of localised deprivation and social exclusion on the quality of life and economic performance of urban areas. EU, national, regional and local policy makers have responded by encouraging the regeneration of urban areas as part of integrated urban renewal programmes.

The EIB's lending strategy for urban renewal reflects EU policy, in particular the Communication "Towards a Thematic Strategy on the Urban Environment", which seeks to promote urban concentration, curtail sub-urbanisation pressures, prevent sprawl and reduce demand for the development of scarce land resources in outlying rural areas. Consolidation of cities, and the general rationalisation of settlement patterns, is also more energy-efficient, reducing demand for car travel and facilitating public transport usage. Meanwhile, the rich cultural and architectural legacy of older cities has been recognised as a valuable resource in the rejuvenation of urban areas that, if properly exploited, can have a catalytic effect in promoting broader-based regeneration and the creation of more sustainable urban communities.

Many European cities have urban development plans in which there are areas showing signs of physical decay, and where more generalised social and economic deprivation is identified as requiring special attention. These are the "action areas" usually specified in any urban renewal/regeneration plan or strategy. They tend to be the focus of EIB lending. Such plans are by definition geographically specific and are likely to be multi-sector oriented, encouraging mixed-use development to optimise land-use, improve the physical environment, stimulate economic development and promote more sustainable urban communities.

By improving areas of deprivation, urban renewal projects can have a strong social cohesion impact and represent the best option for making use of valuable and scarce assets in city centres. At the same time, urban renewal may reduce the pressure towards further occupation of surrounding agricultural and natural land and contribute to a more balanced urban structure that is less demanding environmentally.

Loans for urban renewal amounted to EUR 2bn and targeted 20 projects, including several in Hungary, Italy, Poland, Portugal and Spain.

Environmental Lending

Czestochowa Municipal Infrastructure, Poland

Czestochowa is located in the north of Silesia on the A1 motorway route (pan-European corridor VI). It is the 12th largest city in Poland and the second largest in Silesia. The city's resident population is relatively modest at 248 000 (5.3% of the regional total) but, as home to the 14th-century Pauline Monastery of Jasna Góra, Czestochowa is also one of Christianity's most celebrated places of pilgrimage, attracting more than 4 million visitors annually. This results in disproportionately greater demands being placed on urban infrastructure than one would normally expect for a city of this size.

The revival and growth of the local economy and Czestochowa's attractiveness to visitors are perceived as pivotal to the city's future economic development and, to facilitate such ambition, the upgrading of urban infrastructure and municipal services are seen as essential prerequisites. Against this backdrop, the project comprises the co-financing of small and medium-sized urban development schemes and/or sub-projects primarily in the fields of urban renewal, along with the rehabilitation of urban infrastructure and community facilities. Where appropriate, projects of a more modest scale in environmental protection, energy saving, health, education and social infrastructure for vulnerable groups are also undertaken. The selected sub-projects reflect prevailing priorities in the city's development plan, the Strategy for the Development of the City of Czestochowa, and it is anticipated that the portfolio of investments will act as catalysts for the sustainable regeneration of the central area and its immediate environs, resulting in significant improvements in the urban environment and bringing further economic benefits in the future.

Wärmedämmung Wiener Wohnen Urban Regeneration, Austria

The City of Vienna has a long-standing tradition in the provision of social housing and, on its behalf, Wiener Wohnen (WW), the city-owned housing department, administers approximately 2 000 apartment blocks, comprising some 216 000 council dwellings and associated premises. The quality of much of the stock has fallen below that which can be considered satisfactory by modern standards and, despite some isolated examples, many properties are in very poor condition due to lack of capital investment and a backlog of maintenance. In many cases, not only is the state of the buildings a problem, but the quality of the actual accommodation also often fails to meet contemporary expectations, for example in respect of sanitary provision. The consequences are manifold, not least problems of dilapidation, vandalism, crime and increasing social marginalisation of the economically disadvantaged.

The project comprises the rehabilitation of WW's housing stock and associated environmental improvements, and represents a continuation of EIB support for the city's urban renewal efforts, addressing the impacts of social segregation ensuing from below-standard social housing. The Bank's finance has been directed at those schemes, selected from a more extensive portfolio, and is expected to make a sizeable contribution to the implementation of broader urban regeneration strategies designed to bring significant socio-economic and environmental improvements. In particular, there is a focus on the thermal insulation of dwellings that are eligible for grant finance through the Land of Vienna's THEWOSAN (Thermisch-energetische Wohnraumsanierung) facility. This project is in line with the emerging consensus of the European Union institutions, and industrialised countries generally, of the need to pay increasing attention to the urban environment. It is clear that localised deprivation and social exclusion may have grave consequences on the quality of life and economic performance of urban areas. Attention in this area explicitly reflects the Bank's sustainable communities agenda.

Environmental Lending

**Sustainable transport**

Financing environmentally friendly modes of transport continues to be a core activity of the Bank. In 2006, the EIB lent some EUR 2.1bn for sustainable transport projects including major inter-urban railways, waterborne and urban public transport projects. These projects will potentially facilitate a shift from road to rail, water and public passenger transport by improving the competitiveness of environmentally friendly modes of transport. The projects are designed to reduce the negative impact of mobility in terms of energy use and enhance environmental quality in line with EU transport policy objectives.

In addition, and through the Bank's due diligence, all transport initiatives are subject to environmental assessment to ensure that the net environmental impacts of projects are acceptable, and care is taken to see to it that suitable mitigation measures are implemented where needed.

Environmental Lending

Samsun light rail transit system, Turkey

The project involves the construction of the first phase (15 km) of an urban light rail transit line in the city of Samsun in Turkey.

The city of Samsun is located on the Black Sea coast in the north of Turkey and has a population of some 430 000. Samsun is an administrative centre and crossroads of commercial and industrial activities on the Black Sea. The transport master plan for the city aims to improve the quality and enhance the attractiveness of the public transport services of the Greater Municipality of Samsun, thus reducing road traffic and mitigating related congestion and pollution problems. One of the key components of the master plan is the creation of a 30 km urban transit line linking the city's coastal communities. The project comprises the first phase of this urban transit line.

Existing public transport in Samsun is largely provided by the private sector in the form of buses, mini-buses and taxis (including the Dolmus type), with routes and licences regulated by the Greater Municipality, which also sets tariffs. Public transport currently accounts for some 77% of vehicular trips in the city, and private car use has therefore considerable potential to grow further. By encouraging the use of public transport, the project will help to reduce the growth in private vehicle use and contribute to an overall improvement in the quality of urban life in Samsun.

Ferrovias rail infrastructure, Valencia, Spain

The project consists of the extension of underground rail infrastructure in the city of Valencia (Line 5) and the improvement of 25 km of railway line around Benidorm (in the province of Alicante) to provide tramway services. Furthermore, the acquisition of new rolling stock has extended public transport services in these two cities.

In Valencia, an obsolete suburban railway is being replaced by the new metro extension, following the same route but with increasing capacity and service frequency. The new metro line will also reduce bus traffic in the area and, due to the reinforcement and restructuring of the bus services outside the city centre, will significantly increase the reliability of the public transport system.

The project will also improve access to the centre of Benidorm from the main centres along the coast, in particular Villajoyosa and Altea, whose population is increasing due to new residential developments. Buses and obsolete diesel train services presently serve these urban areas, but traffic congestion and poor urban integration cause severe inefficiencies. The new rolling stock will be much more efficient in terms of environmental protection.

Together with other transport measures also financed by the EIB, the project will assist the implementation of an ambitious but well-structured transport strategy to accommodate traffic needs within a balanced and environmentally sustainable development framework according to sustainable mobility objectives (e.g. the connection between the airport and the port through the city centre of Valencia, the elimination of the surface railway line barrier along the corridor in Benidorm).

Social Concerns

Supporting economic and social cohesion

In line with its Treaty-based task of contributing "towards the integration, balanced development and economic and social cohesion of the Member Countries", the current framework for the EIB's action in support of social and economic cohesion is the EU structural and cohesion funds policy, covering the programming period 2007-2013 during which more than EUR 300bn in grants from the structural funds will be allocated to EU convergence and regional competitiveness policy objectives. In 2006, total lending for regional development topped EUR 26.7bn representing 67% of the EIB's aggregate lending within the EU-25.

In this area, in close cooperation with the Commission, the EIB can act as a lender, a provider of advisory services (JASPERS) and, in due course, as a manager of EU funds (JESSICA). This new dimension of cooperation between the EIB Group and the Commission was characterised by the launch in 2006 of three new joint initiatives JASPERS, JEREMIE and JESSICA and three financial instruments RSFF, LGGT and CIP.



JASPERS now operational

As mentioned in last year's Corporate Responsibility report, the Commission, the EIB and the EBRD have joined forces to develop a new technical assistance initiative designed to improve the preparation of investment projects for financing under the EU's structural grant funds during the upcoming financial perspectives period 2007-2013. JASPERS' main objective and focus is to help the new Member States to use more rapidly and effectively the substantial grant finance of over EUR 300bn being made available by the Union. This initiative is now fully operational.

During the period 2007-2013, over EUR 308bn will be available for use under the EU funds to support projects, particularly in less-favoured regions to increase their growth and competitiveness and stimulate job creation. More than half of these resources is expected to be allocated for projects in the new Member States.

As from 2007, the EU will more than triple the structural funds to modernise infrastructure in the new Member States and help them to achieve convergence and implement EU standards, especially in the area of the environment and infrastructure. In addition, the funds will address EU economic priorities such as establishing and developing a knowledge-based society to make their economies more competitive and create high-quality job opportunities. This is a challenge for all the countries in the region as the majority of them face difficulties in efficiently absorbing current EU funds.

In May 2006, representatives of the Commission, the EIB and the EBRD signed a Memorandum of Understanding on JASPERS, and shortly thereafter two contribution agreements specifying objectives, procedures for operations and financial aspects governing this initiative, which is being provided free of charge to the beneficiaries.

The Luxembourg-based JASPERS team drew up an action plan for 2006 for each country in cooperation with the beneficiary countries' national authorities, the Commission's operational staff (DG REGIO) and the EBRD. JASPERS has been very positively received in the beneficiary countries: some one hundred technical assistance actions have been identified, mostly in the areas of transport (including urban transport), environment (water, wastewater and decontamination projects) and renewable energy, while demand has also been evident in sectors such as large energy projects and broadband telecommunications. The preparation of the annual action plan is progressing satisfactorily and the fair distribution of projects by countries and sectors meets the targets initially envisaged.

Activities for 2007 are being jointly defined with the national authorities and will begin in all countries concerned in the first quarter of 2007.

JASPERS shares the policy objectives of its sponsors within the wider EU communication policy of increasing the openness and accessibility of EU institutions. While complying with the rules of confidentiality that are essential to business life, JASPERS aims to widen public access to information on its activities. Public awareness of JASPERS has been deepened by the introduction of a new website www.jaspers.europa.eu that provides basic information about the technical assistance, application procedures and organisation.

Support for EU Development and Cooperation Policies in Partner Countries



FEMIP

The Facility for Euro-Mediterranean Investment and Partnership (FEMIP) brings together the full range of instruments deployed by the EIB to assist the economic development of the Mediterranean partner countries¹³.

Since FEMIP was launched in October 2002, the EIB has become the main financial partner of the Mediterranean region, providing finance worth over EUR 10bn between 2002 and 2006¹⁴.

As part of the Barcelona Process, FEMIP facilitates the modernisation and opening-up of the economies of the Mediterranean partner countries.

It focuses its activities on two priority objectives:

- Support for the private sector;
- Creating an investment-friendly environment.

In addition to its financing operations, FEMIP pursues a policy of enhanced dialogue with all those involved in the Euro-Mediterranean financial partnership, both on the institutional front through the annual Ministerial Committee meeting and regular Committee of Experts meetings and with the representatives of the private sector and civil society.

Following thorough evaluation by the European Commission in cooperation with the EIB, the Euro-

pean Union Finance Ministers decided in November 2006 to strengthen FEMIP capacities within the current institutional setting. This has been achieved by introducing sizeable improvements to existing financial instruments and by increasing ownership through the creation of a FEMIP advisory committee to discuss operational priorities and results.

The Ministers have also decided to increase the volume of financing available for the Mediterranean region. EUR 8.7bn will be made available for the nine Mediterranean partner countries for the period 2007-2013 as part of the overall envelope of EUR 12.4bn allocated to the European Neighbourhood and Partnership countries. This doubles the loan resources available under the previous mandate.

Total lending volume in 2006 was EUR 1.4bn. In terms of geographical distribution, 64% of the total volume went for projects in the Near East (7 projects worth a total of EUR 870m), 33% to the Maghreb (6 projects worth a total of EUR 444m) and 3% (4 projects worth a total of EUR 40m) to regional projects.

¹³ Algeria, Egypt, Gaza/West Bank, Israel, Jordan, Lebanon, Morocco, Syria and Tunisia. Following Turkey's elevation to the status of candidate for EU membership, the Bank's operations in Turkey have come under the umbrella of the South-East Europe Department, although this country remains a participant in the Euro-Mediterranean dialogue.

¹⁴ Including Turkey.

Support for EU Development and Cooperation Policies in Partner Countries

Enda inter-arabe microcredit, Tunisia

The EIB granted its first loan in Tunisia to an NGO by the name of Enda inter-arabe, which has been providing microcredit services since 1995.

Made available from FEMIP risk capital resources, this loan is serving to bolster Enda inter-arabe's capital and thus enables it to expand its operations in the country's least developed regions. Some 30 000 micro-entrepreneurs – over 85% of them women – currently have a loan with Enda inter-arabe, and the recovery rate for microcredits is 99.6%.

The EIB loan is accompanied by technical assistance financed with budgetary resources, which is enabling Enda inter-arabe to optimise its organisation and manage its growth effectively. Most importantly, the EIB's financial package sends a signal of confidence in the NGO's prospects and robustness to local banks, which still make only a marginal contribution to financing Enda inter-arabe.

Of some 60 institutions providing microcredit in the Arab world, Enda inter-arabe is one of the few to have achieved financial self-sufficiency so that it does not depend on grants. Since 1995, it has granted 136 000 microcredits worth EUR 36m. It has a network of 27 branches located in Tunisia's main towns and cities and employs over 180 permanent staff, most of which are graduates with a good knowledge of the area in which they are operating.

**Santé Maroc healthcare, Morocco**

Despite recent economic improvements, the United Nations Development Programme (UNDP) ranks Morocco 123rd out of 173 countries in terms of its human development indicator. The level of health-care services is particularly deficient, especially in rural areas, due to the deterioration of hospital facilities, and also to poor organisation and management. Against this background, the government is in the process of reforming the health sector.

The Bank has participated in this effort by providing a EUR 70m loan. This has supported an ambitious hospital reconstruction, rehabilitation and equipping programme, comprising investments in 17 existing hospitals, as an integral part of the hospital reform initiative of the Moroccan Ministry of Health. The purpose of the programme is to improve the physical quality of buildings and equipment and, in so doing, contribute to the improvement of hospital services across Morocco.

A range of new planning and delivery methods and tools, many of which have been developed as a result of the involvement of European and international institutions such as the European Commission and the World Bank, will accompany the project. Moreover, the construction and renovation works that will be undertaken for this project will generate about 120 jobs. Some 700 to 1 000 additional staff will be needed to support the effective operation of the hospitals following project implementation.

Support for EU Development and Cooperation Policies in Partner Countries



FEMIP contributes to the reconstruction effort in Lebanon

The armed conflict that raged in July-August 2006 caused extensive damage in Lebanon. In addition to the direct human costs – over 1 100 civilian casualties, 4 000 wounded, and one million displaced – large economic sectors have been badly hit.

Infrastructure and housing have been destroyed, and a variety of service industries that cater for the regional market – tourism, education, health and finance – have suffered direct and indirect losses. The 2006 growth forecasts were significantly lowered, with the economy shifting from a projected 3% expansion to a 3.2% contraction.

As a longstanding partner of Lebanon, with financial cooperation reaching back over 30 years, the EIB stood ready to continue its commitment to the country. During his visit to Beirut in October 2006 and in January 2007 during the Paris Donors' Conference, EIB President Maystadt confirmed the Bank's dedication to supporting the reconstruction and recovery process in Lebanon through the instruments and tools provided by FEMIP. In line with the priorities of the Lebanese Government and given the nature of EIB financing, support from the Bank will be directed towards infrastructure projects and private sector activity.

Infrastructure

The Bank will continue its commitment to infrastructure projects, particularly in the transport and water/wastewater sectors where it is currently providing more than EUR 929m for key investment projects. New EIB financing for infrastructure will help underpin sectoral reform in Lebanon, notably in the power sector. Technical assistance will be envisaged for preparing the reorganisation/restructuring of the electricity authority.

Private sector

To bolster the recovery of private sector activity, the EIB will make use of existing facilities and consider new financing mechanisms. An existing EUR 60m Apex credit line will be used by intermediary banks in support of private sector projects in the fields of industry, agro-industry, IT, services, health and education. To help reconstruction projects, the Bank will broaden the eligibility of projects to include the rehabilitation of damaged fixed assets.

A comprehensive and specific reconstruction-directed credit line of EUR 100m with broad eligibility criteria and very long tenors and grace periods could be put in place. This facility could be combined with an interest rate subsidy provided by the Commission.

The Bank will also provide EUR 7.5m for the Byblos Private Equity Fund, which focuses on investment in small and medium-sized enterprises in Lebanon. Additionally, in line with the EIB's pipeline of financial support for the private sector, the Bank is currently studying the possibility of using more innovative structuring mechanisms, including securitisation of diversified payment rights.

Support for EU Development and Cooperation Policies in Partner Countries

FEMIP stimulates reflection on energy and renewable resources

Throughout the year, FEMIP has worked towards nurturing debate and reflection on energy in the Mediterranean region, with a special focus on safeguarding energy supplies and protecting the environment.

Discussing energy at the 4th FEMIP Experts' meeting

The development of Mediterranean energy markets was one of the two topics addressed by the 4th FEMIP Experts' meeting, which took place in Vienna in March 2006. The meeting brought together some 100 high-level participants from European and Mediterranean countries, from both the public and private sectors, alongside representatives of the European Commission, international financial institutions and European bilateral development agencies.

The participants emphasised the need to strike a balance between sustainable development, competitiveness and security of supply, in accordance with the EU's Green Paper on energy. As investment requirements in the energy sector are deemed to be immense, they agreed on the need to press ahead with energy sector reform in the Mediterranean countries, with the aim of improving energy efficiency and ensuring a supply of affordable energy.

Defining financial mechanisms for the development of renewable energy

The Agence de l'Environnement et de la Maîtrise d'Énergie (ADEME), the Agence Française de Développement (AFD) and the EIB have joined forces to examine the possibility of promoting the development of renewable energy in Mediterranean partner countries. The aim of this study, supported by the FEMIP Trust Fund, is to identify the requirements and prerequisites for developing renewable energy and

energy efficiency in the region and to define financial mechanisms that will help to facilitate the achievement of those requirements.

Identifying Clean Development Mechanism (CDM) projects

Established by the Kyoto Protocol, the CDM allows an industrialised country with a greenhouse gas (GHG) emission limitation target to invest in an emission reduction project in a country without a target and claim credits for the GHG emission reductions achieved by the project. The FEMIP Trust Fund is funding a study that investigates the possibilities for carbon finance and crediting activities in the Mediterranean region, identifies priority sectors and builds a pipeline of concrete CDM projects which the EIB could help establish and finance in the years to come. The preliminary results of the study were discussed in a workshop held in Cairo in November 2006.

Participating in the Horizon 2020 initiative

Launched in Barcelona in December 2005, the Horizon 2020 initiative aims at reducing the level of pollution in the Mediterranean Sea by identifying and tackling the most significant pollution sources by the year 2020. The EIB plays an active role in this initiative and is responsible for creating a pipeline of bankable investment projects, in close cooperation with the European Commission and other multilateral institutions.

Amongst other activities, the Bank participated in the 3rd Euro-Mediterranean Environment Ministers' meeting in Cairo in November 2006, which developed and endorsed a timetable of actions proposed by the European Commission Communication on "Environmental Strategy for the Mediterranean".

Support for EU Development and Cooperation Policies in Partner Countries



ACP

In the framework of the EU's external cooperation and development policies, the EIB operates in 79 ACP (African, Caribbean and Pacific) countries. The ACP countries, with a population of some 600 million, have established a special relationship with the European Union through the successive Yaoundé and Lomé conventions and, since 2000, through the Cotonou Partnership Agreement. In 1998 the Republic of South Africa became an associate member of the EU-ACP conventions. Financing from the EIB in South Africa is provided under a separate bilateral agreement.

The Bank has been a development partner – as the development bank of the European Union – in most ACP countries for some 30 years, and in many for 40 years. Under parallel provisions, the EIB also supports investment in 20 Overseas Countries and Territories (OCTs), mainly in the Caribbean and Pacific, which have constitutional links with certain EU Member States.

ACP Investment Facility

Combating poverty, supporting sustainable development and integrating ACP countries into the global economy are core objectives of the ACP-EU Cotonou Partnership Agreement. These concerns are at the forefront of the delivery of EU development finance to the ACP countries. The EIB is playing a crucial role in the implementation of these objectives, notably through the Investment Facility (IF), one of the Cotonou Agreement's key instruments.

The IF is a EUR 2 037m risk-bearing tool offering an extended range of flexible financial instruments that can be used to support the financing of development projects. Its mission is to invest in projects where private sector investors are reluctant to do so, reflecting the public sector's central role in the promotion of sustainable growth, itself a significant factor in any poverty reduction strategy. While bound by the development objectives contained in the Cotonou Agreement, the IF has been designed as a revolving mechanism that over time must generate capital for reinvestment. This facility is managed on a portfolio basis, so that its financial sustainability is ensured through the portfolio as a whole.

Support for EU Development and Cooperation Policies in Partner Countries



Whenever possible, the IF aims to operate in all economic sectors and to support investment by private enterprises and commercially run public sector entities. This includes revenue-generating infrastructure that is critical for the private sector. This is reflected in the current profile of the IF portfolio with 53% and 21% of signed commitments targeting financial services and industrial investments (including mining operations) respectively. Some 26% of signed commitments so far relate to basic infrastructure, covering energy, water, transport and telecommunications investments, which are widely recognised as a prerequisite for economic development.

In recognition of the strong links between infrastructure and development, a Memorandum of Understanding between the Bank and the European Commission for the creation of a Trust Fund in support of regional infrastructure in Africa was signed in February 2006. The Trust Fund is a financial instrument of the EU-Africa Partnership on Infrastructure, one of the pillars of the new EU Strategy for Africa proposed by the Commission and approved by the European Council in December 2005. In the start-up phase the Commission intends to mobilise up to EUR 60m in grants and the EIB up to EUR 260m in loans for the operation of the Fund, which will focus

on cross-border and regional infrastructure projects in Africa. By placing emphasis upon regional cooperation and integration, the Trust Fund also illustrates the Bank's readiness to support some of the core Millennium Development Goals (MDGs).

The IF finances productive and economically and financially viable projects. Nevertheless, over the last few years, the Bank has placed a greater focus on the broader development impacts of the various investments it undertakes. It aims to support projects that offer considerable social, economic or environmental benefits. This commitment has been underpinned by the adoption in 2005 of the Development Impact Assessment Framework (DIAF) for investment loans under the IF. The DIAF has now been applied on a pilot basis for more than a year and has provided a good insight into the development merits of the projects concerned. It should improve project assessment throughout the project cycle from appraisal to ex post evaluation. The broader focus of the DIAF supports the tenets of the Cotonou mandate, along with meeting the expectations of many stakeholders. Based on a first positive assessment of this pilot phase, the DIAF will become a permanent feature of the Bank's methodology and is now fully integrated into the Bank's overall value added framework.

Microfinance in the ACP

The relevance of microfinance to alleviate poverty is nowadays widely recognised in light of the impact of pioneering operations in East Asia and Latin America. This recognition culminated in the award of the 2006 Nobel Prize to Muhammad Yunus and the Grameen Bank of Bangladesh for their efforts to create economic and social development from below. Early experiences such as the Grameen Bank or the Banco Solidario in Bolivia have demonstrated, among other results, that the poor are “bankable” and can represent a good credit risk. While non-governmental organisations dedicated to microfinance activities have played a very significant role in establishing the effectiveness of microfinance as a tool to fight poverty and empower low-income populations, the recent trend is that more main-line financial institutions, such as private equity funds and banks, are paying greater attention to microfinance as a relevant market for their activities. Microfinance is evolving at a fast pace with new players emerging, such as large private foundations, along with new products, notably the securitisation of microfinance portfolios.

The Bank has long experience in lending and providing equity participation to financial intermediaries for the benefit of medium, small and even very small businesses. Outside Europe, the Bank has defined an enhanced strategy in the microfinance sector, alongside the European Commission and other development institutions. It attributes different roles to the different actors according to their specific added value available to the sector. Whereas the European Commission is focusing on capacity-building and the creation of an enabling environment, the Bank is providing funding in various forms, including equity, quasi-equity, subordinated and conditional loans to generate equity-based returns, ordinary debt on market-related terms and guarantees to third-party lenders such as local banks, to support their involvement in the microfinance sector.

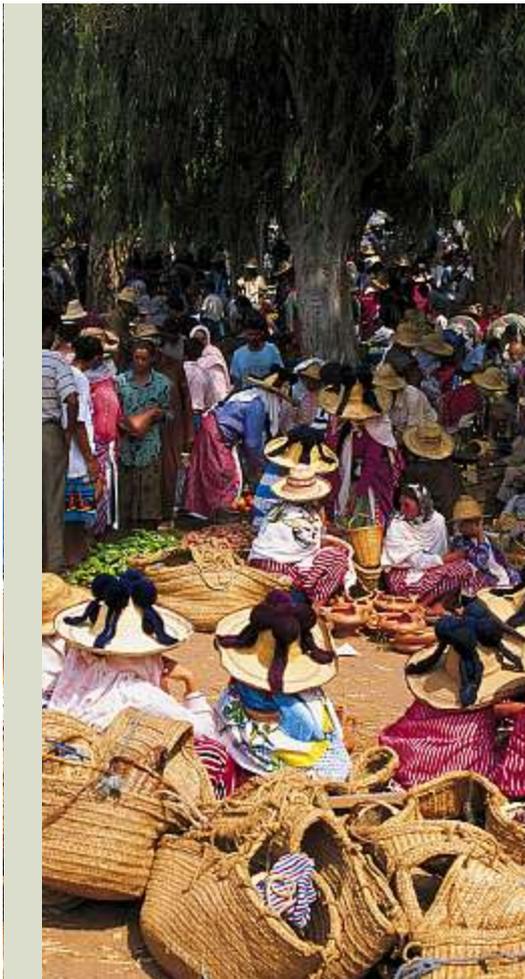
With regard to the specific case of the ACP countries, the Bank has developed its operations in microfinance as part of its mandates under the successive Lomé Conventions and the Cotonou Partnership Agreement. This provides, inter alia, for the strengthening and deepen-

ing of the local financial sector, whilst putting strong emphasis on the need to support actions and initiatives at macro, meso and micro economic levels.

By the end of 2006, the Bank had committed a total of EUR 76m 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 relation of the industry. Furthermore, the use of new instruments such as guarantees and equity instruments allowed the Bank to reach a significantly larger number of microfinance institutions (MFIs), which due to their relatively small size, could not be included in traditional lines of credit. Microfinance investment funds have proved especially effective in providing funding to existing MFIs in such countries as Kenya, Uganda, Ghana and Mozambique. Additionally, these investment funds also helped to create or strengthen greenfield MFIs in Cameroon, the Democratic Republic of Congo, Madagascar, Nigeria and Chad. The establishment of a guarantee scheme in Senegal allowed local MFIs to seek refinancing with local banks. This activity paved the way for the further integration of microfinance in the local financial market. At the same time, it enabled the use of often abundant liquidity in local currency, thereby tackling the issue of foreign exchange exposure, which the Bank believes should not be borne by MFIs.

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. As such the Bank’s involvement in microfinance extends beyond strictly project-related activities and also 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 relating to the promotion of microfinance activities in ACP countries. This framework gives access to the Bank’s microfinance projects to untied grants that can be used to strengthen existing or newly created MFIs by meeting their demand for technical assistance in particular in the areas of:

Support for EU Development and Cooperation Policies in Partner Countries



- Management information systems
- Risk management
- Human resources
- Product development
- The creation of new financial instruments targeting MFIs.

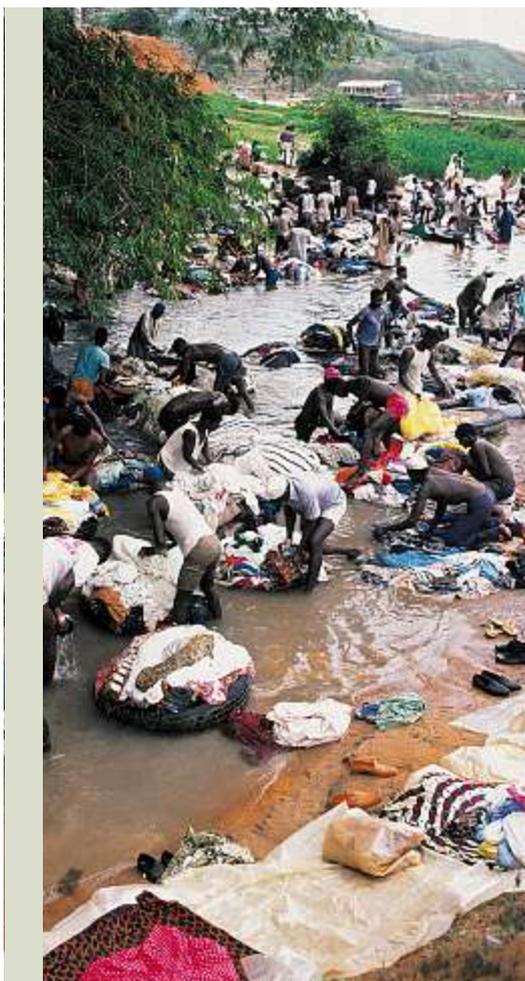
In addition, the Bank played a leading role in setting up the EU-ACP Microfinance Framework Programme, a pilot programme funded by the EC to provide technical assistance funding for microfinance operations. This programme is administered by the Consultative Group to Assist the Poor (CGAP), a consortium of public and private development agencies working together

to expand access to financial services for the poor in developing countries. CGAP leads the industry as a centre of knowledge and, equally importantly, acts as a source of best practice, which together forms the political agenda of the industry to which most IFIs, DFIs and governments refer. The Bank has been an active member of CGAP since 2005 and, as such, endeavours to be the voice of its regions of focus. CGAP's 2006 annual meeting was held in Africa for the first time since CGAP was created. This was partly the result of the EIB's insistence on the need to refocus on regions of the world where access to financial services for the poor has not improved as much as in other continents.

Africap Microfinance Fund

Through its operations, the Bank is seeking a triple return on investment: financial, social and demonstration. Financial return is essential to ensure the sustainability of the MFIs concerned and their attractiveness for other investors. Social return needs to be measured in terms of income growth at the level of those benefiting from microcredits. The demonstration effect is required to ensure future mobilisation of larger funding sources not only in the North, but also in the South. A good illustration of this last feature is the Africap Microfinance Fund in which the Bank is one of the largest 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 been recognised in the African investment community and Africap has recently been awarded the Africa Investor "Venture Capital Deal of the Year Award" for its investment in Kenya's EBL. This award is regarded as the most prestigious recognition of an investment achievement in Africa.

Support for EU Development and Cooperation Policies in Partner Countries



Project Preparation Facility

The EIB has launched a EUR 3m African, Caribbean and Pacific (ACP) Water Project Preparation Facility (PPF). The PPF commenced on 1 May 2006 and is designed to finance the preparation of many ACP countries' water and sanitation projects over the next three years. It is organised and managed jointly by the two EIB directorates that are responsible for those in-house aspects of preparation of ACP water and sanitation projects, namely the Operational Directorate (Ops B), and the Projects Directorate (PJ). Other directorates give support as required, in particular the Legal Department (JU) and the General Secretariat (SG).

The PPF assists projects that help achieve the Millennium Development Goals (MDGs), support the implementation of Poverty Reduction Strategy Papers (PRSPs), and meet the eligibility requirements of the EU Water Initiative (EUWI) and of other sources of grant financing. Furthermore, the PPF aims to facilitate the coordination and cooperation of relevant stakeholders, including donors, from the early project preparation stages, in line with the main objectives of the EU Water Initiative. It also aims to facilitate further access to grants and other financing by applicants with very different project preparation capabilities by strengthening such skills in planning institutions, utilities, PMUs (project management units), NGOs/CBOs (non-governmental organisations/community-based organisations) and the local private sector. Anticipated outcomes include knowledge sharing, North-South and South-South dialogue, cross-fertilisation with best practices, benchmarking, cross-learning and exchanges at regional level. Strong support for projects will be offered in countries where project preparation capabilities are weakest, contributing to the EU Water Initiative's regional balance objective. Overall, projects supported by the PPF will aim to address the needs of the urban and peri-urban poor through appropriate delivery models and the use of appropriate financing instruments, including sub-sovereign lending.

Support for EU Development and Cooperation Policies in Partner Countries

For selected focus countries, services are rendered with the aim of providing a decision base for the EIB to consider its potential further involvement. Such services include – but are not limited to – assessing the country's water sector's institutional framework and specific characteristics, identifying sector investment needs under PRSP, MDG and other strategies, identifying potential co-financiers and their ongoing activities, pre-selecting projects that may merit further studies, and ascertaining project preparation needs.

In order to promote donor cooperation, regular talks are held with bilateral and multilateral donors. Apart from the institutionalised coordination with the Commission and EU Member States within the EUWI, discussions are held with potential co-financiers such as the African Development Bank and the World Bank. Similar to the mid-term review, the results of the final review will be discussed in an EC/EIB workshop, possibly followed by an external workshop in an ACP country. Special emphasis will be given to the "lessons learned" and the possible replication of PPF activities to enhance the value added of this vital programme.

Maputo Water Supply Project – Mozambique

The Maputo Water Supply project serves the Greater Maputo area, where 48% of the 1.7 million population lives in absolute poverty and only 40% has access to adequate potable water. By significantly increasing the population with access to safe drinking water, the project is contributing to the achievement of Mozambique's Millennium Development Goals (MDGs) on water, health and poverty eradication, which are central to the country's poverty reduction strategy.

The project has four specific objectives:

- Increase installed production capacity to ensure constant supply to the 730 000 people presently connected to the existing water supply system (which currently does not provide a 24-hour supply) and increase the population served by the local operator by 467 000 people in 2010 and by an additional 145 000 in 2014;
- Improve the system's performance by reducing water losses from 60% to approximately 40%;
- Expand water supply in the poorer areas on the outskirts of town (peri-urban areas) with the support of small local private operators in order to extend services to an additional 110 000 people;
- Improve the promoter's capacity and financial sustainability, thus contributing to the improvement of water services in all cities under the promoter's responsibility.

The project builds on earlier sector reforms and brings together the national water agency FIPAG (Fundo do Investimento e Património do Abastecimento de Água), as promoter, and the Mozambican Government, along with a group of international development finance organisations: the EIB, the European Commission's Water Facility, FMO of the Netherlands and Agence Française de Développement. Day-to-day management of the project is contracted to a private sector operator, Águas de Moçambique, and water distribution in the poorest peri-urban areas will be entrusted to selected community-based organisations (CBOs) and NGOs. The innovative financing structure put in place for the project, with a mix of grants and the EIB's loan, was paramount for ensuring the project's financial sustainability and plays a key role in guaranteeing the future sustainability of the water sector in Mozambique.

Support for EU Development and Cooperation Policies in Partner Countries



Support for EU Development and Cooperation Policies in Partner Countries

As recommended by national regulations as well as by international donors supporting the promoter's investment programme, the design of the project gives due consideration to the expected environmental impacts, as well as required mitigating measures according to best practice for the local context. The main works concern the expansion of an existing treatment plant, the doubling of the water conveyance pipelines and expansion of the distribution network to unserved areas. The promoter has a detailed Environmental Management Plan (EMP) providing guidance for the development of the project and its components. Geological and hydraulic studies, as well as fieldwork, will provide assurance that existing groundwater resources will be managed in a sustainable fashion to ensure that drinking water will be of an adequate quality. Overall, the environmental impact due to the project is deemed to be properly mitigated, as illustrated by measures defined in environmental studies undertaken in parallel with the design of the new facilities.

The key positive socio-economic aspects result from the improvement of services to the currently served population and the extension of services to areas not already served. The non-execution of the project would result in the blockage of services and their continued degradation, as existing installations are currently working beyond design capacity. To ensure that the socio-economic benefits materialise, the project focuses on meeting the populations' needs, with respect to (i) affordability of services, and (ii) the encouragement of participatory management structures, especially for shared water supply services (standpipes), strengthening the sense of ownership in local communities.

A key impact of the project is the reduction of time spent by families in terms of long-distance water collection. Since water collection is generally the responsibility of women and young girls, the project should free up time for them to engage in productive or educational activities, generating substantial additional wealth and increasing the likelihood of girls receiving formal education. The project also creates opportunities for women to participate in water committees and other community-based organisations and so contributes to a fairer gender balance in the management of water services.

Another significant impact is upon the health of Maputo's population. Access to safe water is a dominant factor in the reduction of cholera and other water-borne diseases. In Maputo, studies show that there are cholera cases every year, culminating in an epidemic every three years. In peri-urban areas there is an average of 3 000 cholera cases per annum, while diarrhoea cases are estimated at about 63 000 per annum. The project is expected to significantly reduce morbidity from these diseases.

This is a flagship project, whose general principles and key features are being replicated in other ACP countries, after appropriately tailoring their design to the local context.

Support for EU Development and Cooperation Policies in Partner Countries



ALA

EIB lending in Asia and Latin America (ALA) is governed by mandates from the European Union. The first was delivered in 1993 and the current mandate (ALA III) of EUR 2 480m covers the period from 1 February 2000 to 31 January 2007. Under these arrangements, the EIB funds are utilised to finance investments in countries that are signatories to cooperation agreements with the EU. There are no amounts allocated per country. The EIB supports viable public and private sector projects in infrastructure, industry, agro-industry, mining and services. Special emphasis is given to the improvement or protection of the environment. EIB loans are project-oriented and linked to the financing of the fixed-asset components of an investment. Under its new mandate covering the period 2007-2013 the EIB will be entitled to lend EUR 3.8bn with European budget support for operations in ALA partner countries.

In 2006, EIB lending for projects located in Asia and Latin America totalled EUR 483m, comprising EUR 240m for three projects in Latin America and EUR 243m for five projects in Asia.

Update on the EIB's contribution to tsunami relief

In April 2006 a EUR 70m credit line for Sri Lanka was signed. This is now financing small-scale private sector projects in the industrial, tourism and service sectors throughout the country. The DFCC Bank is the administrative unit for the credit line, processing and coor-

inating applications received by the eight selected local financial intermediaries. EUR 20m of this facility will be subsidised by the Central Bank of Sri Lanka and will be onlent at a flat rate in local currency to the final beneficiaries. Up to December 2006, EUR 26m of this loan had been disbursed.

Another EUR 50m credit line for the Maldives was also signed in April 2006. This is channelled through the Bank of Maldives and focuses upon the reconstruction and rehabilitation of facilities in the tourism sector. This industry was severely hit, not only by physical destruction, but also by a drop in tourist numbers. Yet, it is by far the largest employer and largest source of foreign exchange earnings in the Maldives. In order to enable the EIB to advance loans to the Maldives, the Council extended the geographic coverage of the ALA mandate to include the Maldives. Up to December 2006 USD 30m was allocated for the reconstruction of two tourist resorts that were completely destroyed by the tsunami. Additionally, USD 20m was disbursed.

As established by EIB funding criteria for reconstruction and restoration projects following natural disasters, the credit lines to Sri Lanka and the Maldives benefit from downward modulation of the interest rate. Moreover, the intermediaries may finance up to 75% of project cost with the EIB funds (rather than up to 50%, which is the usual limit). The projects financed under these facilities are appraised by the intermediaries in line with the EIB's usual criteria, in particular regarding financial and economic sustainability, compliance with environmental and social standards, and transparency.

Support for EU Development and Cooperation Policies in Partner Countries



Metro Cash & Carry, Vietnam

This project consists of the construction of wholesale stores in Vietnam's major cities. The project's promoter is Metro Cash & Carry International, a subsidiary of the Metro Group, Germany's largest food retail group in both the wholesale and retail sectors. The promoter, as a worldwide player and a key driving force in the trade and retailing sector, has a comprehensive corporate governance code and is also committed to corporate social responsibility, which includes the protection of the environment and adherence to good social practices.

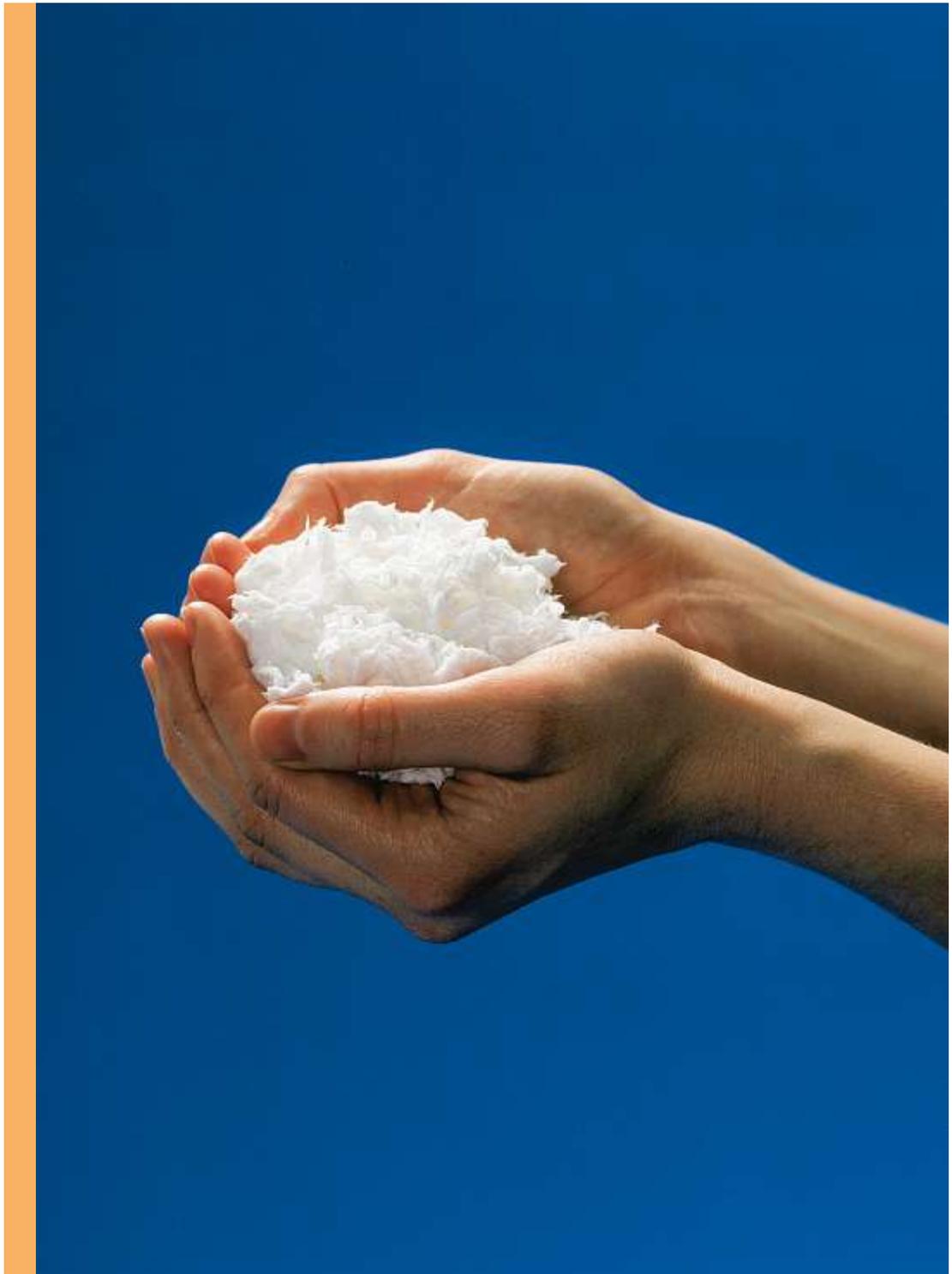
The company's expertise and structure is especially suited to introducing modern distribution techniques into Vietnam to help provide a complete range of food and non-food items to small businesses and corporate customers. Additionally, this project will provide technical assistance to local suppliers for the improvement of the quality of local fresh food production, distribution, transport and storage as well as training in quality and hygiene standards. In particular, Metro has a development project contributing to the enhancement of agricultural product quality, notably through improved technology and the development of better cold chain supply management. The company is also handling a number of educational programmes in this area and is cooperating

with the Government of Vietnam to promote local suppliers. The implementation of specific fruit and vegetable programmes is improving quality levels for these highly perishable goods. Moreover, these programmes contribute to improving Vietnam's agricultural and export potential for products such as fruit, vegetables and fish.

The project provides training for newly recruited staff in quality, hygiene and food safety standards and packaging. It is currently introducing health control systems of the highest standard. These elements are of particular importance in light of the outbreak of bird flu and Severe Acute Respiratory Syndrome (SARS).

Finally, the local labour market will benefit from the creation of new job opportunities.

IV – DIRECT FOOTPRINT



Internal Environmental Management

The EIB seeks to promote the development and implementation of good internal environmental management practices in project implementation and operation, such as those enshrined in the EU's Eco-Management and Audit Scheme (EMAS) and ISO 14000. The EIB acknowledges that its administration has an impact on the environment through water and energy management, waste sorting and recycling. Environmental considerations also play an important role in the construction of its new building.

As the development and application of formal environmental management systems such as EMAS take hold, particularly in the public and financial sectors, the Bank will assess the appropriateness of such a system for application to its own administration. The EIB applies a number of practices that aim to reduce the impact of its administration on the environment, including water and energy management, waste sorting and recycling and procurement. These measures are to be intensified in 2007, starting with a main focus on GHG inventory and carbon emission off-sets.

Paper consumption

The Bank uses considerable amounts of paper, both copying and printing paper for its publications and everyday use. Like the other European institutions, the Bank purchases totally chlorine-free paper that is produced in paper mills with EMAS or ISO 14001 certificates. The paper-making process integrates ecological aspects such as energy saving, transport reduction and reforestation.

In 2006, the staff's attention was again drawn to the importance of reducing paper consumption in the interests of environmental protection and employees were asked to use double-sided printing as much as possible. The photocopiers were already programmed to print double-sided as default in 2005, and also the in-house copying service is printing reports and publications double-sided, which led to a slight reduction in overall paper consumption. In 2006 the amount of paper used was 14 599 000 sheets for the copy machines and printers in each corridor

and 5 801 949 sheets at the in-house copying service (compared to 15 182 415 and 5 601 500 sheets respectively in 2005). Paper used on one side is partly re-used for notepads, whereas double-sided and confidential paper is shredded and recycled.

In the course of a planned waste campaign (see below), Facilities Management will further promote the more efficient use of paper and will advertise double-sided printing.

Energy

The Bank has in the past years made considerable efforts to improve the energy efficiency of the heating system of its main building in Kirchberg. In the second half of 2003, the Bank switched from local boilers in the office building to municipal district heating, which has contributed to considerable savings, with reductions of around 40% in heat consumption, depending on the reference year of comparison. The district heating is today entirely delivered from a gas-fired combined heat and power plant in the Kirchberg district. The consumption of thermal power in 2006 was 6.64 GWh, which approximately corresponds to annual emissions of 630 tonnes of carbon dioxide.

Electric energy is purchased from the municipal energy entity of Luxembourg City, the City's Electricity Office. Roughly 14.8% of the company's energy portfolio originates from renewable energy sources. The consumption of electricity was 11.16 GWh in 2006. Based on the emission factors of the energy producer, it is estimated that the consumption of the Bank corresponds to annual emissions of about 7 870 tonnes of carbon dioxide.

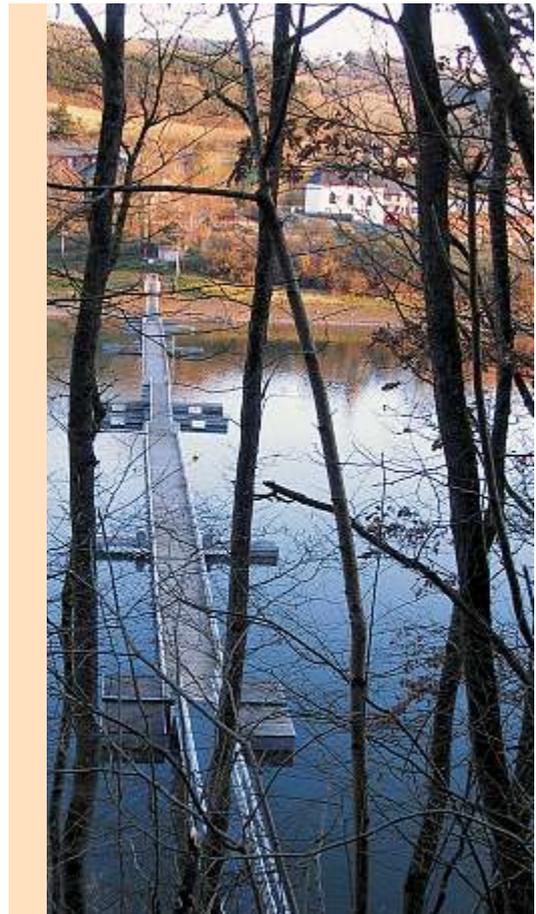
Total energy consumption in 2006 for the headquarters was 17.8 GWh. This figure includes both thermal energy for heating and electricity consumption.

Water

Water is purchased from Luxembourg City and the City in turn purchases the water from a regional water company. Overall, roughly two thirds is extracted from ground water wells originating from the sandstone areas around Luxembourg city and one third from surface water, provided by the drinking water reservoir of the lake of the Haute-Sûre in the northern part of Luxembourg. However, the Kirchberg area, for example, obtains its water solely from the Haute-Sûre reservoir. Due to the fact that there was less precipitation during the last three years, the proportion of ground water has decreased whereas more surface water was taken from the lake of the Haute-Sûre. It also has to be mentioned that the Haute-Sûre valley is a Ramsar site (wetland of international importance). Total consumption in 2006 of water in the Kirchberg main building was 40 293 m³ including the water used for irrigation of the office grounds in the summer period. In the Hamm building the water consumption was 5 529 m³.

Wastewater

As there is no in-house water treatment facility, water is neither reused nor recycled. The wastewater from the main building is collected in the municipal sewer and treated in Beggen in a biological wastewater treatment plant, based on activated sludge treatment technology, including chemical treatment. The treated water is then discharged into the Alzette River. No protected areas are situated close to the river. However, renaturation projects are ongoing, conducted by the Luxembourg Forest Management Authority in cooperation with the Ministry of the Interior of Luxembourg. River beds are partly restored to their original state. These measures have a positive impact on water quality.



Biodiversity

None of the three EIB sites are located close to protected areas (Natura 2000) or areas of high biodiversity value or proclaimed conservation areas such as wetlands (Ramsar Convention on Wetlands, 1971). Only the Kirchberg building is situated within the range of vision of the natural reserve 'Kuebebiërg'; however, no impact on this reserve can be stated, as it is not located in direct proximity. Regarding the Bank's accountability on the projects side, the EIB finances projects which take biodiversity issues into account (see page 45).

Internal Environmental Management

Emissions, effluents and waste

Waste management

For waste management, the EIB complies with the high standards of the Luxembourg authorities. Waste is segregated at source and managed accordingly. Waste generated on site and disposed of (not recycled) amounted in 2006 to 245.6 tonnes.

The Waste Utility of Luxembourg City collects disposed non-toxic household waste. This is treated in an authorised waste-to-energy plant that produces electricity from thermal energy. The operator of this plant is ISO 9001 and ISO 14001 certified. The recycled fraction of the waste includes paper, cardboard, plastics, electronic equipment, toner cartridges, glass and metal. In total, 23 different waste fractions are collected and recycled. The volumes of difficult waste streams are very small in absolute figures, including various forms of fluorescent and halogen lamps. Such special waste is collected and transported to appropriate waste management facilities for further treatment and disposal. The companies responsible for the management of hazardous waste are specialised and carry special licences issued by the competent national environmental authorities. No significant amount of waste deemed hazardous under the terms of the Basel Convention Annex I, II, III and VIII was transported or shipped internationally, nor were there any significant accidents or spills registered in 2006.

Environmental indicators 2006

	Total annual consumption	Annual consumption per active staff member (ASM)
Heat consumption	6.64 GWh	6 385 kWh/ASM _k
Electricity consumption	11.16 GWh	10 731 kWh/ASM _k
Total energy consumption	17.8 GWh	17 115 kWh/ASM _k
CO ₂ emissions from energy consumption ¹⁵	8 500 tonnes CO ₂	8.2 tonnes CO ₂ /ASM _k
Waste disposed	245.6 tonnes	236.2 kg/ASM _k
Water consumption	40 293 m ³	194 litres/ASM _k per day
Copying paper consumption	20 400 949 sheets	15 900 sheets/ASM _{LUX}
Number of airmiles travelled by staff in 2006	9 500 000 miles	-
CO ₂ emissions from airmiles ¹⁶	2 300 tonnes CO ₂	-

ASM_k Number of active staff members in EIB main office in Kirchberg: 1 040

ASM_{LUX} Number of EIB full-time employees in Luxembourg (Kirchberg, Findel, Hamm): 1 283

Products and services

Facilities Management (FM) has recently taken an initiative to reduce the energy consumption for heating. The mean temperature in the EIB main building was reduced by 1°C from 22 to 21°C in order to raise humidity levels and cut down on carbon dioxide emissions. This initiative mitigates the negative impact on the environment.

Regarding the recycling of waste, Facilities Management will soon be launching a campaign. An integral part of this will be a short course in waste recycling for all new staff joining the EIB. This should help to educate staff about internal waste management, raise awareness and make recycling standard practice.

In late 2006 a new suggestion box was created on the EIB intranet for environmental and energy saving proposals. This box was made available for all staff members to publish their ideas related to environmental protection and energy saving, which are then evaluated by Facilities Management for their feasibility in the Bank's environment. Moreover, Facilities Management is also cooperating with the other European institutions located in Luxembourg in order to work on joint actions and share experiences and knowledge on green housekeeping issues.

¹⁵ The formula used for heating power is 95kgs CO₂/MWh. The formula used for electricity is 705kgs CO₂/MWh.

¹⁶ The formula used for calculating CO₂ emissions from airmiles is 0.24 per mile.

Compliance

In 2006 no fines or any kind of non-monetary sanctions for non-compliance with environmental laws and regulations were registered.

Transport

Staff regulations provide that staff members are required to reside at or near their place of employment. The Bank is currently exploring ways to reduce the impacts of travel to and from the Bank by staff members. Regarding business travel, the destination will determine the means of transport chosen, though in the majority of cases air travel is the prevailing mode of transport, having significant environmental impacts on air quality (greenhouse gas and other emissions). For trips to Brussels, there are incentives to use rail transport. Another measure introduced by Facilities Management and aimed at cutting down on private car transport is the shuttle bus that serves the routes between the three EIB sites: Kirchberg, Hamm and Findel. Furthermore, this bus can be used to reach the European Investment Fund, a local shopping centre and the European School.

In the course of the European Mobility Week 2006, Facilities Management took part in the organisation of the inter-institutional Open Doors Days on the theme of "Mobility and Energy". On this occasion the City Transport Department made available a hydrogen bus circulating between the European institutions in Luxembourg. Again this was an initiative to promote sustainable mobility and in particular to raise awareness and promote changes in behaviour in relation to the use of private cars.



Environmental management system

In 2005, a review took place to assess the appropriateness of applying EMAS (the EU Eco-Management and Audit Scheme) to the Bank. This scheme was explained in the EIB Journal, the Bank's internal magazine, in order to inform staff and make them aware of how they can contribute to a more ecological working environment.

The EIB is considering a staged approach to the launching of an environmental management system which focuses on internal housekeeping matters. This would include direct aspects of office management such as waste management and other environmental aspects that are visible to employees, namely paper consumption (see the section on paper consumption), cleaning of the facilities, use of water and disposal of electronic equipment and old furniture.

The Bank intends to put in place a policy to actively reduce the carbon emissions resulting from its direct activities and to off-set these carbon emissions.

Internal Environmental Management

The EIB's new building

BREEAM certification

The European Investment Bank's new building, under construction on the Kirchberg Plateau in the Grand Duchy of Luxembourg, is the first construction project in mainland Europe to be certified in accordance with the Building Research Establishment's Environmental Assessment Method (BREEAM).

The building has been designed according to and complies with the highest environmental quality standards: integration within the site, controlling the building's impact on its external environment (consumption of resources, pollution, etc.), taking account of the well-being, comfort and health of the occupants, and implementation of a site management system with low nuisance levels.

The EIB has sought to minimise the negative environmental impact caused by the construction and operation of an office building, while promoting conditions that will provide for the well-being of its occupants. The environmental effects of the new building, such as rational energy use, waste production and water consumption, have been taken into account right from the initial design stage.

The EIB's new building has been rated under BREEAM as "Very Good" for its design.

Controlling the building's impact:

- reducing consumption of natural resources (e.g. water: installation of dual-flush WCs, collection of rainwater to water green spaces; wood: the tender specifications require the use of Programme for the Endorsement of Forest Certification (PEFC) or Forest Stewardship Council (FSC) certified wood or equivalent, the wood being used primarily for the window frames and as a floor covering);
- reducing energy consumption: enhanced thermal insulation, prioritisation of natural light, artificial lighting dependent on external brightness, creation of atria, double-skin external façade, indirect use of solar energy, mostly natural ventilation of spaces, blinds controlled by the building's central technical control system and choice of highly energy-efficient equipment.

The technologies used will help to reduce energy consumption by more than 50% compared to standard office buildings.

Well-being, health and comfort of occupants:

The transparency of the building is synonymous with communication and openness towards both the outside world and the various parts of the building. Ergonomic considerations have dictated the building's sound insulation, lighting and thermal comfort. The working environment can be adjusted across the board or on an individual basis. Specific precautions have been taken to combat the health risks related to the quality of air and water. Furthermore, subject to architectural constraints, the Bank has chosen environmentally friendly materials that will not jeopardise the health of the occupants of the building. As far as visual comfort is concerned, the Bank has decided to make maximum use of natural lighting combined with suitable levels of artificial lighting.

Internal Environmental Management

**Site with low nuisance levels:**

The EIB has implemented an environmental management system (EMS) to reduce the site's impact on the environment (waste, pollution), the workers, neighbours and occupants (noise, dust, etc.). The site is regularly audited by an external firm accredited in Luxembourg in order to check whether the very strict conditions of its EMS are being scrupulously adhered to by the firms working there.

Energy consumption and CO₂ production associated with the site's direct and indirect activity (transport and deliveries) are comprehensively measured and monitored each day. This information is displayed for the public outside the site.

A very strict waste management policy has been implemented for the site. A bank of containers for selective sorting of waste has been installed on the site. Various construction items are reused on the site as much as possible (e.g. used shuttering panels are reused to protect work already completed), the aim being to minimise the amount of waste generated.

Very stringent special measures are imposed on firms to prevent pollution of soil and watercourses and

reduce the amount of dust and noise generated. The timber used on the site during the construction phase must be PEFC or FSC-certified or equivalent.

The firms and workers have been (and are regularly) made aware of the need to comply scrupulously with the safety and environmental measures applied on the EIB site. A welcome booklet providing a clear, concise summary of all these measures is issued to each new worker (including temporary staff and sub-contractors) entering the site. All workers receive at least half an hour's training each month on specific topics related to their activities and the operation of the site.

The EIB attaches particular importance to communication with residents, firms and institutions in the vicinity of the site. Openings have been cut into the hoarding surrounding the site to enable the general public to see how the work is progressing. Close coordination with neighbouring construction sites has been put in place. A special telephone number and a suggestions box have been made available to the public. Any complaints about the site's activities are dealt with by the contractor and the EIB and, if necessary, corrective measures are taken directly on the site.

Internal Procurement

As the European Union's financing institution, the Bank, in its dealings with external providers, is committed to respecting the fundamental EU principles regarding public procurement, such as the principles of equal treatment, non-discrimination and transparency. The Bank follows the procedures described in Directive 2004/18/EC of the European Parliament and of the Council of 31 March 2004 on the coordination of procedures for the award of public works contracts, public supply contracts and public service contracts (hereafter "the Directive").

The criteria on which the Bank bases the award of contracts are either:

- (a) the most economically advantageous tender (best price-quality ratio) from the point of view of the Bank, taking into account elements such as: quality, price, technical merit, aesthetic and functional characteristics, environmental characteristics, running costs, cost-effectiveness, after-sales service and technical assistance, delivery date and delivery period or period of completion; or
- (b) the lowest price only.

On request from the party concerned, the Bank will, within 15 days from receipt of the written request, inform:

- any unsuccessful candidate or tenderer of the reasons for the rejection of his request to participate or tender;
- any tenderer who has made an admissible tender of the characteristics and relative advantages of the tender selected as well as the name of the successful tenderer or the parties to the framework agreement.

However, the Bank may decide to withhold certain information affecting legitimate commercial interests of the economic operators or where the release of such information would impede law enforcement or would otherwise be contrary to the public interest.

While green procurement is not yet formally part of the EIB's procedure, it is planned that this will soon become an integral part of standard practice for the

Bank. The paradigm of green procurement encompasses many issues, such as needs assessment, technical specifications for contracts and raising levels of staff awareness.

The key issue is to make the connection between purchasing and the environment. In this way, an EU body such as the EIB can make a vital contribution towards sustainable development. Green procurement will cover areas such as the purchase of energy-efficient computers and buildings, office equipment made of environmentally sustainable timber, recyclable paper, electric cars, environmentally friendly public transport, organic food in canteens, electricity stemming from renewable energy sources, and air conditioning systems complying with state-of-the-art environmental solutions. The easiest way towards cost-effective and environmentally-friendly procurement is in the saving of water, electricity and fossil fuels.

Green purchasing is also about setting an example and influencing the market place. By promoting green procurement, the EIB will be promoting the development of green technologies from both sides, through its own environmental footprint and through its support for sustainable businesses through its lending facilities. Another area that the Bank is keen to explore is the screening of suppliers. In any case, environmental, health and safety conditions are considered when selecting suppliers, in line with EU law.

Health and Well-being

Clinical facilities

Since September 2005, the Bank's health services have been carried out in its in-house medical centre, including all pre-employment examinations and a number of annual examinations. Staffing of the centre consists of a full-time occupational health physician, a full-time nurse and two part-time replacement nurses. In addition to standard medical examinations, the centre is equipped to facilitate treatment of minor trauma and medical procedures of a less serious nature. In the case of emergencies, the centre is equipped to stabilise and monitor a patient's vital functions until he or she can be transported to a hospital.

Furthermore, every year, preventive vision screenings are offered either at the Bank's premises or at an external venue, in an arrangement with the Association pour la Santé au Travail du Secteur Financier (ASTF).

Ergonomics and workplace assessments

With the creation of a medical service at the Bank it has become possible to pursue the issue of office ergonomics more actively. Workplace assessments at the Bank focus on reducing the risk of upper limb disorders, ensuring that staff members take care of their eyesight and generally reducing musculo-skeletal problems.

Sports facilities

The Bank's sports facilities and the broad range of activities sponsored by the Bank's social club, 'Le Cercle', contribute significantly to the well-being of members of staff. In this context, a physiotherapist advises staff on fitness activities and equipment and offers corrective gymnastics classes.

Travel Health Clinic – International SOS

The aim of the Bank's Travel Clinic is to assist and advise staff members who travel outside of the European Union for business purposes, particularly where there might be greater health risks associated with travel to less developed regions. Travel health services are also available to staff for private travel.

First Aid

More than 60 staff members completed First Aid training in February 2006, in a course arranged with the assistance of the Croix Rouge Luxembourgeoise. A corps of First Aiders is currently being established and the contact details of each member of this corps will be communicated to all staff members.



Health and Well-being



Health and Social Affairs Annual Report 2005-2006

A Health and Social Affairs Annual Report 2005-2006 has been presented to the Bank's management. It foresees a series of improvements in the general areas of health and well-being to be implemented over the coming years. This programme comprises activities, for example, to promote a healthy lifestyle and to prevent work-related health problems such as musculo-skeletal disorders and stress; to enable a better work-life balance; to offer a staff assistance programme, advising and assisting members of staff; and to help reintegration back into the workforce after long-term absence.

In 2006, the EIB had an injury rate of 9.5 per 1 000 staff members. Most injuries were due to slips and falls – a sizeable share in the sports facilities. In no case did absence resulting from an injury exceed two days. There were no fatal injuries. Sickness absence among EIB staff amounted to 3.8%, largely in line with previous years.

The Joint Committee on Risk Prevention and Protection at Work

The Joint Committee on Risk Prevention and Protection at Work gives opinions and makes proposals on all activities carried out at and by the Bank, and on working conditions insofar as they relate to health and safety. This includes protecting the health and safety of Bank staff and those working on the Bank's premises either under a direct contract or made available by an outside firm, including temporary staff.

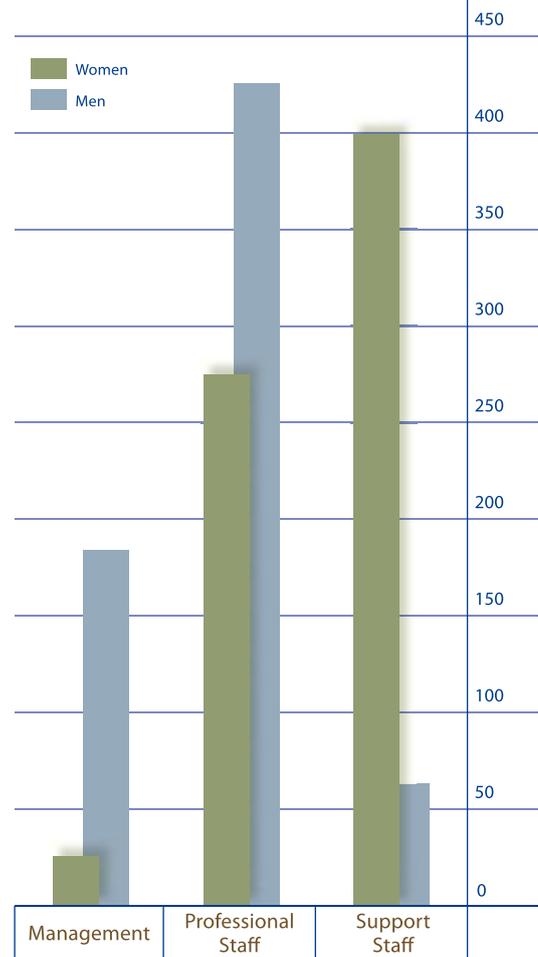
Within the areas for which it is responsible, it sees to it that working conditions are improved and has the resources needed to perform its task. It is the body to which reports are forwarded on accidents, incidents and occupational illnesses and on any item that suggests that there may be a danger with regard to health and safety at work or on the Bank's premises.

Working Responsibly



The breakdown of the Bank's staff by nationality meets the requirements of the EIB's Statute. For details of the Bank's Statute see our website www.eib.org.

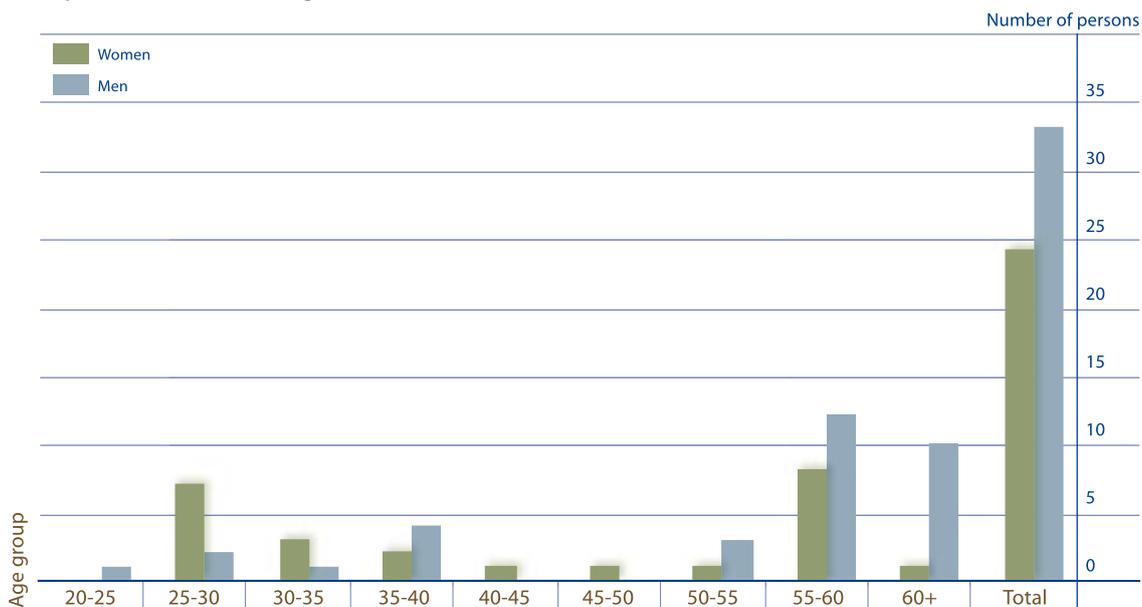
Active staff by category and gender as at 31/12/2006



Working Responsibly

This graph represents all EIB offices. The total number and rate of employee turnover is 57 staff members and just over 4% respectively. A trend is evident whereby female employees are more likely to leave their jobs between the ages of 25-35 and also between the ages of 55-60. On the other hand, male employees are more likely to leave the Bank at a later age. Just over 93% of EIB employees work in the headquarters in Luxembourg. The other offices range in size and are manned by between 2 and 31 staff, with Rome (31 employees) and Brussels (11 employees) being the second and third largest offices.

Departures in 2006 (including retirements and deaths)



Work-life balance and flexible arrangements

Part-time work

Staff members may be authorised by their superiors to work part-time (75% or 50%) on a daily, weekly, monthly or annual basis. The authorisation is for an initial period of one year and can then be extended. While working part-time, salary is proportionally reduced; however, the number of days of annual leave entitlement remains constant. In 2006 there were 82 part-time staff: 2 from the management categories (2 men), 16 from the professional category (10 women and 6 men), and 64 from the support staff category (64 women).



Teleworking

Staff members may be authorised by their superiors to carry out part of their activity from home on a regular basis for a maximum period of two years, to help facilitate the balance between professional and personal needs and/or to increase efficiency in response to the Bank's operational needs. Telework is configured as a voluntary, temporary, reversible and part-time arrangement. Teleworkers maintain their full contractual rights and remain bound by their obligations.



Parental leave

Staff members having completed at least one year's continuous active employment at the Bank have an individual right to take up to six months parental leave for each child who has not yet reached his or her fifth birthday (or within five years of the official adoption date). Parental leave has to be requested with a minimum notice of two months and is taken in one block or in periods of no less than one month, on a full-time basis. Parental leave cannot be refused, although in an exceptional situation it may be postponed. Staff maintain full employment rights during their absence, but salary is reduced to 50% during the first month and to a flat rate indexed amount from the second month onwards. Staff members returning to the Bank have the right to be reintegrated into their original post. In 2006, 83 employees took advantage of parental leave, with the majority coming from the professional category (24 women and 21 men).

Family leave

Family leave is intended to help staff who find themselves confronted with situations of serious illness or the incapacity of their spouse, registered partner, parent or child. Family leave cannot be refused or postponed. The staff member should have at least one year's active service and he or she is entitled to ask for a maximum of nine months over the entire career. The leave may be taken in blocks of at least

Working Responsibly

one month, on a full-time basis. During the leave, staff members receive an indexed flat rate amount per month and maintain full employment rights. On their return they have the right to be reintegrated into their original post. Eight staff members opted for family leave in 2006.

Unpaid leave

Unpaid leave policy allows staff members to take time out from professional life or to take up alternative professional activity when duly authorised by the Bank. Unpaid leave is not remunerated and has a minimum duration of one month and a maximum duration of three years. It is not a right and, to be eligible to apply, staff must have at least three years service (in exceptional situations, a maximum length of one month can be agreed for staff members having a shorter service). Where the duration of the unpaid leave is six months or less, the staff member will be guaranteed reintegration into his or her post. In all other cases the staff member will be assigned a post appropriate to the individual's functional level and profile. In 2006, 14 employees took advantage of unpaid leave, predominantly from the support and professional staff categories.

Maternity leave and adoption leave

Staff members are entitled to paid maternity leave for a period of 20 weeks. During maternity leave, staff members maintain their full salary and contractual rights.

Working hours

The management recognises that overtime has become a common occurrence in certain services in the Bank. In the context of work-life balance and in line with Directive EC/2003/88, a working group has been created to explore the possibility of reducing overtime by promoting a better monitoring system along with a more flexible approach to working hours.

Secondment

The objective of the secondment mechanism is to anticipate and respond to the strategic learning and business needs of the Bank by promoting the temporary transfer of staff to and from relevant organisations. A secondment can be made at the Bank's request if it is supported by a sound business case, or with the Bank's agreement if the benefits of the secondment are limited for the Bank. Eligible staff should have at least three years continuous active service; the secondment is not a right and will normally be from six months to three years. Staff members on secondment at the Bank's request remain on the payroll of the Bank and continue to receive their full salary and related benefits. Staff members on secondment with the Bank's agreement receive no remuneration from the Bank.



Social benefits

With affordable child-minding services remaining in high demand and the Bank's own crèche having a waiting list, an additional 50 places have been contracted at a private crèche in close proximity to the Bank's headquarters. In addition, a feasibility study has been initiated to study how staff members' needs in this area may best be met in the future.

Employment equity

In 2006, 461 individuals held support category positions in the Bank. Twelve had fixed-term employment contracts (9 women and 3 men), while the remainder had permanent employment contracts (390 women and 59 men). 699 individuals held professional category positions in 2006. Of these, 45 had fixed-term employment contracts (17 women and 28 men) and the remainder had permanent employment contracts (257 women and 397 men). As regards the management category, 208 staff members held management positions in 2006. Five had fixed-term contracts (1 woman and 4 men), while the remainder had permanent employment contracts (24 women and 179 men). The basic salary and bonuses are equal for men and women at the same functional level. Details may be found on the EIB's website www.eib.org.

In 2006, the Bank implemented a number of initiatives to help support diversity and gender balance. Key issues are as follows:

To enhance the transparency and objectiveness of the Bank's recruiting and promotion procedures, selection panels must include one female member and one observer from COPEC (the Bank's Joint Committee on Equal Opportunities between Men and Women).

To tackle the problem of insufficient female internal candidates applying for senior positions that are advertised in the Bank, the EIB now seeks applications from external sources through the use of advertising and specialised headhunters to broaden the pool of female candidates.

The Bank is currently in the process of recruiting a qualified HR professional to hold the position of diversity advisor, whose key responsibility will be the development and implementation of a gender/diversity strategy.

To support diversity and in line with the legal framework of many Member States, the Bank has moved towards the internal recognition of forms of partnership outside of traditional marriage. Unmarried staff members living

in a partnership legally recognised by a State will have the same rights and obligations as married couples, irrespective of the fact that the partnership may be registered between same-sex or different-sex partners.

Staff representation

The College of Staff Representatives is the sole representative body for EIB staff. It consists of 13 members elected by secret ballot and its composition guarantees the representation of each staff category. The college represents the interests of staff in relation to their contract of employment, the Staff Regulations, the Staff Rules and all agreements with the Bank. It is consulted by management on staff policy issues in areas such as remuneration, the staff appraisal exercise, Bank policy on titles and careers, training and welfare schemes and on more general matters which may affect the Bank and consequently its staff. The Staff Representatives ensure that the staff has a collective voice, enabling its interests to be permanently taken into account. The detailed rules governing the Staff Representatives are set out in an agreed Convention. The Staff Representatives are involved in collaborative problem-solving and consultation through regular meetings with the HR department, the joint working groups and joint committees. They participate in Management Committee meetings when proposals concerning staff interests are examined. The Staff Representatives can also attend, as observers, the meetings of the Board of Directors whenever the latter is discussing a proposal concerning the general interests of the staff.

According to the agreed Convention, the Human Resources Department shall provide the Staff Representatives with all requisite information on matters within their competence and shall do so within a reasonable timeframe to enable them to study such matters and to formulate their opinion. In particular, the documents concerned shall be made available to the Staff Representatives at least ten working days prior to the date on which such an opinion is to be formulated, apart from those cases where there is mutual agreement on a different time limit, which in no case may be less than five working days.

Data Protection and Community Acts

On 18 May 2006, the Bank hosted a conference aimed at management, chaired by Mr Hustinx, the European Data Protection Supervisor (EDPS), and Mr Bayo Delgado, the Assistant Supervisor. The EDPS is recognised under Article 286 of the EC Treaty as an independent supervisory body charged with monitoring the application of Community Acts relating to the protection of personal data utilised within the Community institutions and bodies. Each institution has a Data Protection Officer (DPO) who cooperates with the EDPS and informs him of any processing operations involving sensitive data. The Bank is currently aligning its regulations and policies to meet the recommendations made by the EDPS on all matters concerning the processing of personal data.

Bullying and harassment

The Bank has a Dignity at Work policy aimed at preventing harassment and bullying and providing a formal procedure for dealing with complaints.

Training

The Bank's Training Unit is charged with meeting the training needs of all staff members. This covers a range of activities, from language courses to seminars and training modules, held both internally and externally, to ensure that the requirements of the Bank are met. Additionally, the Bank runs a dedicated Management Skills Development Programme, so that each manager has the opportunity to develop his or her expertise more fully in a particular business area.

The full cost of all work-related training courses is covered by the Bank and all classroom time spent on these specific learning activities is considered work-

ing time. Additionally, the Bank endeavours to support private study undertaken outside of working hours by staff members, provided these studies are of relevance to the Bank.

The EIB aims to promote a culture of knowledge-sharing and cooperation, fostered through its training policy. An average of 6.4 training days per employee was achieved in 2006.

Departure

The Bank permits the transfer of pension entitlements accrued under Member State schemes to its own EIB pension scheme. However, since any transfer hinges on the agreement of the Member State, the Bank has to date successfully negotiated a transfer arrangement with only the following Member States: Austria, Spain, Greece, Italy, Luxembourg and Portugal. The last agreement with Portugal was finalised in 2006. Discussions with other Member States are ongoing.

Audit on social responsibility

In 2006, the Bank asked a selected law firm, specialised in European labour and social law, to carry out an audit on corporate responsibility. The audit focused on several topics: social protection (i.e. dignity at work policy, ergonomics, policy for individuals with disabilities and stress management), working hours and overtime and rules concerning staff representation. The outcome of the report has highlighted room for improvement in various areas, notably on overtime management and on the development of a specific policy for individuals with disabilities. Some of the necessary steps to adapt the internal framework to the best practices suggested by the report have already been taken (see section on working hours). The remainder of these recommendations will be put on the agenda for ongoing reform in the near future.

GRI Content Index:

selection of GRI indicators used by the EIB

GRI Ref Number	GRI Indicator	Page(s)
Strategy and Analysis		
1.1	Statement from the most senior decision-maker of the organisation (e.g., CEO, Chair, or equivalent senior position) about the relevance of sustainability to the organisation and its strategy	4
1.2	Description of key impacts, risks, and opportunities	6-9
Profile		
Organisational Profile		
2.1	Name of the organisation	Cover page
2.2	Primary brands, products, and/or services	13-19
2.3	Operational structure of the organisation, including main divisions, operating companies, subsidiaries, and joint ventures	16-17
2.4	Location of organisation's headquarters	13
2.5	Number of countries where the organisation operates, and names of countries with either major operations or that are specifically relevant to the sustainability issues covered in the report	15, 82-95
2.6	Nature of ownership and legal form	15
2.7	Markets served (including geographic breakdown, sectors served, and types of customers/beneficiaries)	56-58
2.8	Scale of the reporting organisation	6-7, 15, 110
Report Parameters		
Report Profile		
3.1	Reporting period for information provided	Cover page
3.2	Date of most recent previous report	11
3.3	Reporting cycle (annual, biennial, etc.)	9
3.4	Contact point for questions regarding the report or its contents	Back cover
Report Scope and Boundary		
3.5	Process for defining report content	11
3.6	Boundary of the report (e.g., countries, divisions, subsidiaries, leased facilities, joint ventures, suppliers)	10
3.7	State any specific limitations on the scope or boundary of the report	11
3.9	Data measurement techniques and the bases of calculations, including assumptions and techniques underlying estimations applied to the compilation of the Indicators and other information in the report	6-7, 99
3.11	Significant changes from previous reporting periods in the scope, boundary, or measurement methods applied in the report	11
GRI Content Index		
3.12	Table identifying the location of the Standard Disclosures in the report	113
Assurance		
3.13	Policy and current practice with regard to seeking external assurance for the report	11, 112
Governance, Commitments and Engagements		
Governance		
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4.2	Indicate whether the Chair of the highest governance body is also an executive officer (and if so, their function within the organisation's management and the reasons for this arrangement)	16
4.4	Mechanisms for shareholders and employees to provide recommendations or direction to the highest governance body	16, 105, 110
4.5	Linkage between compensation for members of the highest governance body, senior manager, and executives (including departure arrangements), and the organisation's performance (including social and environmental performance)	EIB website
4.6	Processes in place for the highest governance body to ensure conflicts of interest are avoided	21
4.7	Process for determining the qualifications and expertise of the members of the highest governance body for guiding the organisation's strategy on economic, environmental, and social topics	16, EIB website
4.8	Internally developed statements of mission or values, codes of conduct, and principles relevant to economic, environmental, and social performance and the status of their implementation	14, 21, 43

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4.9	Procedures of the highest governance body for overseeing the organisation's identification and management of economic, environmental, and social performance, including relevant risks and opportunities, and adherence or compliance with internationally agreed standards, codes of conduct, and principles	16
4.10	Processes for evaluating the highest governance body's own performance, particularly with respect to economic, environmental, and social performance	16, 33, EIB website
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4.11	Explanation of whether and how the precautionary approach or principle is addressed by the organisation	43
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4.15	Basis for identification and selection of stakeholders with whom to engage	27, 36
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4.17	Key topics and concerns that have been raised through stakeholder engagement, and how the organisation has responded to those key topics and concerns, including through its reporting	4, 29
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EC3	Coverage of the organisation's defined benefit plan obligations	EIB website
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EN2	Percentage of materials used that are recycled input materials	97-99
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EN22	Total weight of waste by type and disposal method	99
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F1	Description of environmental policies applied to core business lines	59-79
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F5	Description of process(es) for improving staff competency in addressing environmental risks and opportunities	63
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LA2	Total number and rate of employee turnover by age group, gender, and region	107
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LA7	Rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities by region	105
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LA9	Health and safety topics covered in formal agreements with trade unions	105
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LA11	Programmes for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings	111
LA12	Percentage of employees receiving regular performance and career development reviews	EIB website
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Report assurance statement from the Centre for Sustainability and Excellence (CSE)

Assurance Statement Introduction

The European Investment Bank (EIB) has commissioned the Centre for Sustainability and Excellence (CSE) to provide external assurance and commentary on its Corporate Responsibility Report 2006.

CSE is an international network of specialists, as well as a think tank, which advises and coaches corporations and governments around the world, seeking to improve their sustainability performance with practical solutions.

Assurance Statement

We have performed an independent assessment of the EIB Report 2006 and the underlying structures, procedures and performance results.

Our approach was based on emerging best practices for self assessment and sustainability reporting, including the EFQM framework for CSR and Global Reporting Initiative (G3) guidelines.

We gathered and assessed evidence, on a sample basis, using the RADAR methodology, which is based on the evaluation of Approach, Deployment, Assessment and Review of the results of the CR Report key elements.

This work included an independent assessment performed as necessary, through interviews, collection and validation of sample quantitative data for EIB in 2006, as described in the Report.

We believe that our work provides an appropriate and sound basis for our general conclusions mentioned below:

- the EIB CR Report provides a balanced representation of CR initiatives and performance information in accordance with EIB corporate strategy
- EIB has applied effective structures and procedures to identify, understand and respond to key CR aspects, including stakeholder engagement, environmental and social initiatives and CR performance measures affecting corporate results
- EIB has launched large scale programmes for sustainable lending, although some of the programmes are still at an early stage
- EIB has developed a Corporate Responsibility Strategy that is on the way to full integration into all directorates

Luxembourg, 31 January 2007



Nikos Avlonas
Executive Director CSE
www.cse-net.org

Glossary

ACP	African, Caribbean and Pacific	ECOFIN	Economic and Financial Affairs Council
ADEME	Agence de l'Environnement et de la Maîtrise d'Énergie	EDPS	European Data Protection Supervisor
AFD	Agence Française de Développement	EE	Energy Efficiency
ALA	Asia and Latin America	EESC	European Economic and Social Committee
ASM	Active Staff Member	EFQM	European Foundation for Quality Management
ASTF	Association pour la Santé au Travail du Secteur Financier	EIA	Environmental Impact Assessment
BREEAM	Building Research Establishment Environmental Assessment Method	EIB	European Investment Bank
BSTDB	Black Sea Trade and Development Bank	EIF	European Investment Fund
CBOs	Community-based Organisations	EMAS	Eco-Management and Audit Scheme
CCFF	Climate Change Financing Facility	EMS	Environmental Management System
CCTAF	Climate Change Technical Assistance Facility	EMP	Environmental Management Plan
CDM	Clean Development Mechanism	ENVU	EIB Environment Unit
CEB	Council of Europe Development Bank	ERDF	European Regional Development Fund
CFE	Carbon Fund for Europe	ETAP	Environmental Technology Action Plan
CGAP	Consultative Group to Assist the Poor	ETS	Emissions Trading Scheme
CHP	Combined Heat and Power	EU	European Union
CIP	Competitiveness and Innovation Programme	EUR	Euros
CO ₂	Carbon dioxide	EV	Operations Evaluation
COP	Corporate Operational Plan	FASL	First Allied Savings and Loan, Ghana
COPEC	Joint Committee on Equal Opportunities for Men and Women	FATF	Financial Action Task Force
CSOs	Civil Society Organisations	FEMIP	Facility for Euro-Mediterranean Investment and Partnership
CSP	Concentrating Solar Power	FP7	7th Framework Programme
CSR	Corporate Social Responsibility	FSC	Forest Stewardship Council
CVs	Curricula Vitae	GHG	Greenhouse gas
DG REGIO	Regional Policy Directorate-General	GRI	Global Reporting Initiative
DIAF	Development Impact Assessment Framework	GWh	Giga Watt hour
DPO	Data Protection Officer	HR	Human Resources Department
EAP	Environment Action Programme	IF	Cotonou Investment Facility
EBL	Equity Bank Limited, Kenya	IFIs	International Financial Institutions
EBRD	European Bank for Reconstruction and Development	IG	Inspectorate General
EC	European Commission	IMF	International Monetary Fund
ECCP	European Climate Change Programme	IPPC	Integrated Pollution Prevention and Control
		ISO	International Standards Organisation environment management systems and standards

Glossary

i2i	Innovation 2010 Initiative	RSFF	Risk Sharing Finance Facility
IUCN	International Union for the Conservation of Nature and Natural Resources / The World Conservation Union	SARS	Severe Acute Respiratory Syndrome
JASPERS	Joint Assistance to Support Projects in European Regions	SEA	Strategic Environmental Assessment
JBIC	Japan Bank for International Cooperation	SMEs	Small and medium-sized enterprises
JEREMIE	Joint European Resources for Micro to Medium Enterprises	TENs	Trans-European Networks
JESSICA	Joint European Support for Sustainable Investment in City Areas	UNEP/MAP	United Nations Environment Programme / Mediterranean Action Plan
JI	Joint Implementation	UNESCO	United Nations Educational Scientific and Cultural Organisation
LGTT	Loan Guarantee for TEN-Transport projects	UNFCC	United Nations Framework Convention on Climate Change
MA	Millennium Ecosystem Assessment	USPAS	Health, Prevention and Social Unit
MAP	EU's Multi-Annual Programme for Enterprises 2000-2005	UWWTD	Urban Wastewater Treatment Directive
MCCF	Multilateral Carbon Credit Fund	VERs	Verified Emission Rights
MDGs	UN Millennium Development Goals	WFD	Water Framework Directive
MEA	Multilateral Environmental Agreements		
MoU	Memorandum of Understanding		
MWe	Megawatt		
NGOs	Non-Governmental Organisations		
NEFCO	Nordic Environment Finance Corporation		
NIB	Nordic Investment Bank		
OCTs	Overseas Countries and Territories		
OECD	Organisation for Economic Co-operation and Development		
OLAF	European Anti-Fraud Office		
PPF	Project Preparation Facility		
PEFC	Programme for the Endorsement of Forest Certification schemes		
ppm	Parts per million		
PPP	Public-Private Partnership		
PRSP	Poverty Reduction Strategy Paper		
RDI	Research, Development and Innovation		
RE	Renewable energy		

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Corporate Responsibility Report – Feedback form

We hope that you have found this year's report to be an interesting and engaging read. We would be grateful if you would fill in the following form and return it to us with your comments. Thank you.

FEEDBACK FORM – STRICTLY CONFIDENTIAL

Please return by fax to: +352 43 79 33 62

Company name and address

.....

Name

Title

Portfolio Manager Analyst Rating Agency Civil Society Group

Non-Governmental Organisation Other

E-mail

EIB CSR REPORTING AND PERFORMANCE

1 Overall, how would you rate the EIB 2006 Corporate Responsibility Report?				
Not at all useful		Extremely useful		
1 <input type="checkbox"/>	2 <input type="checkbox"/>	3 <input type="checkbox"/>	4 <input type="checkbox"/>	5 <input type="checkbox"/>
2 Please rate this report on the following criteria:				
	Poor	Fair	Excellent	
User-friendliness	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Completeness	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
3 Based on this report how do you rate the EIB's contribution to sustainable development?				
Poor		Strong		
1 <input type="checkbox"/>	2 <input type="checkbox"/>	3 <input type="checkbox"/>	4 <input type="checkbox"/>	5 <input type="checkbox"/>
4 Has this report changed your opinion of the EIB with regard to CSR?				
Yes <input type="checkbox"/>	No <input type="checkbox"/>			
If Yes:				
Much worse		Much better		
1 <input type="checkbox"/>	2 <input type="checkbox"/>	3 <input type="checkbox"/>	4 <input type="checkbox"/>	5 <input type="checkbox"/>

5 What information would you like to see in future reports?

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6 Questions: (you can also e-mail questions to alcarpe@eib.org)

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7 If the EIB holds presentations relevant to stakeholders in the future, would you be interested in attending?

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