

New strategy: *"Stabilisation within the EU favours EIB-lending outside the Union"*

EIB President Philippe Maystadt says that the Bank is ready to limit growth of its lending in the Member countries in order to give more room for activities outside the Union.

"This strategy has to be seen against the background of a rapidly changing economic and political environment, of calls for greater accountability and transparency from various stakeholders, of greater emphasis on environment and

social issues as well as of discussions on the proper role of international financial institutions.

The Bank is to focus more on the quality of its lending activity where its value added can clearly be demonstrated.

The foundation of the strategy of the EIB Group is clear: the EIB has to be a "policy-driven" public bank with the mission to contribute to the policy objectives of

the European Union as laid down in the Bank's Statutes and in decisions of the European Council. In 2001 already, the volume of lending in the Union should not exceed the EUR 30 billion level reached last year. This will leave adequate room for other areas, in particular, in the Accession Countries and the Mediterranean."

Philippe Maystadt was speaking at the EIB Board of Governors' annual meeting in Luxembourg in June (see page 2).

EIB capital to be increased

The EIB Governors agreed on the start of discussions in the Board of Directors in order to enable the next Board of Governors' meeting in June 2002 to have a proposal for a capital increase on its agenda.

New missions given to the Bank (in particular i2i and an increased effort towards preparation for enlargement) will require consideration of a further capital increase. The statutory limit on loans outstanding could be reached in 2003.

"This is the result of the new missions and mandates given to the Bank, but it is also due to a strong level of activity in the "traditional" core activity areas, such as regional development and TENs," EIB President Philippe Maystadt said.

"To avoid a significant disruption of the lending activities of the Bank, proposals for a capital increase would have to be considered at the next Board of Governors' meeting in June 2002." ■



EIB Forum 2001 in October in Sorrento, Italy, will focus on "Cooperation across the Mediterranean" (see page 15).

The EIB and the European Commission (EC) are to strengthen cooperation in order to boost research and innovation. The aim is to make most of the grants given by the EC and the loans/risk capital granted by the EIB Group for research projects and innovative enterprises (see page 6).

Contents

EIB Governors discuss future strategy "Stabilisation within the EU favours lending outside the Union"	2
EIB in 2000	3
EIB capital to be increased	4
First EIB loan to Russia for cleaner Baltic Sea	5
Cooperating to boost research and development	6
The EIB Group and the Commission meet Europe's audiovisual professionals in Cannes	8
New environmental statement	11
New Mediterranean Partnership Facility	14
EIB Forum 2001	15
Venture capital: EIF goes from strength to strength	16
IFIs discuss SME support to enhance effectiveness	17
Ex-post monitoring at the EIB: The Kenya Global Private Enterprise (GPE) Scheme	18
Appointment	20
EIB Directors' meeting in Cairo	20
2001 EIB prize awards	20

Denmark's Minister of Economic Affairs, Marianne Jelved, took over chairmanship of the EIB Board of Governors up to June 2001



EIB Governors discuss future strategy

"Stabilisation within the EU favours lending outside the Union"

EIB President Philippe Maystadt says that the Bank is ready to limit growth of its lending in the Member countries in order to give more room for activities outside the Union.

Maystadt was speaking at the EIB Board of Governors' annual meeting in Luxembourg in early June. The Board of Governors consists of Ministers nominated by each of the Member States,



usually Ministers of Finance, Economic Affairs or the Treasury.

"The foundation of the strategy of the EIB Group is clear: the EIB has to be a "policy-driven" public bank with the mission to contribute to the policy objectives of the European Union as laid down in the Bank's Statutes and in decisions of the European Council. Therefore, the Bank is to focus more on the quality of its lending activity where its value added can clearly be demonstrated.

The EIB's Corporate Operational Plan (COP) covering the period 2001-2003 specifies that, in 2001 already, the volume of lending in the Union should not exceed the EUR 30 billion level reached last year. This will leave adequate room for other areas, in particular, in the Accession Countries and the Mediterranean and at a later stage the ACP countries, Asia and Latin America.

This trend is expected to be confirmed in the preparation of the next COP covering the period 2002-2004, which will go further in terms of definition of more precise priorities."

Philippe Maystadt says that the Bank's strategy has to be seen against the background of a rapidly changing economic and political environment, of calls for greater accountability and transparency from various stakeholders, of greater emphasis on environment and social issues as well as of discussions on the proper role of international financial institutions.

Focus on core activities

"This implies an increased focus on the real priorities of the Bank; we must concentrate on the most important core activities, while limiting our activity in other areas.

EIB IN 2000

EIB activity last year was marked by setting up and starting to implement the Innovation 2000 Initiative (i2i – focusing on the hightech sector and human capital) and by the constitution of the EIB Group following the reform of the European Investment Fund (EIF).

Activities overall progressed strongly with total lending amounting to EUR 36 billion, of which EUR 30.6 billion within the Member States.

Within the EU

Within the European Union, 73% of individual loans went to projects located in regional development areas with over 50% towards Objective 1 regions, fitting with the EIB's core mission, the promotion of economic and social cohesion within the Union.

Direct lending into health and education throughout the Union more than doubled at EUR 1.2 billion. Another important feature last year was the substantial increase in finance for SMEs, with over EUR 6.2 billion advanced, a 44% increase over 1999 mainly coming from global loan activity (EUR 5.7 billion) evidencing the close co-operation with the banking sectors in the Union. The implementation of i2i started rapidly in the Member States with already EUR 1.7 billion

advanced in 2000. A special effort was also made to increase the share of projects safeguarding the natural and urban environment, which received over EUR 8.4 billion of loans in 2000 (+35%).

Outside the EU

A similar effort concerning the environment was made in the candidate countries of Central and Eastern Europe where environmental projects amounted to almost a quarter of total EUR 2.9 billion lending.

In the other regions, there was strong activity in the Mediterranean region (with EUR 1.2 billion of loans) and Asia and Latin America (EUR 532 million). Activity in the ACP and South Africa also progressed with EUR 540 million of loans. In spite of difficult circumstances in the Balkans, the Bank is making good progress in fulfilling its remit under the Stability Pact for South Eastern Europe with financing completed on 10 (out of 11) Quick-Start projects for which the Bank is responsible.

Borrowings

The Bank raised last year EUR 29.0 billion through 149 issues in 10 currencies. The share of the three major currencies of borrowings (EUR, GBP and USD) remained stable at over 90% of total borrowings.

Due to favourable market conditions, there was however a significant increase in GBP issues (representing nearly 50% of total borrowings before swaps) with lower proportions for USD and EUR. The euro remained as main currency of disbursement.

Balance sheet and profit and loss account

The Board of Governors unanimously approved the Bank's 2000 Annual Report and balance sheet, which at the end of the year stood at EUR 219.2 billion, an increase of 9% compared to 1999. Total loans and guarantees outstanding amounted to EUR 200 billion compared to the statutory ceiling of EUR 250 billion.

Gross operating surplus came to EUR 1 345 million, a 13.3% increase compared to 1999, which represented a return on own funds of 6.16%. This sound increase in operating surplus can be attributed to rising treasury revenues (which were the main factor behind the decrease in the surplus last year) explained in particular by the upward trend in short-term interest rates throughout the year. Net interest margin between lending and borrowing -the largest contributor to net banking income- remained stable last year.

NB: Philippe Maystadt's statement in extenso is available on our website: [www.eib.org/What's new/Board of Governors annual general meeting](http://www.eib.org/What's%20new/Board%20of%20Governors%20annual%20general%20meeting).

Key sectors will be Trans-European Networks, environment, small and medium-sized enterprises, Innovation 2000 Initiative (i2i) areas such as high technology and human capital, and other projects clearly contributing to regional development, especially in the more depressed regions."

Closer cooperation with Commission

"To strengthen the policy lending activity, we believe that the Bank should develop a closer and deeper relationship with the Commission, to

become in particular a full partner in its programming activities. Sound progress has already been achieved with regular contacts in the fields of regional development, environment and climate change but also important i2i areas like research, telecoms and the audio-visual sector", Philippe Maystadt told the Board of Governors.

"A clear example is provided by ISPA, where an effective co-operation has been established. We believe that this could go further. Within the Union work continues in the context of the



**EIB President
Philippe Maystadt**



Belgian Minister of Finance, Didier Reynders, chaired the 2001 EIB Governors' meeting.

Community Support Frameworks. Outside the Union, we believe that the successful experience in the Mediterranean with the combination of technical assistance (funded by the Bank through METAP) and subsidies on EIB loans for environmental projects could be extended to Accession Countries and accelerate the implementation of projects urgently required."

New tool: Balanced Scorecard

Philippe Maystadt informed the EIB Governors that a Balanced Scorecard will be introduced in order to, for instance, help familiarise staff with the Bank's strategy and enable

them to understand how they can contribute to its implementation.

"We intend to introduce a Balanced Scorecard, a method tested in private and public organisations. The Balanced Scorecard, a management technique focusing on performance measurement fills the gap between the mission, the strategy, the COP/budget process and the performance measurements systems currently in place at the Bank. One of the main features of the BSC is that it covers not only financial indicators but also other non-financial dimensions of the business activities.

Its implementation will involve the establishment of a strategy map (a graphic depiction of the strategy), the development of related measures-/indicators, the setting of objectives-/targets based on the strategy and finally the cascading of these targets down to individual business units.

The BSC will be used as a support for policy implementation and as a communication tool throughout the Bank to help familiarise staff with the strategy and enable them to understand how they can contribute to its implementation. It will also be used as a management tool to obtain more



Laurent Fabius, French Minister of Finance, arrives to the EIB head office.

EIB capital to be increased

The EIB Governors agreed on the start of discussions in the Board of Directors in order to enable the next Board of Governors' meeting in June 2002 to have a proposal for a capital increase on its agenda.

New missions given to the Bank - (in particular i2i and an increased

effort towards preparation for enlargement) will require consideration of a further capital increase. The statutory limit on loans outstanding could be reached in 2003.

"This is the result of the new missions and mandates given to the Bank, but it is also due to a strong level of activity in the "traditional" core activity areas, such as regional development and TENs," EIB President Philippe Maystadt said.

"To avoid a significant disruption of the lending activities of the Bank, proposals for a capital increase would have to be considered at the next Board of Governors' meeting in June 2002."

The EIB Board of Governors approved in 1998 an increase in the Bank's capital to EUR 100 billion from EUR 62 billion. The increase took effect on 1 January 1999. The paid in capital

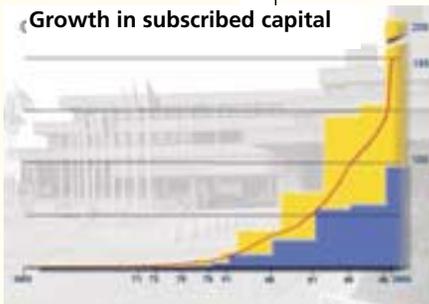
was set at 6% of the subscribed capital and was met from the Bank's reserves.

"The size of the future capital increase will clearly depend on the strategic orientations, which will set the priorities for the next few years.

Looking at our current and expected reserves, on the basis of an unchanged paid-in ratio of 6%, the Bank will be able to meet the objective of financial self-sustainability by itself financing the cash component of the increases in the paid-in capital and the Reserve Fund, without any cash contribution from its shareholders, if the capital increase does not exceed 75%."



Growth in subscribed capital



precise and systematic information so that the organisation as a whole can adjust and respond more rapidly.”

Increased transparency

“I would like to draw attention to important innovations in the way in which, in the last year, the EIB has made itself more transparent and open to public scrutiny. Of course, our principal responsibility remains to our Governors and Directors and we have developed close relations with the European Parliament, but we believe that others are entitled to know what the EIB is doing.

We have a new and revised disclosure policy for the Bank which has been circulated to our Board of Directors and is on our website. We now show on our website information on projects before our Board of Directors has

taken a decision on them, provided that the promoter agrees.

We have revised our Environmental Policy Statement, which is also on our website, and are following this up with statements about how we will help to implement European Union policies on Climate Change and the promotion of Sustainable Development.

For a few years now, the Bank has had a dialogue with representatives of civil society (NGOs). We are further developing this dialogue by arranging an open meeting with NGOs in the near future to discuss the new disclosure policy and policy on the environment.

At the Board of Governors’ meeting last year, I set out commitments to have all the Bank’s activities audited without exception. As the Chairman of the Audit Committee has made clear, the Management Committee



Luxembourg’s Prime Minister, Jean-Claude Juncker, surrounded by journalists at the EIB entrance.

has been at great pains to ensure that there is a comprehensive audit of the Bank’s activities. In the year ahead, we will continue to cooperate closely with the Audit Committee in achieving this aim. At the same time, it is important that the audit and control of the Bank’s activities does not lead to an excessive burden on the Bank’s relatively small staff. ■

First EIB loan to Russia for cleaner Baltic Sea

The EU Heads of State and Government decided at the EU Summit in Stockholm in March 2001 to authorise the EIB to participate in the financing of environmental investments in Russia of significant interest for the EU.

A EUR 100 million total ceiling has been fixed within the framework of the so-called Northern Dimension EU Initiative encompassing Poland, Estonia, Latvia, Lithuania and, above all, North West Russia.

EIB lending is to be channelled in close cooperation with other International Financing Institutions (IFIs) and on the basis of case-by-case authorisation by the EIB Governors. The financing is aimed, for instance, for sewage projects in St Petersburg and Kaliningrad.

The EIB will also participate together with other IFIs in the so-called Northern Dimension Environmental Partnership (NDEP). The aim is to step up cooperation and coordination between the IFIs

and the EU Commission as well as donor and recipient countries in order to meet environmental and energy efficiency challenges in the Northern Dimension area.



St Petersburg with a total of some five million inhabitants is today the largest single point source of pollution into the Baltic Sea. EU leaders have authorised the EIB to finance i.a. a sewage project in St Petersburg.

Cooperating to boost research and development



The EIB and the European Commission have formally endorsed the terms of a new agreement on research and development.

The Memorandum signed on 7 June 2001 by EIB President, Philippe Maystadt, and European Research Commissioner, Philippe Busquin, put the seal on this new type of partnership aimed at boosting investment in research and technological innovation in Europe by offering complementary forms of financial support.

In practice, the document establishes a framework for cooperation between the EIB and the Commission, defines common objectives, identifies areas for joint intervention and specifies the terms for cooperation. Crucially, this will include a regular exchange of information between the two institutions and their clients, on the understanding that each institution will continue to process its files according to its own procedures. The

agreement also provides for high-level meetings to monitor the progress of this cooperation.

Hence this action consists of coordinating the Commission's Research Framework Programme with the R&D component of the "Innovation 2000 Initiative" launched by the EIB in the wake of the Lisbon Summit. Its main objective is to maximise the impact of, on the one hand, EU financial aid, and, on the other, EIB loans and venture capital for research projects, infrastructure and innovative enterprises, thereby stimulating Europe's economies.

The terms and conditions of this cooperation agreement are set out in the Memorandum, the complete text of which is available on www.eib.org/pub/news/i2i/agre_memo.pdf

Europe lagging behind in R&D

Europe has potential for research of the highest standards and possesses many advantages in this field. However, investment in this area continues to be inadequate. The European Union invested scarcely 1.9% of GNP in research in 1998, compared to 2.6% for the USA and 2.9% for Japan. In addition, the exploitation of research results in Europe is very poor and certainly not commensurate with the Union's scientific knowledge base.

Overall, the EU is lagging behind the US and Japan in terms of technological and commercial performance as measured by the number of patents filed and volume of high-tech exports. Only a few EU Member States stand out from the rest, achieving results which are comparable to, and in

some cases better than, those of the leading countries in this domain.

Furthermore, it is clear that high technology firms, and especially start-ups and spin-offs, are the key to converting research results into innovation, with substantial socio-economic benefits. In Europe, 50% of new jobs are generated by these high-tech enterprises, which represent only 4% of SMEs, yet these firms often struggle to obtain the funds necessary for their emergence and growth.

Only the appropriate environment can facilitate innovation by means of new SMEs, spin-offs and scientific networking and endeavours. Special measures are needed to foster European R&D.

A strategy for stimulating innovation in Europe

In Lisbon, in March 2000, the European Council set for the European Union the goal of becoming "the most competitive and dynamic knowledge-based economy" and underscored the need to work towards the creation of a genuine "European Research Area".

Its strategy consisted of establishing the necessary conditions to amplify the impact of European research efforts by enhancing the coherence of research activities and policies. In particular, the Council asked the EU institutions to take the requisite steps to improve the networking of research projects and bolster investment in research and technology. It involved the EIB in this objective by inviting it to launch the "Innovation 2000 Initiative" (i2i).

At the Stockholm Summit, in March 2001, the European Council repeated this message, emphasising that Europe must do more to harness research and finance talent to ensure that European ideas reach the European marketplace first. Furthermore, it noted the application and achievements of the EIB's "i2i" and called on the Bank to step up its support for R&D.

To date, the EIB has already committed some EUR 4.5 billion in loans under "i2i", including EUR 1.3 billion earmarked for some ten R&D projects in 5 EU countries, e.g. "Heidelberg Bioscience Infrastructure" in Germany - on which the European Molecular Biology Laboratory, also supported by the European Commission, depends (see box)

- a project consisting of construction of biology research laboratories and incubator facilities for small companies (EUR 61 million EIB loan). In addition, Alcatel has set up a major R&D programme in France and Spain in the telecommunications sector focusing on optical fibres (EUR 350 million EIB loan).

A further dozen or so projects in France, Sweden, Portugal and Italy, representing some EUR 3.4 billion in loan applications, have already been submitted to the EIB and are currently under appraisal. The cooperation and exchange of information between Commission and EIB experts is also certain to lead to other requests for financing in the coming months.

In a public statement at the signing of the Memorandum, EIB President Philippe Maystadt affirmed that he has no doubt that "this new form of cooperation between the two institutions will enhance the impact of their respective efforts in support of research and innovation in Europe".

Sabine Parisse

Information and Communications
Department
+352 4379 3138
s.parisse@eib.org

The EIB and Commission join forces to support European research and development

EIB/EU cooperative action has begun in three specific areas:

- stimulating research and technology development projects and exploiting their results

Since Europe is lagging behind in the R&D field, efforts must be pooled and stepped. Certain research projects which are currently excluded from the Union's Framework Programme (the main instrument for organising and financing research at Community level) could be partly supported by the EIB and the European Investment Fund (EIF). Others could attract a combination of EU and EIB assistance. The European Molecular Biology Laboratory (EMBL) provides an illustration of how a research centre can benefit from the two institutions' complementary financing facilities. It is shortly expected to be awarded grants totalling EUR 19.4 million over 3 years from the Framework Programme for research into bioinformatics. At the same time, the EIB has approved a loan of up to EUR 29 million to EMBL for financing incubators for small companies in Heidelberg.

- underpinning research infrastructure

Funding for research infrastructure, and especially for setting up facilities requiring long-term finance, is often difficult to obtain. Here too, EIB loans can complement EU grants to ensure the maintenance and development of such infrastructure. There are several examples of large-scale EU-funded facilities which could attract EIB loan finance, such as the GEANT project linking national research networks, and EMMA, the European Mutant Mouse Archive.

- venture capital for promoting high-tech companies and incubators

The thousands of projects funded by the EU bring together tens of thousands of researchers and offer numerous opportunities for investors. Complementary financial resources, vital to foster the emergence and growth of fledgling companies, will be made available not only through EIB loans (e.g. EMBL), but also by the EIF – the EIB's specialist venture capital arm.

Several such cases already exist, such as Imstar - a French company forming part of a consortium which obtained a EUR 1.3 million grant from the Framework Programme as well as attracting capital from Vente, a French venture capital fund backed by the EIF.

EIB President Philippe Maystadt and European Research Commissioner Philippe Busquin signed the agreement on research and development.





EU Commissioner Viviane Reding and EIB President Philippe Maystadt in Cannes

The EIB Group and the Commission meet Europe's audiovisual professionals in Cannes

The European Commission and the European Investment Bank Group (EIB Group) have joined forces to offer the European film and audiovisual industry a range of financial products and budgetary aid instruments enabling it to take up the cultural and technological challenges it faces in a globalised economy.

The combined input of the EIB Group and the European Commission is set to total some one billion euro over the next few years.

The initiative spearheaded by the two institutions was promoted against the backdrop of the Cannes Film Festival on 17 May 2001. Ms Viviane Reding, European Commissioner whose portfolio embraces the Cultural and Audiovisual sectors, and Mr Philippe Maystadt, President of the EIB Group, chaired fruitful discussions with some 50 financiers and associations representing Europe's audiovisual industry.

The audiovisual profession warmly welcomed the ideas put forward during these discussions in Cannes and especially the custom-made financial products proposed by the EIB Group together with the European Union's Media Plus programme.

The EIB Group: More than EUR 500 million in loans and venture capital

The EIB Group's financial support for the audiovisual industry will take two forms: lending by the European Investment Bank for funding medium and long-term investment and operations involving its specialist subsidiary, the European Investment Fund (EIF), for strengthening SME equity and providing guarantees. Deploying a variety of financial engineering techniques in partnership with the European banking community, the EIB Group aims to increase the volume of funds available and improve the financial terms offered to those operating in the European film and audiovisual industry.

The EIB Group's "Audiovisual i2i" will bring together substantial financial resources: estimates based on some forty operations currently being appraised or finalised suggest that the EIB Group's lending at the outset could exceed EUR 500 million over the next few years.

Strong focus on SMEs

In the first instance, the EIB Group intends to promote Europe's audiovisual industry at SME level by offering tailored financial packages. In particular, two bespoke financial products are being made available for this purpose.

First, EIB credit lines ("global loans") extended to banks specialising in finance for small audiovisual production companies, firms creating or deploying audiovisual technologies and associated subcontractors. Some of these credit lines could be supplemented by State aid for film and television production, while others could include a profit/risk-

sharing element and benefit from external guarantee facilities.

Negotiations have reached an advanced stage between the EIB and its partners in the EU banking sector aimed at hammering out financing agreements with banks already pro-actively involved in financing the audiovisual industry in, for example, France, Germany and Italy, or keen to step up their operations in countries such as Spain, Luxembourg and the United Kingdom.

The EIB Group also plans to feed more finance into dedicated audiovisual venture capital funds through its EIF subsidiary, which specialises in early-stage equity participations of this kind. Acting as a “fund of funds” acquiring stakes in embryonic or expanding venture capital funds (VCFs), the EIF will

thus extend its activity into a highly specialist sector where a dearth of financial resources and pan-European players is hampering establishment of an effective venture capital market. Its operations will consist not only of taking up holdings in VCFs targeting the audiovisual sector, but also buying into multi-sectoral VCFs, such as the “TIME” (Telecoms/Internet/Multimedia/Entertainment) or “Digital Media” Funds, sponsoring new technologies and audiovisual media.

SMEs interested in seeking medium to long-term finance for their audiovisual projects or in strengthening their equity base by means of venture or investment capital are advised to enter into direct contact with the above intermediary banks or VCFs backed by the EIB Group. Once specific financial arrangements

are agreed, profiles of the intermediaries and the funds financed will be posted on the EIB’s and EIF’s websites at www.eib.org and www.eif.org respectively.

Products tailored to corporate needs

The EIB will also help large private or public-sector television and audiovisual production and film distribution groups to cover their infrastructure investment needs (studios, digitalisation facilities, broadcasting stations, etc.), creative enterprises (production of film “packages”) and distribution companies (digitalisation of catalogues).

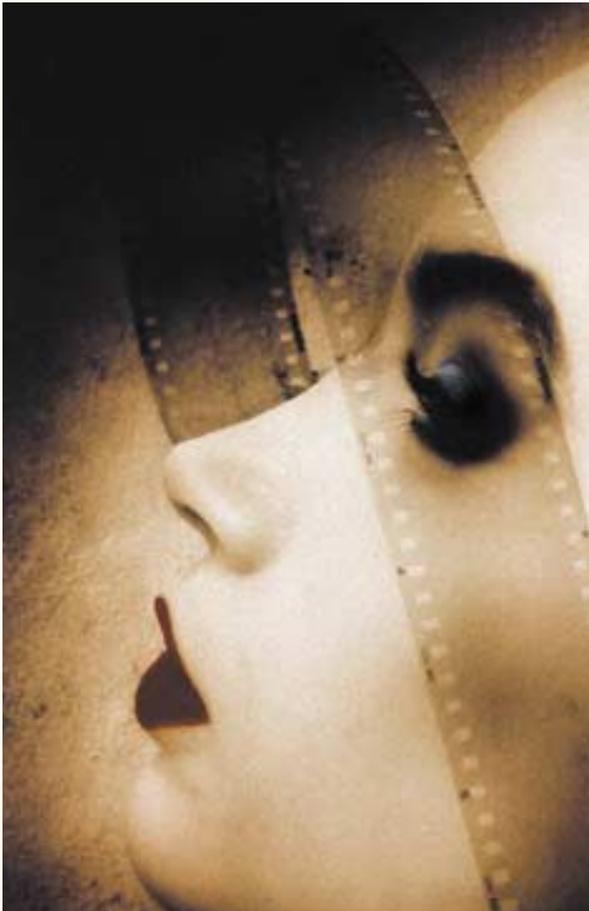
Support of this kind, complementing that provided by the banking sector, would centre on large-scale projects, with the EIB’s input likely to be of the order of EUR 20 million or more. It will be focused on the medium to long-term segment (5-10 years) and take the form of corporate or structured finance, the parameters of which would reflect any implicit risk factors. Loans could be advanced to individual project promoters either directly or via specific consortia. Eligible projects could cover one or more of the infrastructure, creative or distribution sectors listed above.

Large groups seeking finance for such ventures can approach the EIB direct without any red tape. All that is required is a profile of their group, a summary of the project, details of its financing arrangements and an indication of its anticipated impact.

PAN-European initiatives

A close study of the sector and listening to what European audiovisual professionals had to say in their meetings with the EIB Group during the first half of this year pointed up real interest in novel financial products designed on a pan-European basis. Given the diverse cultural backgrounds of the EU’s nation States, Europe’s audiovisual market is a considerably fragmented one.





Furthermore, producers are dependent upon central government subsidies and media expertise, not to mention each distribution or broadcasting network, tends to be highly localised.

Consequently, the EIB Group and the European Commission intend to formulate pan-European financial instruments designed to promote the emergence of cross-border projects and to enable operators to make the most of a theatre potentially spanning and thus reaching audiences throughout the EU. Depending upon the interest evinced by players in this market, such instruments could principally take the form of:

- **A pan-European venture capital fund** created at the initiative of the EIF and dedicated to acquiring equity in European firms actively involved in producing or co-producing films for distribution Europe-wide and/or firms developing innovative audiovisual technologies for use by operators with a foothold in a number of EU countries.
- **A risk-sharing global loan facility** devoted to financing SME film produc-

tion companies in several EU Member Countries. An instrument of this kind, geared to sharing risk factors between the EIB and the intermediary banks, would serve to give SMEs increased access to credit in a market where smaller businesses are frequently shunned by banks fearful of high risk exposure. Similarly, with a view to reducing the financial burden borne by SMEs drawing down global loan financing, the EIB will endeavour to ensure that EU budgetary funds covered part of the additional costs engendered by the risk-sharing formula.

In other words, deployment of such pan-European instruments could well go hand in hand with joint measures by the EIB Group and European Commission to harness Union budgetary resources, on the understanding that the decision-making authority sanctions such appropriations. ■

Henry Marty-Gauquié

Information and Communications Department
+352 4379 3153
h.marty@eib.org

Dovetailing operations between the EIB Group and the European Commission

The EIB Group's "Audiovisual i2i" is to be implemented in close cooperation with the European Commission's Media Plus programme. With an aid budget of EUR 400 million over 5 years (2001-2005), up 30% on the previous programme (1996-2000), Media Plus comes into play both downstream and upstream of production, by supporting the distribution and promotion of audiovisual products (cinema releases, television films, documentaries, animated films and multimedia) as well as by co-financing project development and further training of professionals.

The EIB Group and the Commission through its Media Plus programme have identified the following four areas where they will join forces to maximise the impact of their respective operations and make best use of available European resources:

- **Training:** creating opportunities for banking-sector staff and SME financial consultants to participate in Media Plus training programmes in order to increase their knowledge of the various branches of the audiovisual indus-

try; the main objective is to enhance the financial and banking community's understanding of the particularities of financing audiovisual schemes and building teams of specialist venture capital fund managers;

- **Development:** directing EIB Group financing towards projects with a pan-European dimension emerging from cooperation between companies receiving Media Plus financial assistance;

- **Distribution:** simplifying eligibility rules for Media Plus assistance for transnational distribution of films or other works where these have been produced by one or more enterprises financed, directly or indirectly, by the EIB Group;

- **Finance:** offering the Commission the scope to encourage access to the counter-guarantee facilities made available to the banking sector by the EIB Group (through the EIF, its specialist subsidiary) with a view to covering pan-European loan portfolios addressing the needs of SMEs in the European audiovisual sector.

New Environmental Statement

The EIB gives a very high priority to the protection and improvement of the environment, not only by supporting projects with environmental objectives, but also by examining carefully the environmental acceptability of every project it considers for financing. As an evolving process, the Bank's environmental policy reflects new European policies and global initiatives.

The effectiveness of our contribution to pushing forward the EU's environmental policies is to a great extent dependent on using the wide-ranging skills and experience of the Bank's staff in dealing with environmental issues.

Projects considered for EIB financing are appraised by multidisciplinary teams made up of financial analysts, economists and engineers from among the staff of the Bank. The Projects Directorate (PJ) of the Bank has lead responsibility for the environmental aspects of any project. One or more members of PJ, specialists in their sectors, are involved in all stages of the project cycle taking into account at each stage the environmental considerations among other issues. The environmental knowledge and skills of the staff of PJ are refreshed and developed on a regular basis. Other staff of the Bank also receive special environmental training.

We also, of course, co-ordinate our approach closely with other national and international institutions concerned with managing the environment.

Environmental problems are one of the major challenges of our time, and I can assure you that the EIB is determined to make a real impact on its protection and improvement for the future good of Europe.

Philippe Maystadt
President, EIB



The EIB and the Environment

Objectives, Operations and Approach

The EIB's target is to ensure that between a quarter and a third of individual loan operations in the European Union will support environmental projects, with a similar percentage in the EU accession countries.

Where the environment is concerned, the EIB's objectives are to:

- Preserve, protect and improve the quality of the environment;
- Protect human health;
- Ensure the prudent and rational utilisation of natural resources;
- Promote measures at an international level to deal with regional or worldwide environmental problems.

In financing any investment, the EIB applies the core environmental management principles of "prevention", "precaution" and "the polluter pays", as called for in EU policy.

Financing projects that directly protect and improve the environment

The protection and improvement of the environment - including its effects on human health and the quality of life - are essential to the balanced and sustainable development of all the regions of operations of the EIB.

The EIB targets environmental projects in four main fields:

- **The natural environment and nature protection**, such as municipal and hazardous waste management and "eco-efficiency" in industrial processes and products (to conserve resources and minimise the generation of waste);

- **Human health and the environment**, such as air pollution abatement and mitigation, the provision of safe drinking water and waste-water treatment;

- **The urban environment**, including urban renewal, urban transport and enhancement of the architectural and cultural heritage;

- **The environment on a regional and global scale**, including support for various regional sea and river basin environmental programmes.

More specifically, the environmental objectives of the EIB include the promotion of:

- **New environmental technologies**, within the framework of its "Innovation 2000 Initiative" (i2i) established to support the EU's objective to develop a European knowledge-based economy, including, for instance, the development of new technologies in transport and energy production and the use of information and communications technology (ICT);

- The EU's **climate change policy**, especially projects to abate and mitigate the emissions of greenhouse gases, notably improvements in energy efficiency and the introduction of less carbon-intensive

sources of energy, in particular renewable energy. This includes the development of projects that promote the objectives of the Kyoto Protocol and its arrangements for the transfer/acquisition of credits associated with projects designed to reduce or capture greenhouse gas emissions.

A common environmental approach to all projects

Environmental Assessment

All projects financed by the EIB have to be economically, financially, and technically viable as well as acceptable to the Bank in environmental terms. When weighing up the environmental acceptability of a project for Bank-financing, the following considerations are taken into account:

- The environmental impact of the project after abatement, mitigation or compensation;
- The characteristics, size and location (especially with respect to sensitive areas) of the project;
- The presence/absence of any legal compliance issues;
- The quality of the Environmental Im-

pact Assessment (EIA) where required - including the studies carried out and the nature/extent of public participation;

- The environmental management capability of the promoter, including the promoter's environmental awareness of, and capacity and willingness to act upon, environmental issues;

- The presence/absence of any major environment-related project risks.

Relevant EU environment legislation, used as a reference for assessing the environmental acceptability of EIB-financed projects, includes that for EIA, integrated pollution prevention and control (IPPC), environmental management and audit systems (EMAS), large combustion plants, water, waste and the protection of birds and habitats.

In the EU, as well as in general in the accession countries, all projects financed by the EIB should comply with both national and EU environmental law, including the EIA Directive.

In all other regions, all projects should comply with national law; projects in other regions are also judged in the light of local circumstances according to the principles and standards of EU environmental law.



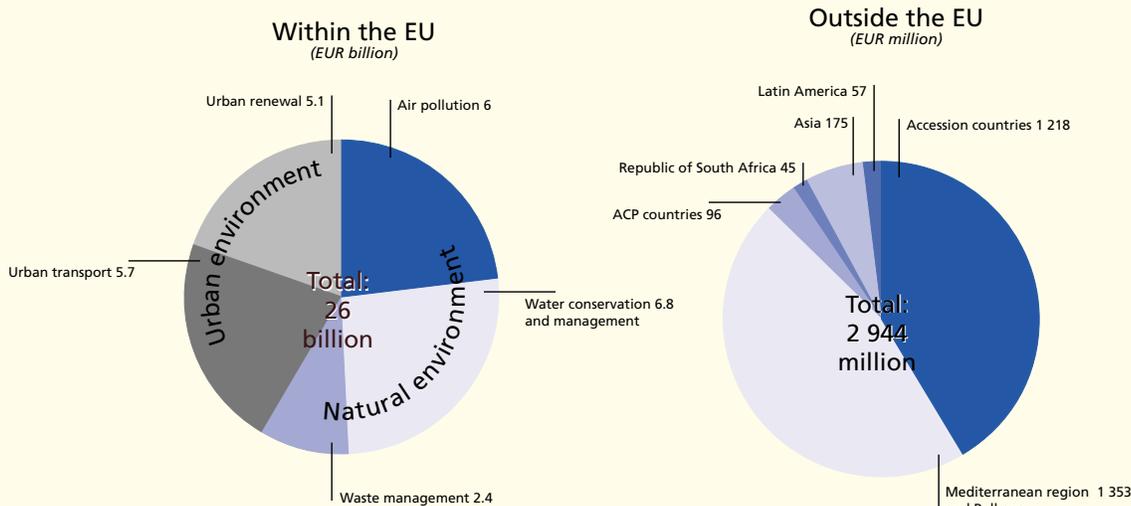
EIB Loans Protecting and Improving the Environment, 1996-2000

Over the past five years, EIB loans for safeguarding and improving the natural and urban environment in the European Union totalled about EUR 26 billion. In the same period, environmental projects were supported with EUR 1.2 billion in the accession countries and over EUR 1.5 billion in other third countries.

In practice, much of the EIB's support for environmental projects in the EU is focused on improvements in local and regional water resource management and air quality as well as the promotion of environmentally friendly industrial processes and products. The Bank also finances projects that aim to improve the quality of the urban environment, such as those to develop sustainable transport and to bring about urban renewal, including social housing in deprived areas.

In the accession countries, the environment is also a priority for the EIB, in view of the legacy of environmental damage inherited from the past but also their rich biodiversity. Nearly a quarter of the Bank's lending in the accession countries in 2000 went for environmental projects in the water, waste disposal, urban renewal and industry sectors. The Bank's policy is to support the transfer, implementation and enforcement of EU environmental principles and standards, to pave the way for a smooth accession. The Bank cooperates with the European Commission to develop a high quality pipeline of priority environmental projects in the Central and Eastern European region.

The EIB also finances a wide range of environmental projects in similar fields in other regions of the world. In the Mediterranean basin, for instance, the Bank supports environmental projects to help protect the shared resource of the Mediterranean Sea.



NB: The EIB's "Environmental Statement" in extenso and "EIB and Climate Change" are available on our website www.eib.org - What's new/ recent publications.

All projects should also comply with the obligations of multilateral environmental agreements to which the host country - and the EU in the case of a Member State - is a party. The promoter is responsible for legal compliance, whereas regulatory and enforcement tasks lie with the competent authorities.

The EIB applies the same approach to global loan projects - broadly, lines of credit arranged with qualified financial institutions for financing smaller-

scale investments - as to individual loans. Outside the EU, the Bank assists global loan intermediaries to follow specific procedures to support the capacity of the intermediary to finance environmentally acceptable investments.

The EIB attempts to estimate, where practical, the economic value of any environmental external costs and benefits that are likely to have a major influence on the project financing decision.

The Bank may set specific environmental conditions on its financing to ensure the environmental acceptability of the project during implementation and operation. A loan is only disbursed once the Bank is satisfied that its requirements have been fully met.

Environmental information collected during the monitoring and evaluation phases of the project cycle may be used by the EIB to draw lessons to improve future projects as well as for assessing and reporting environmental performance.

Mediterranean: New EUR 1 billion Partnership Facility

However, given the development needs of the region and its close ties with the EU, the EIB felt that a substantial increase in its lending would be needed if the Council's objectives for the region were to be met.

Following contacts between the EIB and the Council, the Fourth Euro-Mediterranean Conference of Foreign Ministers in November 2000 accepted the EIB's offer to contribute, in addition to its lending under mandate in the Mediterranean, an amount of EUR 1 000 million from its own resources and at its own risk (i.e. without Community guarantee), to be lent in the period up to January 2007.

This offer was further encouraged by the European Council at its meeting in Nice in December 2000, when it welcomed the possibility of mobilising additional EIB support for the Mediterranean countries, thereby giving a strong signal that EIB activity in the Mediterranean should be significantly strengthened.

The new Mediterranean Partnership Facility, as the additional lending envelope is called, was approved by the Bank's Board of Directors in April 2001 and authorised under Article 18 of the Statute by its Board of Governors in May.

The Facility will give concrete support to the underlying spirit of the Barcelona Process, namely the recognition of the mutual interest of the EU and the Mediterranean countries in the reduction of economic disparities and the strengthening of economic links between both sides of the Mediterranean.

The security structures applied to the operations financed will be such that their credit quality will be the same as that accepted for ordinary lending within the EU. The Bank will obtain adequate third-party security to cover both sovereign and commercial risk.

Projects financed will, in principle, be drawn from all the economic sectors normally eligible for EIB lending. Projects will be selected in accordance with the EIB's usual criteria regarding technical, financial and economic viability, while specific attention will be given to environmental impact.

In particular, it is intended that the Facility will contribute to the realisation of projects of regional and common interest between the EU and the Mediterranean partner countries, particularly in the communications and energy sectors and including links with the Trans-European Networks, thereby increasing trade, communications and transport of people both within the region and between the region and the EU and reinforcing the production and exchange of energy.

The new facility will provide a visible and structured framework for cooperation between the EIB and the countries concerned and will make possible the financing of well-defined priority projects.

Vivion Mulcahy

Operational Support and Administration Department
+352 4379 5465
v.mulcahy@eib.org

1. Algeria, Cyprus, Egypt, Gaza-West Bank, Israel, Jordan, Lebanon, Malta, Morocco, Syria, Tunisia, Turkey



The EIB has been lending from its own resources in the non-EU Mediterranean Countries (1) for many years, starting with Greece and Turkey in the 1960s, followed by significantly increased lending in the framework of the Financial Protocols that were concluded between the Community and the individual Mediterranean countries from 1976 onwards.

The EIB's lending in the Mediterranean assumed its present form in 1997, when the Council provided the EIB with a global budgetary guarantee for its lending outside the EU, including a ceiling of EUR 2 310 million for lending in the Mediterranean area. This lending mandate was replaced by a new one in 2000, with a ceiling of EUR 6 425 million for the Mediterranean for the period up to January 2007.

These lending envelopes support the EU Euro-Mediterranean Partnership and have made possible a considerable volume of EIB lending in the countries concerned.

EIB Forum 2001:

Focus on Mediterranean cooperation

This year's EIB Forum - on 25-26 October in Sorrento, Italy - will focus on cooperation across the Mediterranean.

The most recent Forum - Bremen (2000) - discussed regional development policies and lessons that can be drawn from experience within the European Union. Earlier Forums - Paris (1999) and London (1998) - looked at changes in the financial sector, and addressed - Stockholm (1997) and Madrid (1996) - regional cooperation across the Baltic and the

Mediterranean, while the first Forum - Amsterdam (1995) - focused on public-private partnerships for financing and operating infrastructure.

With this year's Forum, the EIB is taking up the issue already discussed five years ago, when the Barcelona Process had just started. The objective is to examine progress achieved since then and to contribute towards learning from each other's experience. This should also help deploying financing resources, be they

in the form of grant aids or loans, as effectively as possible.

The Forums are attended by high-ranking representatives from government and political circles, as well as the administrations and the industrial and banking sectors.

For further information, please visit our website www.eib.org/ EIB Forum 2001



25 October 2001

15:00 OPENING OF THE FORUM
Philippe Maystadt, *President of the EIB*

15:30 **Session I:**
The Barcelona Process – achievements, prospects and priorities for economic action

This session will assess progress achieved in different parts of the region and look at driving forces for, along with stumbling blocks to, closer partnership, free trade with the EU and among Mediterranean Countries and the latter's integration into the world economy.

Speakers

- **Pedro Solbes Mira**, *EU Commissioner for Economic and Monetary Affairs;*
- **Fathi Merdassi**, *Minister of International Cooperation and Foreign Investment, Tunisia;*
- **Ahmed Mahrous El- Dersh**, *Minister of Planning and International Cooperation, Egypt;*
- **Kemal Dervis**, *Minister of Economic Affairs, Turkey;*
- **Yannos Papantoniou**, *Minister of Finance, Greece;*
- **Laurent Fabius**, *Minister of Finance, France;*
- **Miguel Nadal**, *Secretary of State for Foreign Affairs, Spain;*

Chairman of the session: **Francis Mayer**, *Vice-President of the EIB*

26 October 2001

09:00 **Session II:**
Investment and Finance

Introduction by: **Prof. Giuliano Amato**, *European University Institute, Florence*

09:25 **Sub-Session 1:**
What bottlenecks are affecting economic development?

This sub-session will examine investment needs in different sectors, particularly infrastructure (water, energy, transport, environment, human capital), and investigate the issue of infrastructure planning for the MED region as a whole. It will further discuss problems in implementing projects along with policies that need to accompany infrastructure investment in order to reap its full benefits.

Speakers

- **Fathallah Oualalou**, *Minister for Finance, Economy, Privatisation and Tourism, Morocco;*
- **Henri Proglio**, *CEO of Vivendi Environment, France;*
- **Eloy Domínguez-Adame**, *CEO Grupo DRAGADOS, Spain;*
- **Lord Jacob Rothschild**, *J Rothschild Capital Ltd, United Kingdom;*

Chairman of the session: **Ewald Nowotny**, *Vice-President of the EIB.*

11:30 **Sub-Session 2:**
How to Finance Development

This sub-session will look at the region's financial sector and prospects for further reform. It will examine bottlenecks in financing infrastructure as well as industrial investment by larger and smaller companies.

Speakers

- **Othman Benjelloun**, *Chairman and Managing Director of Banque Marocaine du Commerce Extérieur, Chairman of "Groupement des banques marocaines, Morocco;*
- **Yavuz Canevi**, *Chairman of Turk Ekonomi Bankasi, Turkey;*
- **Ahmed Abdelkefi**, *President of Tuninvest Finance Group, Tunisia;*
- **Jean-Louis Biancarelli**, *Director General for Lending Operations outside the EU, EIB.*

Chairman of the session: **Alfred Steinherr**, *Chief Economist, EIB*

CONCLUSIONS

- **Massimo Ponzellini**, *Vice-President of the EIB*

13:30 CLOSING OF THE FORUM
Giulio Tremonti, *Italian Minister of Finance and EIB Governor for Italy*

Venture capital: EIF goes from strength to strength

The EIF is the specialist venture capital arm of the EIB Group



EIF venture capital operations have focused mainly on technological funds

Since September 2000, the European Investment Fund (EIF) has approved 37 venture capital operations for over EUR 650 million. Signed commitments, 28 in all, have amounted to EUR 446 million. In terms of both volume and quality, the EIF's venture capital business has now become a driving force within the European market.

In 2000, EUR 35 billion of venture capital was raised in Europe, compared with 170 billion in the United States. Initial estimates for 2001, however, seem to indicate that the gap between the two sides of the Atlantic is narrowing in this area, the "new economy" crisis being more sorely felt in the USA.

The EIF's operations have focused mainly on assistance for technological funds, closely linked to university research centres, as in the case of the "Heidelberg Innovation Fund", sub-

ject of the highest level of support extended to a fund dedicated entirely to biotechnology in Germany. The EIF also seeks to promote operations benefiting the Cohesion countries: participations have been approved for a fund in Italy (expressly targeting the Mezzogiorno and established in close cooperation with the Banco di Napoli and the Italian authorities), Spain is another case in point, as well as Greece, where an exemplary operation is under preparation, the EIF's first involvement in this country.

Moreover, the EIF has approved three operations in support of the Accession Countries.

The Fund also endeavours to foster new sectors, assuming the mantle of a genuine promoter: this approach was adopted for the first fund to be established for the Content Industries (internet, audiovisual and me-

dia) based in Finland. Other operations in this field are currently being set up on a pan-European basis, notably pursuant to the commitments made by the EIB Group during business meetings with the audiovisual industry at the recent Cannes Festival. In addition, thought is being given to venture capital operations linked to the research sector.

The investment priorities defined in the Bank's Corporate Operational Plan, approved in December 2000, are therefore more valid than ever: support for the high-tech sector, regional development and the sponsoring of novel pan-European funds with a critical mass comparable to that of the large North American funds. In this context, three participations in pan-European funds in the biotechnology and food-processing sectors have already been signed or approved.

The depression experienced by the dot com and associated share markets since mid-2000 has not hampered the EIF's activities – quite the opposite, in fact. No doubt some investors have been deterred from the sector by the prospect of firms going public and less certainty of stock market appreciations, and the venture capital supply appears to be diminishing. It cannot be denied that, against this backdrop, some funds are experiencing real difficulty in completing their financial packages. However, it is particularly at times such as these of market famine that the EIF comes to take on an even more essential and catalytic role actively responding to the sustained demand for finance and continuing emergence of numerous new companies in Europe, above all in the advanced technology sector.

Marc Schublin, EIF
+352 42 66 88 315
m.schublin@eif.org



Following an initiative of the President of the World Bank, a working group with membership from the main International Financial Institutions (IFIs) was established in 1999.

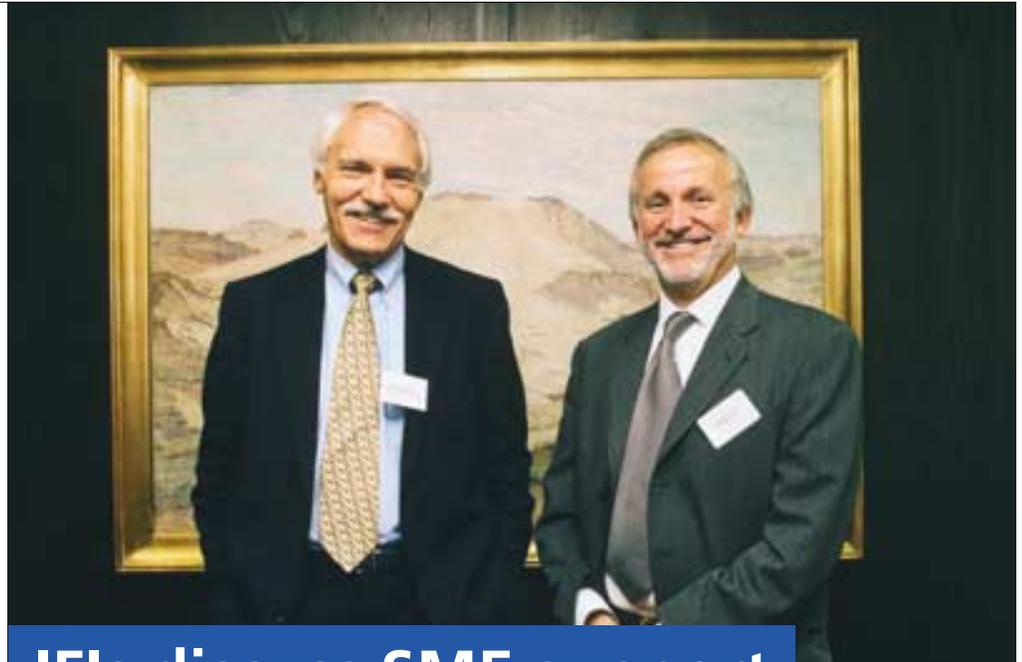
The objective of this IFI SME Working Group is to explore and develop means of enhancing the effectiveness of the direct or indirect assistance given by the IFIs concerned to small and medium-sized enterprises (SMEs).

The group meets periodically to discuss its ongoing activities and issues of current concern. The European Investment Bank hosted the most recent meeting at its headquarters in Luxembourg in April.

Together with those from the World Bank, International Finance Corporation (IFC) and the EIB, participants included representatives of the European Bank for Reconstruction and Development (EBRD), the German Investment and Development Company (DEG), the Netherlands Development Finance Company (FMO), the Austrian Development Finance Agency (FGG), the Spanish agency Cofides, the Industrialisation Fund for Developing Countries (IFU), CDC Capital Partners from the UK, and the European Development Finance Institutions (EDFI). The European Commission was also represented.

In keeping with the wish of all participating institutions to ensure that their assistance to SMEs is as effective as possible, the meeting discussed ways and means of improving *the measurement of the development impact* of that assistance. The measurement of development impact is called "Metrics" in the terminology of the group. The EIB outlined the methodology used in its study evaluating its global loan operations in Kenya. (See also pages 18-19).

This presentation generated considerable interest among participants and the group decided that, using the EIB's study as a basis, IFC would take the lead in preparing a specification for a pilot metrics programme that would be both simple and replicable.



IFIs discuss SME support to enhance effectiveness

Mr Harold Rosen (to the right), Director of the Small and Medium Enterprise Department of the World Bank, chaired the meeting. The EIB team was led by Mr Martin Curwen, Director of the Bank's African, Caribbean and Pacific (ACP) Department.

The meeting also discussed the development of *innovative financing vehicles*. Participants were particularly interested in a presentation by EIB of its local currency loans programme in the ACP countries. The group decided that IFU would collate and summarise the experience and information possessed by the various IFIs, concerning the blending of market and budgetary funds to mitigate the foreign exchange and credit risks of lending to SMEs. The group believes that this pooled information will be of great value to its members.

Finally, the group discussed *Country Mapping*. Country Mapping is an attempt to build up standardised data on conditions, or the enabling environment, for SMEs and their activities in the various countries. Important goals of country mapping include the strengthening and scaling up of SME activities on the basis of coordination among IFIs in ways that should increase IFI impact and efficiency in supporting SMEs.

The World Bank presented the results of the considerable amount of work it has already carried out in

this context. It has produced "Country Maps" on a number of countries. These country maps summarise, on the basis of specified criteria, the findings of detailed assessments of the business environment, the key services and players, and the near and medium-term prospects for SMEs in the countries concerned.

The European Commission presented its Diagnos Programme for the ACP countries, which carries out similar assessments in the ACP countries. The group decided that IFC and the Commission would exchange information on their respective programmes.

All of the IFIs assign considerable importance and resources to assisting SMEs and the group provides an excellent forum for the exchange of knowledge, information on best practices, and informal cooperation among its members. ■

Vivion Mulcahy
Operational Support and
Administration Department
+352 4379 5465
v.mulcahy@eib.org

Under-canvas
tourist hotel in
"Masai Mara"
nature reserve



Ex-post monitoring at the EIB

The Kenya Global Private Enterprise (GPE) Scheme

Interest rates
are market-
determined to
avoid
distortions

The Global Private Enterprise (GPE) scheme in Kenya is the EIB's largest global loan operation in the ACP countries. It is now into its fourth phase since the first operation, approved in 1991.

Over EUR 110 m has been allocated for some 230 investments in the productive sectors of the economy and linked services. Recently, the Bank carried out an ex-post monitoring programme.

The GPE loan Programme consists of loan facilities for medium to long-term investment by SMEs. It aims at promoting economic development by encouraging and facilitating new investments by private enterprises in key sectors of the economy.

Kenya is a country of exceptional potential: high performing sectors such as tea, tourism, horticulture and floriculture, successful at a world level; generally high entrepreneurial talent, quality professional services. But this is compromised by inadequate infrastructure, bureaucracy, volatile inputs to business decision-making (inflation, interest rates, GDP growth) and, as the consultant noted, a high degree of corruption, although this is unanimously condemned at every level and by all political sympathies.

How does the programme work?

The scheme is a two-tier or "Apex" operation. Funds are lent to Government and then channelled, via the Central Bank of Kenya (CBK), to selected com-

mercial and development banks, that are in competition for the resources, on basically a first come, first served basis. The banks use the funds back-to-back to make medium/long term loans to private sector clients for their investments.

The facility has been articulated along two lines: foreign currency lending (only for companies with foreign-exchange revenues) and domestic currency lending (primarily for companies with local currency earnings).

Business prospection, project selection and appraisal are carried out by the banks themselves, subject to conforming with the EIB's broad eligibility criteria; EIB funding may cover up to 50% of individual project costs.

After the appraisal, each finance request (containing information required by the EIB - e.g. financial structure, management expertise, environmental issues, employment, procurement) is forwarded through CBK to the EIB for agreement.

Interest rates are market-determined to avoid distortions within the country's financial system. For Kenya Shilling loans, a choice is possible between fixed rate and annually adjustable rate.

An independent consultant – Mr Serge Guetta – was asked to study the GPE operation, together with a member of the EIB's own monitoring department. After starting his career in development banking in Tunisia, Mr Guetta joined the World Bank, where he graduated to senior positions, finishing as Deputy Director of the Africa Projects Department. Prior to that he was the World Bank's Regional Manager at the Abidjan bureau and Resident Representative in Zaire. Since leaving the World Bank, he has been active in the private sector in Africa, notably with the Générale banking group of Belgium and currently as Chairman of the Banque Atlantique in Côte d'Ivoire. Mr Guetta was thus able to view the project from the dual optics of a development and commercial banker.



Government has paid, from its margin on the foreign currency lending, for a technical assistance unit to explain and promote the facility to enterprises, assist with bank training, help promoters with project documentation. A feature of the scheme has been ample publicity in the media, organised by the consultants, to ensure that the EIB facilities and means of access are known widely.

The analysis

On the point of starting the 4th phase of Kenya GPE Programme, EIB decided to study in depth the previous three phases, which had used up a total of EUR 100 million: EUR 55 million from the Bank's own resources (1) and EUR 45 million of EDF's resources (2).

The three phases analysed covered the period 1991, when the first operation was approved, until end-1999 when the EUR 100 million had been fully allocated. During those eight years a total of 191 investments were part-financed, contributing to a total investment of some EUR 350 million, an estimate based on the plans outlined in the forms submitted to the EIB by the intermediary banks. The average investment per project was about EUR 1.8 million, average allocation being of almost 30% of the investment, the balance being met by promoters' own funds and local banks loan facilities.

The intermediary banks play a crucial role in implementing the GPE programme. They take on the commercial risk and provide the additional finance necessary to carry out the projects. The scheme has also played a role in encouraging competition between them, leading to different conditions on offer. The publicity organised for the scheme has encouraged investors to "shop around" looking for the best response to their needs.

1. EIB's own resources are raised on the international capital markets.
2. The European Development Fund (EDF) is constituted by contributions from EU Member States. The EIB manages under mandate part of the EDF, which it uses primarily for risk capital operations.

Investments benefited all of Kenya's productive sectors and related services: agricultural processing, mechanical engineering, transport, horticulture, tourism, mining, etc. The linkage between investments is an important feature as the growth in primary sector activities spurred demand for production equipment and for packaging materials. About 65% of the funds were used for improvement of existing enterprises and 35% for setting up new activities. Some 55% of funds went to projects with primarily a foreign-exchange earning potential. Direct employment creation totalled close to 15 000 jobs.

In order to guarantee that funds are used as originally declared, all projects under the GPE programme are visited at least twice by the technical assistance unit: once during implementation and once upon entering into function. During the monitoring studies, an extra visit was organised to 33 sample projects, located in all parts of the country and representing a broad range of activities.

Strong points and possible improvements

The Consultant's report stressed that no misuse or wrong application of funds was detected, no project had been implicated in cases of corruption or other scandals. The four-stage process of project approval (commercial bank, technical assistance unit, Central Bank and EIB) might explain this.

Cost overruns where these occurred were more related to under-estimation of working capital requirements, than calculations of the physical investments, and banks were invited to look more attentively at this aspect.

The scheme was, and still is, open to virtually all productive sectors, an approach that has the advantage of its flexibility and covers all applications submitted. Nevertheless, the study concludes that sectoral options could be taken into consideration and priority given to projects that, for example, cre-



Tea blending and bagging unit

ate jobs at lower cost, export-oriented activities or import substitution projects, thus concentrating in those projects playing a catalytic role, having a significant multiplier effect for economic growth.

The report notes that the programme has had a positive impact on the banking sector, stimulating competition among banks and increasing the range of financial products they are able to offer in the field of long-term credit. The selection of development banks, local banks and subsidiaries of foreign banks as channels for the funding proved to be a good mix: local banks have been more receptive to assisting smaller projects of indigenous promoters, while foreign-owned banks have, to some extent, been operating with non-indigenous promoters, more involved in technology-based activities.

Another conclusion: transparent management has been vital for the success of GPE programme - publicity and the facilitating role of the technical assistance unit have contributed to make the scheme open to private enterprise with a viable project.

The GPE programme, as first developed in Kenya, has significance in the context of the new ACP-EU Partnership Agreement, which recognises the basic role of the private sector in any development strategy. The programme is an eight years long experience which provides some useful indicators on how to strengthen support for the private sector.

Mercedes Sendin de Cáceres
Information and Communications
Department
+352 4379 3134
m.sendin@eib.org

A technical assistance unit and ample publicity are basic features of the scheme

EIB Information

is published periodically by the Information and Communications Department of the European Investment Bank .

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

European Investment Bank
100, bd Konrad Adenauer
L - 2950 Luxembourg
Tel. +352 4379 - 1
Fax +352 43 77 04

www.eib.org
info@eib.org

Department for Operations in :
Italy, Greece, Cyprus and Malta
Via Sardegna, 38
I - 00187 Rome

Tel. +39 - 06 - 47 19 - 1
Fax +39 - 06 - 42 87 34 38

Athens Office
364, Kifissias Ave & 1, Delfon
GR - 152 33 Halandri/Athens
Tel. +30 (1) 682 45 17-9
Fax +30 (1) 682 45 20

Berlin Office
Lennéstrasse, 17
D - 10785 Berlin
Tel. +49 (0) 30 59 00 479 - 0
Fax +49 (0) 30 59 00 47 99

Brussels Office
Rue de la Loi, 227
B - 1040 Brussels
Tel. +32 (0) 2 235 00 70
Fax +32 (0) 2 230 58 27

Lisbon Office
Regus Business Center
Avenida da Liberdade, 110 - 2º
P - 1269-046 Lisbon
Tel. +351 - 21 342 89 89 or 21 342 88 48
Fax +351 - 21 347 04 87

Madrid Office
Calle José Ortega y Gasset, 29
E - 28006 Madrid
Tel. +34 - 914 311 340
Fax +34 - 914 311 383

European Investment Fund
43, avenue J.F. Kennedy
L - 2968 Luxembourg
Tel. +352 42 66 88 - 1
Fax +352 42 66 88-200

www.eif.org
info@eif.org

Lay-out: Marlène Hignoul
Studio 352

Photos: EIB Photographic library,
ImageBank.

Printed in Luxembourg by Buck
on Arctic Silk paper
awarded the "Nordic Swan"
environment label



QH-AA-01-002 -EN-C

Appointment

Department for Lending Operations in France and the Benelux



In August 2001, **Mr Laurent de Mautort** will succeed Mr Alain Bellavoine, who is retiring, as Director of the Department for Lending Operations in France and the Benelux.

Mr L. de Mautort has been Head of Division in the Department for Lending Operations in Germany and Austria since 1998, with special

responsibility for operations in Germany's Northern Länder. Previously, he was Head of the Industry and Banks Division at the EIB's office in Rome.

Mr de Mautort joined the Bank's Research Department in 1984 where for six years he was engaged in appraising projects in most EU Member Countries. Graduate of the *École des Hautes Études Commerciales* and with a doctorate in comparative economics, Laurent de Mautort was also, during his earlier career, an economist at the CEP II (Economic Forecasting Centre of the Commissariat Général du Plan) in Paris where he monitored, in particular, issues relating to the international competitiveness of French industry.

EIB Directors' Meeting in Cairo

As a sign of the importance which the Bank attaches to its activities in the non-member Mediterranean countries, the Board of Directors selected Egypt as the venue for its meeting away from the EIB's headquarters in Luxembourg.

Once a year, the Board meets in one of the countries where the EIB mounts its lending operations in order to examine at first hand the quality of the projects financed and to reinforce contacts with local government, financial and business representatives. The next Board meeting of this type will take place within the EU in Andalusia in 2002.

The meeting on 10 April 2001 took on a special dimension in the wake of the Euro-Mediterranean Con-

ference of Foreign Affairs Ministers in Marseilles and the European Council meeting in Nice. The latter had in fact requested the Bank to consolidate its activities in the 12 non-member countries of the region through introduction of a "Euro-Med" facility of EUR 1 billion to supplement the existing mandate for EUR 6 425 million, covering the period 2000-2006 (see page 14).



President Philippe Maystadt and Vice-President Francis Mayer met Egyptian Prime Minister Atef Obeid. EIB operations in Egypt since 1978 amount to EUR 2 billion.

2001 EIB prize awards

The 2001 EIB Prize winning essays have been selected:

1st prize (EUR 15 000): "Better Schools for Europe" - **Erich Gundlach & Ludger Wössmann**, Kiel Institute of World Economics, Germany.

2nd prize (EUR 7 000): "Pitfalls and virtues of simultaneous eco-

nomic and political transitions" - **Jan Fidrmuc**, Centre for European Integration Studies, Bonn, Germany.

3rd prize (EUR 3 000): "The evolution of the UK north-south divide: should we mind the gap?" - **Gilles Duranton & Vassilis Monastiriotis**, London School of Economics, UK.

The winning essays were selected by an independent Prize Jury. The awards will be presented at a conference in September 2001 and the EIB-Papers special issue with the winning essays will be available in autumn 2001 from: The Chief Economist's Office, EIB, L-2950 Luxembourg.