

European Investment Bank Group's activity in 2003

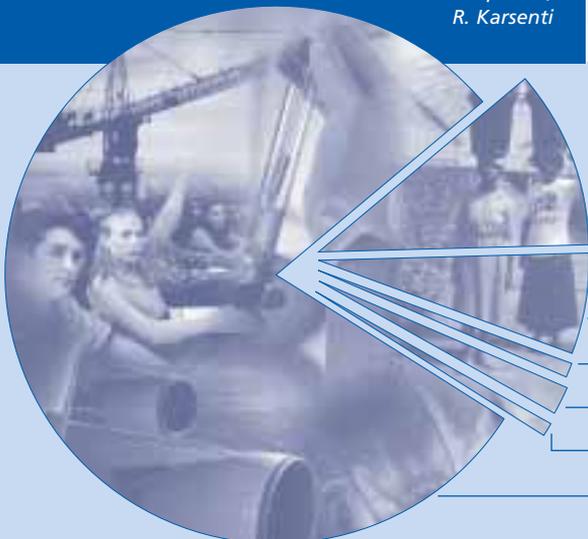


In 2003, the European Investment Bank (EIB) lent a total of EUR 42.3 billion (2002: 39.6 billion) for projects furthering the European Union's political objectives.

The European Investment Fund (EIF) – the EIB Group's specialised venture capital arm – took participations worth EUR 135 million in venture capital funds and provided a total of EUR 2.2 billion in guarantees for SME financing.

The EIB's annual Press conference on the EIB Group's activity in 2003 was held on 4 February in Luxembourg and 5 February in Brussels.

*From left to right,
R. Jacob, E. Uhlmann,
P. Maystadt,
F. Carpenter,
R. Karsenti*



Contracts signed in 2003 (EUR million)

Central and Eastern Europe + Cyprus and Malta	4 600
Mediterranean Partner Countries (including Turkey)	2 100
Western Balkans	372
ACP + South Africa	723
Asia and Latin America	348
European Union	34 200
Total	42 300

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The Press Release on the EIB Group's activity in 2003 is published on the EIB website (www.eib.org), together with the brochure "The EIB Group in 2003: projects financed" and ten briefing notes, providing further details on specific items.

In 2003, the **European Investment Bank (EIB)** lent a total of EUR^(*) 42.3 billion (2002: 39.6 billion) for projects furthering the European Union's political objectives. Financing in the EU Member States reached 34.2 billion, while 8.1 billion was made available in non-EU countries. Lending in the future Member States of Central and Eastern Europe plus Cyprus and Malta ran to a record 4.6 billion and in the Mediterranean Partner Countries (including Turkey) to 2.1 billion. In the Western Balkan countries the Bank assisted reconstruction and development projects to the tune of 372 million. Lending in support of EU development and cooperation policies totalled 1.1 billion, of which 463 million went to the ACP (Africa, Caribbean, Pacific) States, 260 million to South Africa and 348 million to Asia and Latin America.

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EIB's annual Press Conference

Presenting the EIB Group's results for 2003 to the accredited international press, EIB-President **Philippe Maystadt** highlighted the fact that the 2003 lending figures, with 80% of loans going to projects in the present and future EU Member States, confirmed that the EIB is first and foremost the financing arm of the European Union. The geographical spread of financing operations also confirmed the EIB's ability to respond to new assignments given to it by the European Council, for instance the Council's request to the Bank to step up its activities in the Acceding Countries and to extend and diversify its operations in the Mediterranean Partner Countries. A similar conclusion can be drawn from a sector breakdown of financing in 2003. Furthering an innovative and knowledge-based economy, as reaffirmed in December 2003 by the European Council's "**Action for Growth**" initiative, constitutes a top lending priority, alongside economic and social cohesion and regional development in an enlarged EU.

The President stressed that the EIB is not only the largest international lender but at the same time the leading international non-sovereign borrower, with a volume of 42 billion in 2003 and an estimated amount of over 45 billion in 2004. To raise these huge amounts of funds, the Bank will not only continue to issue large benchmarks, of 3 - 5 billion, but also carry out opportunistic borrowings in many different currencies in the international capital markets.

() Unless otherwise indicated, amounts in this publication are expressed in euro.*

The EIB's operational priorities

The operational priorities of the EIB as endorsed by the Board of Governors on 3 June 2003 and laid down in the Bank's Corporate Operational Plan 2004-2006 include:

- Economic and social cohesion and regional development in an enlarged Europe
- Implementation of the Innovation 2010 Initiative (i2i)
- Development of Trans-European and access networks
- Environmental protection and improvement
- Support of EU development and cooperation policies with Partner Countries, in particular through the Facility for Euro-Mediterranean Investment and Partnership (FEMIP) and the Cotonou Agreement.



To fund its lending the Bank launched 310 bond transactions on the international capital markets, raising an aggregate amount of 42 billion in 15 currencies.

As at 31 December 2003 the EIB's balance sheet total stood at 235 billion. Outstanding lending amounted to 207 billion and outstanding debt 195 billion.

Regional development in an enlarged EU

Promoting balanced **regional development** again featured as the top financing priority in 2003. Within the EU-15 countries, 16.3 billion was made available for projects in regional development areas in the form of individual loans and an estimated 6.5 billion under global loans (credit lines) to partner banks for the financing of SME ventures and smaller-scale public investment. Including the future Member States, regional development projects attracted 27.3 billion in loans, corresponding to 70% of the EIB's total lending in EU-15 and the future Member States.

Cooperation with the European Commission was expanded. The Bank is actively involved in project appraisal and information exchange on major projects for which ERDF, Cohesion Fund or ISPA Fund grants are sought.

In the future Member States (including Bulgaria and Romania) financing climbed to a record 4.6 billion (2002: 3.6 billion), consisting of 3.9 billion in individual loans and 660 million in global loans. This further consolidated the EIB's position as the leading external source of finance for investment in the future Member States, where its total lending since 1990 comes to some 25 billion.

Transport and telecommunications infrastructure again took pride of place (accounting for 37% of aggregate lending in those countries). Increasing attention was focused

on protecting the environment including water resource management (16%) in order to meet EU environmental standards. Loans for environmental and transport schemes were in many cases supplemented by grants from the EU's ISPA Programme. In the health and education sectors, where substantial infrastructural investment is also needed, lending was stepped up markedly (14%). Some 19% of loans were for investment in industry and the service sector, especially foreign direct investment, which contributes to the transfer of know-how and capital into the region. Particularly noteworthy here was investment by motor vehicle manufacturers and suppliers in the Czech Republic and Hungary. Global loans to partner banks (14%) provided finance for SMEs and for investment by local and regional authorities.

Innovative and knowledge-based economy

Through its **Innovation 2010 Initiative (i2i)** the EIB supports various objectives: the EU strategy for an information and knowledge-based economy adopted by the Lisbon European Council (2000); the target set by the Barcelona European Council (2002) of raising research and development (R&D) expenditure to 3% of GDP; and the European Action for Growth initiative agreed in December 2003.

Having originally pledged support for the Union's Lisbon strategy of strengthening Europe's economic vigour and competitiveness for the period 2000-2003, the EIB in June 2003 extended its commitment as far as 2010 (Innovation 2010 Initiative). The EIB Group supports i2i operations by medium- or long-term EIB financing and EIF participations in venture capital funds that provide SMEs with equity resources in the form of venture capital. i2i focuses on five economic sectors: research and development



Lending in new Member States after accession

As from accession in May 2004, most countries previously benefiting from the Bank's pre-accession support will be eligible for financing under its priority regional development remit. All the new Member States will qualify as designated assisted areas. A joint working group with the Commission's DG REGIO is currently examining how best to coordinate the Bank's activity with the operations of the Structural Funds that will be available to the future Member States after accession and to blend EIB loans with European Commission grants. Internally, the Bank has adjusted its organisation so as to fully integrate the new members.

(R&D); development of SMEs; technology networks; human capital formation; and the diffusion of innovation (including a dedicated programme for the audiovisual sector).

EIB loans totalling 6.2 billion were granted in 2003 under i2i (2002: 3.6 billion). At 1.4 billion, lending for the development of information and communications networks fell

short of expectations for a revival of investment activity in this sector. Lending for R&D investment, at 2.1 billion, remained at the previous year's level, while loans for educational infrastructure rose sharply to 2.7 billion (2002: 900 million).

i2i financing was channelled to both the EU's existing and future Member States. Particular emphasis was placed on projects in struc-

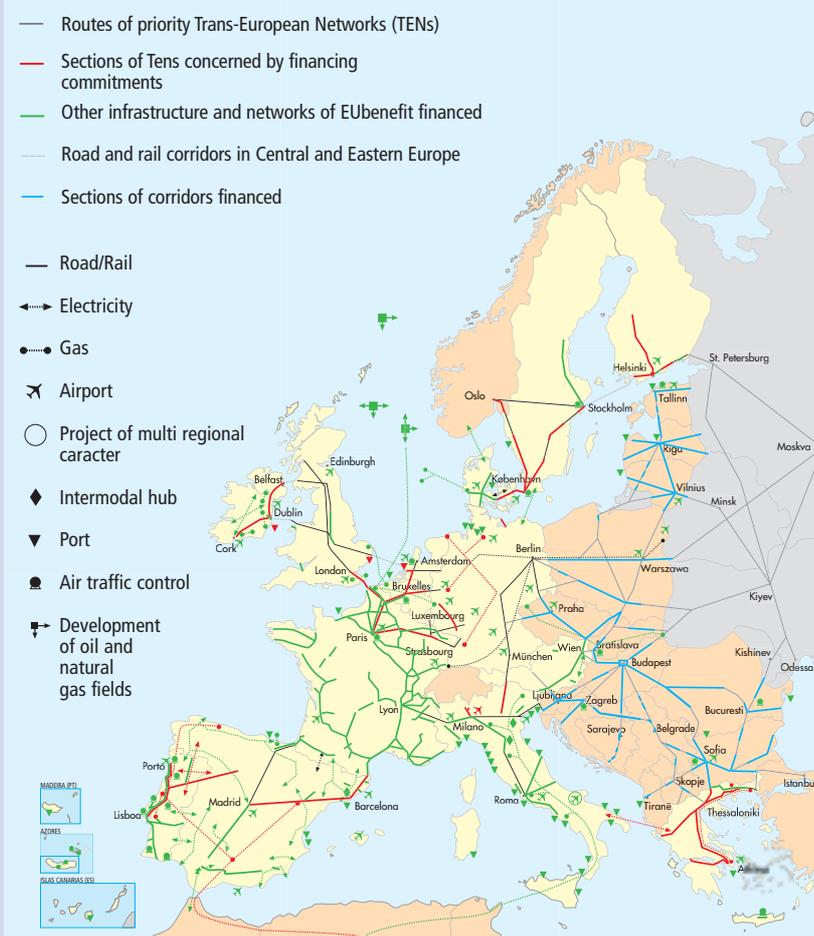
turally weak regions in order to help bring the less-developed regions into the knowledge-based economic fold.

Action for Growth aims at strengthening Europe's growth potential through increased investment in trans-European transport, telecommunications and energy networks (TENs), in innovation and in research and development including

Stepping up support for TENs

In support of Action for Growth, the EIB will launch a TENs Investment Facility endowed with 50 billion up to 2010. Up to 25 billion of the total will be made available over the coming three years for transport TENs, particularly for schemes under the Quick Start Programme. This programme, implemented in cooperation with the European Commission and the Member States concerned, focuses on (cross-border) projects having particular importance for the integration of the internal market in an enlarged Europe. In special cases it will be possible for loans to be granted for up to 75% of the investment costs and for periods of up to 35 years, with flexible repayment terms to boost the proportion of public/private partnerships (PPPs) in TENs financing. The Bank will use its Structured Finance Facility for this purpose, with risks related to new operations being covered by the facility's provisions.

Trans-European Networks 1993-2004



environmental technologies. Part of the initiative is a Quick Start Programme. This comprises a list of priority projects capable of being implemented speedily and can be supplemented by further well-developed projects.

The intention is to mobilise private capital alongside public resources and EIB loans to finance such projects. To this end, the EIB will offer innovative financing instruments (guarantees, structured finance and loan securitisation).

In support of Action for Growth, the EIB plans to lend up to 40 billion (including structured finance) to back R&D and innovation over the period to 2010. Lending of up to 20 billion is envisaged in the period to 2006 alone under Action for Growth, particularly for the Quick Start Programme and for projects in the future Member States.

The European Investment Fund (EIF) supports i2i by taking equity stakes in venture capital funds. Last year it signed 135 million in 17 operations, expanding its portfolio of participations to some 2.5 billion spread over 190 funds active in both the EU-15 and in the future Member States. The EIF operates as a fund of funds, with a bias towards funds specialising in early-stage financing and the hi-tech sector. It is now one of Europe's largest venture capital providers in this segment. Over 80% of the resources it has invested to date have been provided by the EIB, with further capital coming from the Commission. In 2003, the EIF was for the first time commissioned by a third party to invest venture capital on its behalf: the German Federal Ministry of Economics and Employment is making available a 250 million "ERP Facility" (funded from the former European Recovery Programme). The resources of this facility, supplemented by a further 250 million from the EIB/EIF, will be invested exclusively in venture capital funds focusing on German high-tech companies.

The EIF also assists the investment activity of SMEs indirectly by providing guarantees for the SME loan portfolios of financial institutions and public guarantee agencies. This back-up gives banks greater scope for lending to SMEs. In 2003, the EIF concluded 30 guarantee operations totalling 2.2 billion (2002: 1.2 billion), bringing its guarantee portfolio to 6.3 billion. Over 250 000 SMEs have thereby indirectly benefited from EIF guarantees.

Trans-European and access networks

EIB lending in support of TENs infrastructure projects within the EU totalled 5.3 billion. In the transport sector (4.6 billion), the principal financing operations concerned the construction of high-speed rail lines, improvements to the road

and motorway networks, the upgrading of airport infrastructure, and the expansion and modernisation of port infrastructure. A further 1 billion served to finance telecommunications projects, with another 390 million going towards energy TENs. In the future Member States, where infrastructure development and rehabilitation needs are immense, signatures for transport TENs projects amounted to close on 1.5 billion.

Environmental protection

The Bank has set itself the target of devoting 30-35% of its total annual individual loans in the present and future Member States to environmental projects. That level was comfortably exceeded in 2003, with individual loans in the EU-15 and

Support for regions affected by oil slick

In 2003, the EIB again demonstrated its solidarity and ability to react swiftly to environmental disasters and emergencies by granting an exceptional loan to counter the catastrophic economic and ecological effects of the oil spill from the tanker "Prestige" in Galicia, Asturias and Cantabria - the three Spanish regions worst affected.

Specifically, in March 2003 the EIB provided a global loan of 150 million aimed first and foremost at sustaining economic activity in these regions, with special emphasis on small and medium-sized enterprises (SMEs) and local authorities. In addition, the Bank deployed a 350 million emergency framework loan dedicated to financing a public investment programme for larger-scale projects. These loans carry particularly favourable terms which in exceptional cases may stretch to financing total project costs.





New initiatives to support EU climate change objectives

At the 9th Conference of Parties (COP) of the Kyoto Protocol in December 2003, EIB President Philippe Maystadt presented the Bank's new initiatives to support the EU's climate change policy. Key are an 500 million Dedicated Financing Facility in support of European businesses participating in the EU Emissions Trading Scheme and a Technical Assistance Facility to provide conditional grant finance in the framework of the Joint Implementation and Clean Development Mechanism of the Kyoto Protocol. EIB participation in a carbon equity fund to invest in carbon credits is also being explored.

The EIB, which has been working on climate change for several years in co-operation with the European Commission, is now again working closely with the Commission in developing and implementing its new initiatives, as well as with other parties specialising in the carbon markets.

the future Member States reaching a record 11.6 billion (2002: 10.5 billion), or 42%. Environmental projects financed encompassed schemes in the areas of local public transport, urban renewal, water and sanitation, waste disposal, energy saving and renewable energies. In the Mediterranean Partner Countries and the Balkans, 677 million in individual loans was advanced for environmental schemes and another 25 million in Russia, supporting a waste management scheme in St Petersburg. In the ACP (African, Caribbean and Pacific) Countries, 54.5 million went to environmental projects, at the same time contributing to the Bank's overarching goal of promoting sustainable development in these countries.

The Bank and the European Commission are operational partners in financing environmental investment projects, combining their resources particularly in the future Member States, the Mediterranean countries and the ACP countries.

The EIB recognises the strategic importance of climate change issues. In support of climate change policies, the Bank had set itself the target of stepping up the proportion of energy project lending that it devotes to renewable energy sources from 7 to 15%. Thanks to numerous wind power projects this has nearly been achieved, and to consolidate this positive result the Bank will expand its activity into other renewable energy areas. In 2005, the EU's Emissions Trading Scheme will start. This should help to increase the

cost-effectiveness of renewable energy and facilitate bank financing of such projects.

In 2003, the Bank published its first environmental report (2001-2002).

Support for EU development and cooperation policies

Lending in the **Mediterranean Partner Countries** totalled 2.1 billion in 2003, the first operational year since the launch of the Facility for Euro-Mediterranean Investment and Partnership (FEMIP). More than a third of the financing directly promoted the growth of private businesses, through foreign direct investment, joint ventures resulting from cooperation between project promoters from various countries in the region, and SME financing. This focus reflected one of FEMIP's objectives, that is to say the development of the private sector - together with development of human capital investment, greater technical assistance for the design of quality projects and the process of economic reform, and deployment of innovative financial products and risk capital.

In the past year the Bank has created the necessary organisation to enable it successfully to carry out its FEMIP activities and perform its growing role as a development bank with an expanded technical assistance input. This includes the opening of local representative offices - in Cairo already and in the Maghreb (Rabat and Tunis) shortly.

In December 2003 the European Council decided to enhance FEMIP, in view of the favourable results achieved since the Facility's creation in October 2002. A further review will be carried out in December 2006, in the light of experience gained and after consultation with the Mediterranean partners in the Barcelona process, to consider

FEMIP's future development

The European Council's decision in December 2003 to develop FEMIP further included measures to expand the facility's role within the EIB by introducing a number of features in support of private sector development:

- creating a special facility for higher-risk financing intended to promote investment in the private sector;
- establishing, with voluntarily contributed development aid resources and risk capital from EU and other countries, a Trust Fund to finance technical assistance and provide grants for priority infrastructure projects;
- developing FEMIP's Policy Dialogue and Coordination Committee into an annual meeting at ministerial level along with regular meetings of experts, with the aims of strengthening dialogue on structural reforms, fostering the private sector and coordinating co-financing operations.

Inauguration of EIB Office in Cairo

In October 2003, the EIB officially inaugurated its Cairo regional office, the Bank's first outside the Union. Operational since July and headed by **Mr Luigi Marcon**, this office covers the whole of the Near East. Apart from liaison with the authorities of the region's MPCs, its objectives are to optimise the process of identifying and monitoring projects and to facilitate the implementation of technical assistance both for projects and financial institutions in the beneficiary countries.



Egyptian Prime Minister, Mr Atef Ebeid and EIB President, Mr Philippe Maystadt, at the inauguration of the EIB's Cairo regional office

the case for setting up a "Mediterranean Bank" with the EIB as majority shareholder.

In the **Western Balkans**, where EIB financing totalled 372 million, "new" sectors were entered such as education, health and local authority financing (water, urban transport and heating, and waste processing). The EIB Board of Governors approved in June 2003 a medium-term Strategy for the Balkans, with direct financing for private sector development as one of its priorities. The Bank is closely coordinating its operations in the region with the European Commission, the European Agency

for Reconstruction, other international financing institutions such as the World Bank and the EBRD, and bilateral donors.

EIB financing in the **African, Caribbean and Pacific (ACP) Countries** has been carried out since 2 June 2003 under the new Cotonou ACP-EU Partnership Agreement, replacing the Lomé IV Convention. The main focus of the Cotonou Agreement is on poverty alleviation.

The EU Member States have mandated the EIB as the Union's development finance institution to manage, over the next five years, a

2.2 billion Investment Facility (IF) to finance projects in the ACP countries. In addition, the EIB will make loans of up to 1.7 billion available over five years from its own resources. Priority is being given to smaller-scale investment in the private sector and to education and healthcare schemes. The IF is structured as a revolving fund, where capital repayments are ploughed back into financing new projects. The facility is managed on commercial principles so as to be financially sustainable. Because of the developmental tasks, EIB's activity in the ACP States has also been brought together in a single operational unit.



Growth and innovation

The EIB continued to demonstrate consistency and innovation in its funding strategy, which centred on issuance of large liquid benchmarks in the three core currencies EUR, GBP and USD, while remaining responsive to opportunities for targeted and structured issuance across a diverse array of currencies. The global reach of the EIB's funding activities, which span all major capital markets, was enhanced through growing penetration of key markets, including Asia/Japan and the US. Whilst benchmark issuance further improved the liquidity and range of maturities available to investors, issuance in structured format was the primary source of growth. Structured issuance grew strongly to EUR 9.3 billion via 229 transactions (EUR 3.4 billion via 129 transactions in 2002).

The EIB has garnered several awards for its funding performance in 2003. (see article page 9)

Financing in the ACP Countries totalled 723 million, of which 260 million was advanced for projects in the Republic of South Africa. Over two thirds of total 723 million lending went to the private sector or the commercially-run public sector for instance for power and water infrastructure schemes. Up to 50% went to banks, venture capital and micro-finance funds, supporting the financial sector and indirectly the private sector, in line with the objectives of the Investment Facility.

In **Asia and Latin America**, where the EIB operates in support of the EU's cooperation policy objectives, 348 million was provided, of which 254 million was for 5 projects in Latin America and 94 million for 2 projects in Asia.

Borrowing activities in 2003

The Bank strengthened its position as the largest and leading supranational bond issuer. The volume of borrowing increased by 11% to 42 billion, raised through 310 transactions in 15 currencies. Issuance in EUR accounted for the largest share (17 billion or 40% of the total). The Bank's three core currencies (EUR, GBP, USD) accounted for 88% of funding. Issuance in 12 additional currencies (12% of funding) involved the currencies of Acceding Countries (CZK, HUF, PLN, SKK), other European countries (CHF, SEK, NOK), Asia-Pacific/Japan (AUD, HKD, JPY, NTD) and Africa (ZAR). This underlines the continued strength of diversification in the EIB's funding activities.

In EUR, there was especially strong growth in structured issuance in the form of inflation-linked and callable bonds. The key EUR benchmark transactions were two new 5 billion Global issues, in maturities of 5 and 10 years respectively. The total volume of EUR benchmarks outstanding and traded on EuroMTS, a leading electronic trading platform for sovereigns and

agencies, increased to 11 issues worth around 60 billion. In USD, the Bank raised over USD 13 billion and the main area of growth was structured issuance. Sterling issuance reached close to GBP 5 billion. Key developments in GBP included increased penetration of the retail market and growth in inflation-linked issuance. Such progress aided the EIB in extending its powerful lead in the non-gilt sector. The Bank further improved its presence in Asia/Japan, where JPY accounted for the largest share of issuance and grew strongly to JPY 291 billion (EUR 2.2 billion) via 120 structured transactions (2002: JPY 146 billion / EUR 1.2 billion).

Issuance in EU-Acceding country currencies more than doubled (compared with 2002) to the equivalent of 1.3 billion, cementing the EIB's position as the largest non-government issuer both in the region and in all four markets that it tapped (CZK, HUF, PLN and SKK). This growth in local currency borrowing has supported continued lending growth and the EIB's position as the largest external lender in the region. Borrowing highlights included increased placements of innovative structured products and exceptionally long maturities (notably in CZK and SKK).

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Award-winning year on the capital markets

Once again the EIB has geared up to meet the growing demands for funding and liquidity driven by its lending operations and the EU policies that they serve. Also, the funding strategy and its effective implementation were well received by the market, with the added bonus of a series of awards.

Growing debt issuance programme wins awards

The Bank continued to pursue consistency and innovation in its funding strategy. This involved issuing large liquid benchmark bonds in the Bank's three core currencies (EUR, GBP, USD), while remaining highly responsive to opportunities for targeted and structured issuance across a diverse array of currencies.

Effective application of this strategy was fundamental in enabling the Bank to increase the volume of issuance by 11% to EUR 42 bn and the number of transactions by 42% to 310, in 15 currencies.

While large liquid benchmark issues in the Bank's three core currencies remained the primary source of

funding, growth was mainly achieved through tailor-made structured issuance in a wide range of currencies.

Structured issuance grew to EUR 9.3bn via 229 transactions (EUR 3.4bn via 129 transactions in 2002), and represented 22% of funds raised. Non-structured issuance, comprising benchmark and targeted issuance, totalled EUR 32.8bn through 81 transactions, representing 78% of total funds raised (against EUR 34.6bn via 90 transactions, or 91% of issuance in 2002).

The innovative approach to structured issuance was evident in the wider range of structures offered to investors. Highlights included the introduction of callable formats coupled with large issue sizes in EUR and USD, as well as building the basis for a curve of inflation linked bonds in EUR, the first in the EIB's asset class.

Apart from enhancing its strong presence across the major capital markets, the EIB continued to play a developmental role, notably in EU-Acceding Country currencies (ACC). Issuance in ACC more than doubled to an equivalent of EUR 1.3bn, and offered innovations in terms of product, maturity and issue size that contributed to market development.

Also, the establishment of a treasury pool of funds in a fourth Acceding Country currency (SKK, with CZK, HUF and PLN already in place), further enhanced flexibility in lending and borrowing in these currencies. The growth in borrowing in local currencies has supported continued lending growth and the EIB's position as the largest external lender and largest non-government borrower in the region.

The positive market reception for the EIB's borrowing activities in 2003 was reflected in multiple awards. Of particular note were three flagship awards for the Bank's asset class – 'Supranational / agency borrower of the year' (from Euromoney, Euroweek and IFR). Other awards included one for 'Euro-MTN programme of the year' (from IFR), where flexibility and innovation were the central themes.

Commercial Paper programme responds to liquidity requirements

Through its Global Commercial Paper programme, the Bank has created added flexibility for meeting its growing liquidity requirements, which are based on expanding borrowing and lending volumes. At end-2003 the Bank raised the capacity of the Global Commercial Paper program from EUR 5bn to EUR 10bn and, at the same time, re-focused and expanded the dedicated dealer group for the programme.

These improvements, in particular the anticipated enhancement of liquidity and flexibility, are expected to broaden the appeal of the Global Commercial Paper programme among investors. This complements the global format of the EIB's Commercial Paper, which already allows the Bank to issue in a full

range of currencies and to take advantage of funding opportunities in both Europe and the US.

Peter Munro,
Head of Investor Relations & Marketing, Capital Markets Department

Borrowings signed in 2003

(EUR million)

	Before swaps		After swaps	
EUR	17,318	41.1%	22,931	54.7%
GBP	7,175	17.0%	7,393	17.6%
SEK	442	1.1%	659	1.6%
Total EU	24,935	59.2%	30,983	73.9%
AUD	470	1.1%	0	0.0%
CHF	161	0.4%	161	0.4%
CZK	678	1.6%	521	1.2%
HKD	122	0.3%	0	0.0%
HUF	339	0.8%	270	0.6%
JPY	2,201	5.2%	0	0.0%
NOK	226	0.5%	0	0.0%
PLN	156	0.4%	174	0.4%
SKK	94	0.2%	94	0.2%
TWD	180	0.4%	0	0.0%
USD	12,375	29.4%	9,665	23.1%
ZAR	153	0.4%	44	0.1%
Total Non-EU	17,155	40.8%	10,928	26.1%
Total	42,090	100%	41,911	100%

The internationalisation of production in Europe



A. Steinherr,
P. Maystadt,
E. Perée

The second presentation, by **Kristian Uppenberg** of the EIB's Economic and Financial Studies division, explored the determinants of FDI and whether FDI inflows have a positive impact on economic growth in the host economy. Drawing on a large body of research, he showed that FDI was attracted by a broad range of factors. One of the strongest drivers of FDI is the size of and distance to the host country. Economic fundamentals of this kind account for around half of world FDI flows. The rest is essentially determined by policies, although research shows that the policies that attract FDI are not limited to incentives targeting foreign investors per se. Instead, FDI is attracted to policy and regulatory environments that are favourable for all firms, domestic and foreign alike. This includes such factors as free trade and how well and freely the product and factor markets are allowed to work. Other important – ultimately policy-determined – factors include the host country's infrastructure and human capital stock.

As for the link between inward FDI and economic growth, most evidence suggests that this link is very strong. More uncertain, however, is whether FDI causes high growth or whether faster-growing economies just attract more foreign investors. The evidence that FDI does indeed boost growth directly is stronger in Central and Eastern Europe.

The annual EIB Conference on Economics and Finance on 22 January again brought together researchers from near and far to shed light on a topic that stands close to the mission of the EIB. This year's conference was devoted to "the internationalisation of production in Europe". This is clearly a topic close to the heart of the EIB. Many of the Bank's private sector borrowers are transnational corporations. As a policy-driven bank, the EIB needs to understand how transnational corporations and foreign direct investment affect the performance of the EU economy. The conference covered various issues related to this topic, including the impact that FDI has on employment, economic growth and regional development.

Zbigniew Zimny from UNCTAD (United Nations Conference on Trade and Development) began the day with a presentation on the long-term trends in international production. He observed that the role of transnational corporations in global production has risen dramatically. The inward FDI stock now accounts for around 20% of global GDP, up from only 6% two decades ago. The bulk of this upward glob-

al trend in FDI consists of mergers and acquisitions (M&A) rather than greenfield investment. Also, around four fifths of it has been taking place between developed countries. The EU has been a major net exporter of FDI to the rest of the world in the past decade. Still, cross-border M&As have occurred on an even greater scale between the EU countries themselves, driven by ever-deeper integration.

Z. Zimny



K. Uppenberg



A. Kokko



J. Konings



M. Sass



While middle-income countries such as those in Central and Eastern Europe often benefit from FDI through a higher level of domestic investment, this is not typically the case in advanced countries that do not necessarily face financing constraints for investment. The main mechanism through which FDI affects growth in advanced countries such as those of the EU is when foreign owners introduce new technologies and management techniques to the acquired firms, and so boost the efficiency of domestic firms.

Jozef Konings from Katholieke Universiteit, Leuven, broadened the discussion on the impact of FDI to include jobs and wages. He chose as a starting point the widespread fear that “footloose” multinationals would keep opting for the locations offering the cheapest labour and that FDI would be associated with widespread job losses in the richer countries. While he acknowledged that wage costs are substantially lower in the acceding countries than in the current EU members, so is labour productivity. Hence, in unit labour cost terms the benefits of relocating production to the East are much smaller than wage costs alone suggest. Indeed, Konings claimed that the main trend has not primarily been a relocation of employment to the low-wage regions of Southern Europe or to Central and Eastern Europe. Instead, FDI-driven job relocation has primarily been taking place within the richer Northern countries. He argued that FDI to the South and East has been driven more by a desire to exploit new market opportunities than by the attraction of cheap labour. It follows that new jobs created from FDI in these regions have not necessarily come at the expense of similar jobs in the investors’ home countries.

Ari Kokko from the Stockholm School of Economics investigated the role FDI plays in regional devel-

opment and whether public policy can influence the location of FDI. Kokko observed that economic integration such as that within the EU tends to result in a clustering of production to certain locations, especially in industries characterised by economies of scale. Because such agglomeration effects also affect where FDI is located, FDI is not likely to be a major instrument in the development of remote and disadvantaged regions. EU regional support may help redirect some of this investment to peripheral regions, but on balance Kokko does not find strong evidence that such incentives are substantial enough to alleviate regional income disparities that result from EU integration. In a case study of regional support in Sweden, Kokko finds evidence that manufacturing employment in subsidised regions increased in foreign-owned firms while employment in domestic firms declined. However, this difference was also observed in non-subsidised regions. Kokko concludes that these results, combined with the overwhelming concentration of FDI in a few major agglomerations, make it difficult to view FDI as an effective regional development tool.

Turning to the impact of FDI on acceding countries, **Magdolna Sass** from the Hungarian Academy of Sciences looked at FDI in Hungary, which was the first acceding country to open up to widespread foreign ownership of productive assets. This gave Hungary certain first-mover advantages, as reflected in its ability to attract a disproportionately large share of inward FDI during the early years of transition. This helped it more quickly transform the business sector and put the economy on a solid upward growth trend. Domestic investment has been conducted primarily by foreign-owned firms. However, with the completion of mass privatisation and as other countries have become increasingly hospitable to inward FDI, Hungary’s share of FDI inflows has fallen in

Several recent papers have found that, FDI has in fact played a key role in the transformation of these economies in a way that has directly boosted growth.

FDI affects growth through different channels, however, not all of which are as important in all countries.

recent years. Part of this decline – but by no means all of it – is due to the fact that Hungary does not include reinvested earnings in its FDI data, contrary to the practice of most other countries. This statistical discrepancy has become increasingly problematic as the share of reinvested earnings in total FDI has risen dramatically in recent years. More recently, inward FDI in Hungary has also been hampered by concerns about macroeconomic stability, especially the widening fiscal deficit and accelerating wage growth. As Hungary faces growing competition to its position as an attractive production location in the region, this puts a greater emphasis on sound economic policies.

Gábor Hunya of WIIW, Vienna, presented a case study of FDI in the Baltic countries, illustrating the strong geographical forces at play in the location choice of multinational firms. In Estonia and Latvia, in particular, Nordic investors predominate. On the one hand, FDI has played a major role in financing investment in these countries. On the other hand, the sectoral composition reflects a possible drawback in the relatively small size of these economies. A large portion of FDI into the Baltic countries has been market-seeking activities in service industries, such as finance. By contrast, investment in manufacturing – and especially in high technology sectors – has been relatively modest. This raises questions as to whether the pool of skilled labour and the level of infrastructure in these countries may have been inadequate to attract major manufacturing operations. There is a risk that the broader economic benefits from FDI are correspondingly smaller because of a lack of positive spillover effects.

The final presentation, by **Thierry Mayer** of CEPII in Paris, was a case study of location choice of foreign investors within France. Using a detailed regional data set on foreign-owned operations in France,

Mr Mayer could address a string of highly pertinent questions that cannot be addressed in many other countries for lack of data. For instance, in his study he observes that foreign investors have a tendency to locate in regions closer to their home countries, but that this geographical home bias weakens over time. When including data on regional subsidies, he also finds very little evidence that such policy support has made much difference in the location choice of foreign investors. In most cases, the fundamental economic forces are overwhelmingly stronger in this decision process, preventing subsidies from altering the investor's original choice. This was found to be particularly the case in industries characterised by a greater degree of agglomeration and positive spillovers, i.e. those very industries that might have the greatest broader economic impact if successfully relocated to supported regions. In Mayer's study, only Italian investors seem significantly attracted by regions that receive subsidies for investment, but this is typically in industries where positive spillover effects are relatively small. Hence even here the case for public support is relatively weak.

An eighth scheduled presenter, **Frank Barry** from University College, Dublin, could unfortunately not attend the conference due to a last-minute injury. The main points of his contribution nevertheless deserve mentioning. In a case study of FDI in Ireland, one of Barry's most pertinent observations is that Ireland's success in attracting massive inflows of FDI may not be easily replicated by other EU countries. Ireland's ability to attract very large inflows of FDI was caused by a broad set of factors, only some of which were policy-driven. Preferential tax treatment, improved macroeconomic policies, deregulation and a notable boost to the stock of relevant human capital were all elements that could be ascribed to policies. Other factors,

such as close cultural and linguistic ties to the United States (which has been the key extra-EU investor) and relatively competitive labour costs, seem to have tipped the scale decisively in favour of boosting Ireland's role as the location choice of extra-regional multinationals seeking a production base in Europe. This latter group of factors is less easily replicated by other EU countries, making Ireland's success rather untypical.

Together, these illuminating presentations and the discussions that accompanied them served the valuable role of further exploring the subject of FDI and the internationalisation of production, allowing those who attended to better understand the economic and business environment in which the Bank operates.

The presentations are accompanied by papers that will be published soon as the EIB Papers, Volume 9.

Kristian Uppenberg
Economic and Financial Studies



G. Hunya



T. Mayer



First meeting of FEMIP's Committee of Experts

The first meeting of the Committee of Experts of the "Facility for Euro-Mediterranean Investment and Partnership" (FEMIP) was held in Marseille on 16 and 17 February 2004, under the chairmanship of EIB Vice-President Philippe de Fontaine Vive.

Set up to operate as a think-tank, this Committee is charged with the task of putting forward practical and operational recommendations to FEMIP's Ministerial Committee, made up of the Economics and Finance Ministers of the EU and the Mediterranean Partner Countries (MPCs).

The Committee of Experts was welcomed to Marseille by Mayor **Jean-Claude Gaudin** and the meeting was closed by Mr **Renaud Muselier**, French Secretary of State for Foreign Affairs. Mayor Gaudin expressed his pride that Marseille was again playing host to the EIB and the financial authorities of the 27 MPCs. He added that "peace between the peoples of the Mediterranean is built on mutual understanding and respect but underpinned by the sharing of wealth".

Mr **Philippe de Fontaine Vive**, for his part, commented: "Back in April 2003, Marseille played host to the EIB in connection with a seminar on sustainable investment in the Mediterranean. At that time FEMIP was equipping itself for its role and that meeting helped to chart its priorities and ambitions: namely to foster development of the private sector and foreign direct investment in the partner countries, in preparation for the Euro-Mediterranean customs union in 2010."

The enhanced FEMIP

"Not only has FEMIP achieved its objectives", continued Mr Philippe de Fontaine Vive, "but the European Council of December 2003 decided to further enhance its role in response to proposals put forward by the EIB. Our gathering

in Marseille during these two days has put flesh on the bones, as it has entrusted the Committee of Experts with the task of preparing for the annual meetings of the Ministers of Economic Affairs and Finance – a veritable Euro-Mediterranean ECOFIN. In this spirit, the enhanced FEMIP represents a key instrument for close cooperation among all the partners concerned. It is supporting the institutional reforms that are the responsibility of each of the partner countries. This initiative is being mounted in concert with those of the other principal funders, and I am confident that a strategic partnership agreement between the EIB, the World Bank Group and the Commission will be concluded in the near future."

Concentrating on the two themes of privatisation and private compa-



for foreign direct investment and 400 million for SMEs in the Mediterranean Partner Countries; on the financing side, FEMIP thus demonstrated its ability to meet expectations and the calls made on it. It now needs to establish itself as the benchmark for quality Euro-Mediterranean dialogue. The key summit will clearly be the meeting of FEMIP's Ministerial Committee to be held in Alexandria on 7 and 8 June 2004."

nies' access to the various sources of finance, the 70 experts from the Mediterranean region came up with the following conclusions:

- Privatisation in the partner countries: the importance of establishing an appropriate regulatory environment was strongly emphasised in these debates; FEMIP will be able to contribute in the preparation of projects and by providing financial instruments such as risk capital, long-term loans and technical assistance.
- Access by private companies to the various sources of finance: efforts must focus on three broad areas:

The banking sector: reforming the banking sector so as to achieve greater concentration and exposure to international competition; improving service quality; training staff, particularly in credit risk analysis and the use of non-personal security.

Companies: improving the transparency of accounts and developing partnership with other investors.

Financial products: developing new products (leasing, risk capital, financial services) and new structures (investment funds, development capital companies, investment banks, guarantee funds).

In his closing address, Mr Philippe de Fontaine Vive noted that: "In 2003, FEMIP provided EUR 2.1 billion, of which 740 million was

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Recent FEMIP meetings

The last meeting of FEMIP's Ministerial Committee took place in Naples on 10 and 11 November 2003. On 16 January 2004, the EIB and CGEM organised a conference in Casablanca, under the patronage of His Majesty **King Mohammed VI**, aimed at informing the industrial and financial sectors as well as professional associations represented in Morocco of the opportunities offered by the new FEMIP to bolster the private sector in the MPCs. Another conference was organised in London in cooperation with UK Trade & Investment and MEA, on 22 January 2004, to inform the industrial and financial communities and professional associations represented in London of the opportunities presented by FEMIP for strengthening the private sector in the EU's Mediterranean Partner Countries.

Additional information on the EIB's operations in the MPCs since 1974, the Facility's genesis, the MPCs' economic environment and the meetings of FEMIP's Ministerial Committee is available on the Bank's website in the section devoted to the Mediterranean Partner Countries.



Spotlight: the “French Hospitals Programme”



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

Support for “Plan Hôpital 2007”

In December 2003, the European Investment Bank and the French Health Ministry signed a statement of intent under which the EIB will join forces with the French Government and other financial institutions in the framework of the “Plan Hôpital 2007”. The statement of intent was signed in Paris by **Mr Jean-François Mattei**, Minister for Health, the Family and the Disabled and **Mr Philippe de Fontaine Vive**, EIB Vice-President.

The objective of the “Plan Hôpital 2007” is to speed up modernisation of France’s hospitals by helping them to carry out capital investment that budgetary constraints would otherwise have ruled out during the five-year period. Under

this Plan, the Government will make additional resources available to the hospitals concerned enabling them to invest some EUR 1.2 billion a year, or 6 billion over five years. This outlay would be on top of the investment carried out each year by the hospitals. In total, the goal is to invest nearly an additional EUR 10 billion over a five-year period, of which more than half will be financed from outside sources.

The “French Hospitals Programme”

Based on this agreement, the EIB’s “French Hospitals Programme” will earmark EUR 500 million for the financing of medium-scale hospital investment in France. The hospitals concerned are public healthcare institutions (EPS) and private not-for-profit “Participants in the Public

Hospitals Service” (PSPH) which have “Multiannual Investment Programmes” in the EUR 25-150 million bracket.

Implementation of the EIB’s programme rests on a partnership with two leading French banking groups and lenders to the French hospitals sector: Dexia Crédit Local and the Caisses d’Epargne Group. The regional directorates and networks of these two partners helped to identify the investment schemes that will benefit from EIB funding on favourable maturity and interest rate terms. Around 100 hospitals are in the frame, with a range of projects: rebuilding or extension of hospital sites, construction of new hospital facilities, remodelling of medical or medico-technical services, establishment of logistics or technical centres serving a number of hospitals, renovation of existing hospitals, etc. More than half the schemes pinpointed are located in regional development areas.

Full gamut of financing facilities

Establishment of this programme completes the three tiers of support facilities that the EIB provides for France’s healthcare sector.

- For large hospitals, the EIB makes available direct or intermediated individual loans covering part of the long-term external funding that they require to round off their financing plans. The University Hospitals of Strasbourg and Toulouse and the Fort-de-France and Lyons Hospitals thus benefit from multi-annual agreements giving them access to EIB funds.

- For medium-sized hospitals, it offers the best possible terms under the French Hospitals Programme in partnership with Dexia and the Caisses d'Épargne.
- To help fund small-scale healthcare schemes, it makes additional resources available to banks under its "global loan" facility, in order to enable them to improve their lending terms.

The EIB has developed the French Hospitals Programme as part of its support for improved healthcare in Europe. This has been one of the EIB's priority objectives since 1997, on the principle that such investment contributes to the European Union's social cohesion by helping the less advantaged regions gain access to the best healthcare and hospital services.

Since then, the EIB has financed the upgrading and creation of hospital



infrastructure and healthcare facilities in the European Union to the tune of almost EUR 4.5 billion. Outside the EU, the healthcare sectors in Poland, Syria, Tunisia, Serbia and Cyprus have also attracted EIB loans totalling some EUR 330 million.

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EIB participation in plenary session of the Committee of the Regions

On 20 November 2003, EIB President **Philippe Maystadt** was invited to Brussels to address the plenary session of the Committee of the Regions for the first time.

The Bank's participation reflects its overall strategy of openness and dialogue with the Community's other institutions and bodies. It afforded an opportunity to give the elected members of regional and local councils a presentation on the EIB Group's role, the Bank's operational priorities, its contribution to the "Growth Initiative" and the EIF's importance as an investor in venture capital funds, particularly in the Objective 1 regions. The President confirmed to the Committee mem-

bers the priority that the Bank attaches to regional development and to economic and social cohesion in the enlarged Union.

This exchange of views nevertheless revealed that the Bank is still insufficiently known, even within the Community bodies. Several members regretted its lack of visibility, with some still confusing the EIB's role with that of the ECB.

The presentation attracted lively interest from the members, and **Mr Bas Verkerk**, Deputy Mayor of The



Hague, expressed the wish to visit the Bank with a group of Councillors from the city.

Fabienne De Maertelaer
Brussels office

EIB Group opens a representative and liaison Office in Paris

The European Investment Bank Group recently set up a representative and liaison Office in Paris. Forming part of a policy of establishing a local contact point for operators and institutions with which the Group has dealings, this Office will have the task of monitoring institutional relations with non-EU international organisations and supporting operations from the French capital.



The EIB Group's Paris Office, operational since mid-January 2004, will serve to strengthen liaison with international institutions and organisations based or represented in Paris, in particular the World Bank Group, OECD and Council of Europe Development Bank, as well as with other organisations that have shared areas of interest with the EIB and its subsidiary, the European Investment Fund.

A further objective of this Office will be to bring the EIB Group closer to the French authorities with which it deals, as well as to political circles and governmental authorities wishing to garner information about its activities. The new unit will also provide companies and other players operating in areas eligible for EIB or EIF financing with support in their contacts

with all parts of the Group, particularly its operational Directorates.

The opening of this Office slots into the wider policy of establishing a local presence close to the EIB's institutional and operational interlocutors, in order to enhance awareness of the ways in which the Bank operates in support of the European Union's objectives, both within the Member Countries and in the Partner Countries. In keeping with this policy, under which there was already a representative Office for liaison with the European institutions in Brussels as well as other Offices in the Union, last June the EIB established an Office in Cairo – its first outside the Union. In the context of activities under FEMIP, the Bank is also preparing to set up offices in the Maghreb. It is likewise considering opening representative

offices in Africa to back up its financing operations under the Cotonou Agreement Investment Facility.

Henry Marty-Gauquié
*Director – liaison with international organisations
EIB Group Office in Paris*

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Appointments and reorganisation at the EIB

Financial Controller

Mr Luis Botella Morales was appointed the Bank's Financial Controller in December 2003.



Luis
BOTELLA

A qualified accountant, he joined the EIB in 1987 as manager of the accounting area, with particular responsibility for adapting practice to International Accounting Standards and European Directives. Appointed Head of the Accounting Division of the Finance Directorate in 1990, he was in charge of coordinating the changeover to the euro in 1998. In 1999, he was promoted to the Bank's Senior Management Cadre as Associate Director of Accounts, encompassing the new autonomous Financial Control and Accountancy Department when it was created in July 2000. Prior to his new appointment, Mr Luis Botella had been Deputy Financial Controller since February 2002.

Directors

Mr Alain Godard was appointed Director of the new ALM (Asset/Liability Management) Financial and Operational Risks Department of the Risk Management Directorate in January 2004.



Alain
GODARD

Previously, from 1999, Mr Godard headed the Financial Policy, ALM and Market Risk Management Division of the Finance Directorate. At the time of his appointment, Mr Godard was also Director of the ISIS project, responsible for the Finance and Risk component. He will retain this responsibility alongside his office duties. Mr Godard entered the Bank in 1994 as an economist. From 1995, he was in charge of various services and projects in the areas of Asset/Liability Management, Risk and Management Control. Previously, Mr Godard was a consultant for Price Waterhouse in Paris and London, responsible for advisory services to the banking and financial community. He is a graduate in Economics and Finance and holds an MBA from the Commercial Institute of Nancy (ICN). He is also a qualified accountant.

Mr Francisco de Paula Coelho has been appointed Director of the Department for Lending Operations in Asia and Latin America with effect from 1 April 2004.



Francisco
DE PAULA COELHO

A graduate of the Solvay Business School, Free University of Brussels (ULB), Francisco de Paula Coelho worked successively as Financial Analyst at UNIDO, Assistant Economics Professor at the Free University of Lisbon and consultant on promoting investment for emerging countries in New York, before joining the World Bank. He entered the EIB in 1987 as a loan officer for ACP countries. In 1989, he moved to the Finance Directorate, first in the Treasury Department as Bond Portfolio Manager and then as Head of the Back Office Loans Division. In 2000, he was appointed Director of the Planning and Settlement of Operations Department.

Ms Grammatiki Tsingou-Papadopetrou was appointed Director of the South-East Europe Department of the Directorate for Lending Operations in Europe in January 2004.



Grammatiki
TSINGOU

Ms Tsingou, a Civil Engineer and Economist (MSc), is a graduate of the Universities of Thessaloniki (Greece) and Bristol (UK) and joined the Bank in 1985 following a career in Greece's Public Works Ministry and at the Greek Permanent Representation to the European Union. Initially a loan officer for Southern Africa, she was subsequently involved in negotiation on the Bank's behalf of the Third Lomé Convention and the Redirected Mediterranean Policy. In 1993, she was appointed loan officer for Central Europe. In 1996, she was made Head of Division with responsibility for Poland and the Baltic States and was promoted to Associate Director of the Department for Lending Operations in the Accession Countries in 2001. At the time of the appointment, Ms Tsingou was also EIB Alternate Director at the EBRD and in charge of the Bank's operations in Russia under the new mandate entrusted to the EIB.

Director of Paris Office

Mr Henry Marty-Gauquié was appointed Director for liaison with international institutions and organisations based or represented in Paris and Director of the EIB Group's office in Paris as from 1 October 2003.



Henry
MARTY-GAUCUIÉ

After gaining a doctorate in International Law at the University of Paris X, specialising in European Law at the University of Paris I and graduating from the Paris Institute for Political Sciences, he began his career in 1978 working for the French Prime Minister in the General Secretariat of the Interdepartmental Committee for European Economic Cooperation (SGCI). As a French Government official at the Court of Justice of the European Communities, from 1981 he held various positions within the European Institutions (Court of Justice and Court of Auditors) before joining the EIB's Information and Communications Division in 1989. In 1994, this Division was upgraded to Department, which he headed as Director of Communications and the Bank's Spokesperson from 1995 until his latest appointment.

Associate Directors

Mr Guy Berman was appointed Associate Director of Operations Evaluation in July 2003.



Guy
BERMAN

Guy Berman has engineering degrees from the Paris Polytechnic and Mining Schools and a doctorate in geography from Paris University, and is a General Engineer of the French Mines Inspectorate. He joined the Bank in 1980 as a loan officer for projects in ACP countries. In 1987, he was promoted to head a Geographical Division with responsibility for operations in various ACP countries and subsequently for project monitoring reports for the whole of this group of countries. Mr Berman was later assigned to operations coordination and led the SERAPIS project for renewing operations support IT applications throughout the Bank until it was approved at the beginning of 2002. Since the end of 2002, he has been in charge of ex-post sector evaluations within the Union.

Mr Henri-Pierre Saunier was appointed Associate Director and Special Adviser in the Finance Directorate in July 2003.



Henri-Pierre
SAUNIER

A graduate of the French Legal Studies Centre of Saarland University and the Paris Political Studies Institute and Research Officer at the National Research Support Centre (CNAR - Rural development), Mr Saunier joined the Bank's Finance Directorate in 1971. Initially assigned to Borrowings, he moved to its Treasury in 1972 where he contributed inter alia to the creation of the first Back Office, to funds statements and projections and to computerisation of the Treasury. In 1980, Mr Saunier became head of Coordination in the Directorate for Lending Operations in the Union. Finally in 1982, he was entrusted with the task of setting up the Coordination unit in the Finance Directorate which he supervised as Head of Division from 1984 until this latest appointment.

A Lending Directorate – the new shape of Europe

Momentous decisions taken by the European Council in 2003 concerning Enlargement will radically alter the European Union as we know it today, as well as its policies and institutions. In order to respond effectively to the diversification of its activities and to cope successfully with the new challenges for the EIB presented by an enlarged Europe, the Bank's Management Committee has decided to adapt the organisation of the Directorate for Lending Operations in Europe.

Since January 2004, its new structure has therefore consisted of eight operational departments:

<i>Department</i>	<i>headed by</i>
The United Kingdom, Ireland, Denmark and EFTA	Mr Thomas Barrett
Spain and Portugal	Mr Carlos Guille
France and Benelux	Mr Laurent de Mautort
Germany, Czech Republic and Slovakia	Mr Joachim Link
Italy and Malta	Mr Antonio Pugliese
Central Europe	Mr Emmanuel Maravic
South-East Europe	Ms Grammatiki Tsingou-Papadopetrou
The Baltic Sea	Mr Thomas Hackett

New Directorate – Risk Management

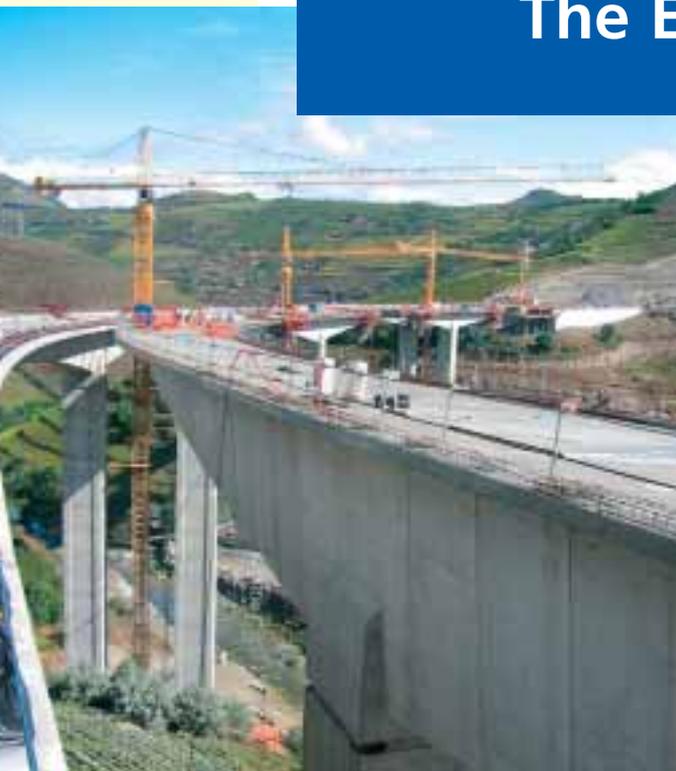
In addition, the Bank's Management Committee has decided to concentrate all credit risk activities in one new "Risk Management" Directorate under the responsibility of Director General **Pierluigi Gilibert**. This new Directorate will comprise two departments - "Credit Risks" headed by Mr **Per Jedefors** and "Financial and Operational Risks" headed by Mr **Alain Godard** – and a Coordination Division.

Management Control and new Control Committee

Finally, in order to enhance its capabilities for dealing with the management of change, the monitoring of objectives and reporting, the Bank has set up EIB Group Management Control and a Management Control Committee, under the responsibility of the Deputy Secretary General, Mr **Rémy Jacob**.

The Management Control structure groups together the Accounting and Financial Statements Department, headed by Mr **Luis Botella Morales**, the Planning, Budget & Control Division under the responsibility of Mr **Harry Grammatikos**, Associate Director, and an Organisation unit. The Management Control Committee is composed of the Directors of the Human Resources and Information Technologies Departments, Messrs **Andreas Verykios** and **Patrick Klaedtke**, and the Head of the Projects Directorate's Economic and Financial Studies Division, Mr **Éric Perée**.

The EIB and PPPs



Scut interior Norte,
Portugal

Development of public-private partnerships (PPPs) for projects that have traditionally been carried out by the public sector is part of the general trend towards privatisation, deregulation and market discipline, which has accelerated over the last two decades. Challenged by a growing demand for market-oriented, efficient and safe public services, and confronted with increasingly constrained public finance, many national governments have started to develop alternatives to the more traditional public procurement options.

PPPs can help to “fill the gap” between investment needs and available public money. However, the main logic behind PPPs is that, with innovation, flexibility and management skills, obtained through a wider pool of resources and expertise, the private sector can bring efficiency in the design, financing, risk management, implementation

and operation of projects in a manner that will benefit the society as a whole. Nevertheless, to maximise the “value for money” of PPPs a number of conditions must be fulfilled. An important one is to choose the appropriate PPP structure and degree of private sector involvement within the great variety of existing models, which range from traditional works or service contracts to full privatisation.

Since it started its activity in 1958, the EIB has dedicated a significant part of its financial support to projects aimed at improving the quality of public services, with an emphasis on physical long-term assets for which the Bank’s financial products are particularly well suited. In the last 15 years, a broad experience has been accumulated on the subject of PPPs, the provision of efficient public services being one of the key pre requisites for achieving the policy objectives set out in the Bank’s Corporate Operational Plan.

Since the late 1980s, the EIB has approved more than 100 projects in EU countries, which can be considered to be PPPs in the broad sense. Total lending for these projects amounted to 28 billion euros, of which 21 billion euros had been signed at the end of October 2003. Another 50 projects are in the pipeline involving loan applications totalling 10 billion euros.

The vast majority of PPP lending is concentrated in the transport infrastructure sector (87% of total approvals). Health/education (9%) and water & sewerage (4%) are the two other main PPP sectors. With 29% of approvals, the UK ranks first

in terms of PPP lending. Spain, Portugal and Denmark are second, third and fourth with 16%, 13% and also 13% respectively. The Bank is also involved in PPPs outside the EU (in Poland, South Africa and Latin America).

PPP lending really took off in the mid-1990s: 80% of approvals took place after 1996 and almost 50% after 2000, as a consequence of the diffusion of PPP practice in EU countries. It now accounts for 30% of total lending for transport projects, 20% for health & education projects and 10% for water projects.

Flagship deals to date are DBFO roads and river crossings in the UK; Chunnel Tunnel Rail link and London underground; Spanish and Portuguese transport infrastructure projects; Spata airport and the ring road in Athens; Dutch high-speed train links; UK education and health projects.

It is likely that the volume and scope of PPP projects will keep increasing. The EIB intends to continue and expand its support for PPPs when and wherever national or regional governments consider them to be the best way to achieve public policy objectives. On this matter, the Bank works in close cooperation with the Commission, public authorities and the private sector.

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M4 PPP Toll motorway, Ireland



Four EIB projects received Project Finance Awards in 2003

Four EIB projects received Project Finance Awards in 2003: the Glasgow Urban Renewal Project, the M4 PPP (Public-Private-Partnership) Toll Motorway Project (Ireland), the London Underground PPP Project and the Wastewater Treatment Delfland PPP Project (The Netherlands).

Glasgow Urban Renewal

The Glasgow Urban Renewal project won the “Municipal Investment Award” for 2002-2003 in Paris from **Project Finance Magazine**. In the words of the magazine, “the UK social housing sector has reached another level of funding sophistication with the financial close of the biggest housing stock transfer in Europe.”

The EIB has committed GBP 150 m (EUR 225 m) to this project, which aims to repair and modernise social housing in Glasgow, Scotland’s largest city.

The project involves the transfer of 81 000 homes from Glasgow Council to Glasgow Housing Association (“GHA”), and a 10-year upgrade programme co-ordinated by GHA. Debt funding, to a GHA subsidiary, comprises some GBP 700 m (EUR 1 bn) of long-term loans from the commercial banking sector and the EIB, alongside continued grant funding from the Scottish government.

The transaction, signed by EIB Vice-President **Peter Sedgwick** in

Glasgow, was the largest in the social housing sector, as compared to other urban housing stock transfers to housing associations that have been a phenomenon of UK social housing for the past 10 years. As well as sheer scale, Project Finance Magazine also highlighted the innovation of the Bank’s approach to the project: it came “with a number of ‘bells and whistles’ that are firsts for the sector”, ranging from the introduction of “second stage transfers” to smaller housing associations which will continue to involve the EIB over at least the next 5 years to a special VAT regime.

The M4 PPP Toll Motorway Project

The M4 PPP Toll Motorway Project was awarded “**EMEA Infrastructure Deal of the Year 2003**” by the publication **Project Finance International** and “**European Transport Deal of the year**” by **Project Finance** (Euromoney).

The M4 PPP Project involves the design, build, finance and 30-year operation (DBFO) of a 35 Km motorway running west of Dublin (from Kinnegad to Kilcock) in Ireland. The most interesting char-

acteristic of this project is that this was the first Irish road PPP transaction and is part of a group of 11 projects (the “Roads PPP Programme”) expected to be finalised over the next 4 years.

As there were no precedents for this type of project in Ireland, all parties (the Irish National Roads Authority, the consortium of sponsors led by the Spanish company Ferrovial, through its toll road concessions subsidiary Cintra, and the international banks) worked under tight time constraints, to identify an acceptable allocation of risks between the public and the private parties and to develop a “bankable” deal.

The EIB’s participation in the project, based on the Bank’s wide experience in DBFO transactions elsewhere in the EU market, was particularly appreciated by the Irish Authorities and the sponsors, as it signalled the Bank’s support of the Irish authorities’ policy for their roads development programme.

The project agreements including the first EIB tranche of EUR 78 m were signed in Dublin in March 2003 by EIB Vice-President **Michael**

Tutty in the presence of the Irish Minister for Transport, **Seamus Brennan**.

The market reception for the M4 PPP financing is expected to have a positive synergy effect on the financing of the remaining transactions in the Roads PPP Programme, by increasing the interest of both banking and capital market institutions in this programme.

London Underground PPP

Tubelines – London Underground Public Private Partnership Project, was named the **“Best Transport Project 2003”** by the **Public Private Finance Awards of 2003** and **“Deal of the Year 2003”** by **Infrastructure Journal**.

The project is part of the modernisation of the London Underground system, which is one of most signif-

icant Transport projects undertaken in the United Kingdom in recent years, and one of the largest PPPs in Europe to date. A total capital investment in excess of EUR 30 billion is to be made over the next 15 years and the EIB is supporting the project with GBP 900 million (EUR 1.3 bn) of term loan facilities: GBP 300 million (EUR 436 m) were made available to Tubelines at the end of 2002 and GBP 600 million (EUR 872 m) were committed in April 2003 to Metronet, signed in London by V-P Peter Sedgwick.

Under the London Underground PPP, Tubelines and Metronet are responsible for maintaining, renewing and upgrading the underground infrastructure while London Underground Ltd., the public sector operator, remains responsible for train operations, customer services at stations and fare collection as well as overall safety.

The Tubelines consortium consists of Bechtel Enterprises Holdings Inc., Jarvis plc, and Amey plc. The GBP 300 million EIB term loan facility is part of the GBP 1.94 billion (EUR 2.82 billion) senior debt facilities, a substantial part of which is to be securitised. A syndicate of banks, led by Bank of Scotland, WestLB, Mizuho and Société Générale, is providing the remainder of the senior debt. A portion of the bank term loan is wrapped by Ambac. In the Metronet transaction the GBP 600 million EIB facilities form part of GBP 2.65 billion (EUR 3.85 billion) of senior debt. The other senior debt is provided by a syndicate of banks led by Deutsche Bank, CIBC World Markets, Royal Bank of Scotland and Abbey National, and both a fixed-rate and index-linked bond issue wrapped by Ambac and FSA.

Wastewater Treatment Delfland PPP

The Wastewater Treatment Delfland PPP Project won the **“European**

Water Deal of the Year 2003” award by **Project Finance** (Euromoney).

The project represents the first significant non-recourse wastewater scheme in continental Western Europe. It equally marks a major breakthrough in the Netherlands, traditionally very keen to keep water management under the strict control of the public sector and, last but not least, the first time the Bank has participated in the financing of a non-recourse wastewater PPP scheme.

The winning consortium, led by Veolia Water, was awarded a 30 year concession comprising the construction of a new wastewater treatment plant and the refurbishment and upgrading of an existing treatment plant and associated transport system – serving the Hague region – together with the operation of both sites and of the bulk transport network. The revenues structure is essentially performance-driven.

The deal has a classic project finance structure with the bulk of construction and operations risk passed through to separate special-purpose companies. The Bank contributed with a EUR 125 m term loan covering some 32% of financing needs. The remaining senior debt loan – arranged by Rabobank and Dexia Crédit Local – will be syndicated to a wider group of leading banks. In the wake of its successful closing and NPV gains for the public authority, the project is being increasingly hailed as a possible new model for procuring major wastewater infrastructure and a template for future water-treatment deals.

Robert Schofield, Bruno Denis, Jaime Barragan, Jukka Luukkanen, Cheryl Fisher, Luca Lazzaroli
Operational Directorate for Lending – A (Europe)

London Underground, United Kingdom

Wastewater treatment Delfland, The Netherlands



Supporting Social Housing

Over the past five years (1999-2003), the Bank has lent more than EUR 2 billion (2.09) for 16 social housing projects located in the European Union (Austria, Belgium, Finland, Germany, Portugal, Spain and the United Kingdom) and EUR 213 million for 2 projects in Poland.

Financing of social housing projects in the EU and the future Members States over this period represents a quarter (25.1%) of the total EIB lending of 9.17 billion for urban renewal projects (incl. building rehabilitation, urban renovation and restructuring).

In 1998, the Bank extended its urban renewal activities to housing components provided they formed an integral part of well-defined major urban renewal or regeneration programmes. This expansion of activities was in response to the European Council of Amsterdam (June 1997) inviting the Bank to step up lending for investment helping to create new jobs as well as its operations in the urban environment sphere. The March 2000 Lisbon Summit re-emphasized that protection and enhancement of the quality of urban environment was a priority for EU action. The EU has been steadily incorporating the urban dimension into its regional policy, by designating urban projects as

eligible for Structural Funds and by devising programmes specifically aimed at cities. In response, the EIB's approach to urban investment has evolved pragmatically over the years. The Bank has developed a range of flexible products and practices which enable it to support sustainable urban development strategies and investment programmes. Such investment in quality of urban life can help create new jobs and promote greater economic and social cohesion in the EU through the reduction of social disparity within large conurbations.

Consistent with the European Union's policy objectives on urban environmental improvement, the EIB's financial support for social housing projects is focused on creating more sustainable communities. Social housing projects within comprehensive urban renewal/regeneration strategies can help reduce localised deprivation, social exclusion and unemployment, providing a better quality of life and economic performance of urban areas.

Resources for financing social housing, including the renovation and construction of affordable dwelling units, are relatively scarce. EIB long-term finance contributes to accelerating and/or increasing the investment of public and private promoters attempting to meet pressing needs in the social housing sector.

Rehabilitation of old housing units

The rehabilitation of decaying housing units can be financed by the EIB provided they have:

- a social dimension (programmes for the improvement of old housing assets belonging to non-profit entities, rehabilitation of dilapidated buildings rented or owned by low income households);
- an environmental dimension (rehabilitation focusing on energy savings, i.e. insulation, double glazing, natural gas-fired heating systems, etc.), including the restoration of a classified building.



Construction of residential buildings in the context of urban renewal/regeneration schemes

The transformation and upgrading of industrial buildings into residential units, as well as the construction of new residential complexes replacing derelict housing, are eligible for EIB funding if they are part of an urban renewal scheme. In the case of urban regeneration schemes involving a major transformation of the area, the construction of social housing outside the urban restructuring area to relocate residents (in order to reduce demographic density in the area) can also be supported by EIB financing.

EIB Financing of Social Housing Projects

During the last five years, the EIB has supported 7 major housing improvement schemes **in the United Kingdom**. These include two loans totalling EUR 139.6 million to the Housing Finance Corporation (THFC), a non-profit financial institution which funds the providers of social housing (the regulated social landlords, i.e. housing associations). The Glasgow Housing Association (GHA) was also granted a loan of EUR 219.2 million for the urban renewal programme for the city of Glasgow, based on the regeneration of deprived neighbourhoods through major rehabilitation of housing, the reconfiguration of problem estates including selective demolitions, and environmental improvements. The project involved the transfer of 81,000 homes from Glasgow Council to GHA and a 10-year upgrade programme coordinated by GHA. It has won the **"Municipal Investment Award"** for 2003 from Project Finance Magazine, which highlighted the EIB's innovative approach featuring *"a number of 'bells and whistles'*

that are firsts for the sector, ranging from the introduction of 'second stage transfers' to smaller housing associations which will continue to involve EIB over at least the next 5 years, to a special VAT regime".

However, the majority of EIB-supported housing schemes in the UK are local-impact housing projects through specialised intermediaries such as THFC, Abbey National, HBOS and other key UK institutions. This was the case with the EUR 240 million scheme signed with Bank of Scotland (wholly-owned subsidiary of HBOS). The finance is to be made available as loans to Registered Social Landlords through Bank of Scotland Housing Finance to support medium to large-scale housing improvement programmes, particularly in the less-developed regions across the UK. Also worth mentioning is the EIB loan of EUR 122.7 million to the Sunderland Housing Group for the upgrading of over 36,000 housing units in the city of Sunderland in the North East of England. As much as a third of all homes in the area are affected by the Sunderland programme, part of a broader strategy by both local community and business interests to combat the structural industrial decline in the area.

In Finland, the EIB lent EUR 300 million in 2001 to the Housing Fund of Finland for the rehabilitation of social housing units and construction of energy-efficient housing in urban renewal areas. In charge of the Finnish national housing loan programme, this State agency provides financing for State-subsidised housing construction. Due to the extreme climate in the winter months, which keeps residents indoors most of the time, special attention is given by Finish Authorities to the physical quality and durability of low-cost social housing. New construction applies sustainable technology and old housing is renovated to provide better quality.

In 2003, the EIB granted its first loan for housing **in Spain**. The first EUR 50 million tranche of a EUR 100 million facility approved by the EIB's Board of Directors was made available to the Institut Català de Finances (ICF) for part-financing the construction and refurbishment of rented social housing in urban renewal/regeneration areas in Catalonia. The loan is being used to finance the rental social housing component of the Catalan Housing Plan for 2002-2007, which will increase the stock of rental social housing by at least 4 000 new units.

In Portugal, which suffers from a severely dilapidated housing stock in many city centres and a serious shortage of social housing for rent, the EIB lent EUR 150 million in 2003



to Caixa Geral de Depósitos (CGD) to support housing rehabilitation projects and urban renewal infrastructure promoted by public (mainly municipal and private sector entities throughout the country. The EIB facility meets the municipalities' demand for long-term financing to spread the investment burden and complements local economic development programmes in Objective 1 areas. It will also foster the rehabilitation of old residential buildings, contributing to the preservation of the historic character of Portuguese city centres. This investment will improve health conditions and well-being for many families belonging to the poorer population strata and generate employment in the construction and auxiliary industries. A first loan of



EUR 5 million was granted as far back as 1999 for the rehabilitation of the most dilapidated dwellings in 14 social housing blocks in Lisbon.

With two loans to the Flemish Housing Corporation of EUR 100 m in late 2003 and EUR 75 m scheduled to be signed at the end of February 2004, the Bank also contributed in **Belgium** to the construction of new social housing, the refurbishment of older social dwellings and the conversion of appropriate and otherwise redundant buildings to housing use in selected urban localities. The majority of the renovation schemes were implemented in the context of broader-based urban regeneration strategies and are located in the main urban centres of Flanders (Antwerp, Ghent, Kortrijk, Leuven, etc.) with parts of these cities still qualifying as assisted areas. The Flemish Housing Corporation is a public entity whose mission is to provide technical, financial and administra-

tive assistance to 118 local social housing corporations, co-ordinate their activities and act as a centralised funding vehicle. The EIB long-term finance will help in providing the lowest income categories with housing accommodation at an affordable cost.

Since 2003, the EIB has also become involved in social housing projects in **Germany** (in the city of Berlin and in Saxony) to improve the urban environment and rational use of energy. A EUR 100 million global loan was advanced via Landesbank Berlin (LBB) to the State of Berlin's development bank, Investitionsbank Berlin (IBB), for its rehabilitation/modernisation programme of old (pre-1970) rental housing stock, including investment in energy saving via such measures as better heating and insulation. Another EUR 150 m EIB global loan funded, through Sächsische Aufbaubank GmbH (SAB), the development bank of the Free State of Saxony, social housing

rehabilitation and energy saving projects in urban centres of Saxony. This will help in raising East German housing standards still lagging behind average EU levels. Part of an integrated strategy for urban regeneration, these projects will also generate employment in areas with a high unemployment rate. Both in Berlin and Saxony, final beneficiaries of EIB finance are public and private housing companies/associations and private individuals.

In Austria, the City of Vienna has since 2002 benefited from EIB financial support for the comprehensive long-term improvement of its housing stock (with energy-efficient refurbishment) within an integrated plan for urban renewal and rehabilitation. Total financing of EUR 125 million over the last two years and a further loan of 50 million in early January 2004 were provided, through the City of Vienna and a local bank, Hypo Alpe Adria Bank AG (HAA), to Wiener Wohnen (WW), the City's not-for-profit public housing vehicle. Vienna has a long tradition in social housing and WW is one of Europe's largest landlords, owning nearly 1 in 4 of approximately 900,000 dwellings in the city. The EIB's commitment to social housing improvement will address the development and housing needs of a city suffering from a **rapid** process of transformation due to its role of interface between

the European Union and pre-accession countries. Bringing the facilities up to the required standards will broaden their attractiveness to diverse population groups, re-integrating them within the urban milieu.

To contribute to the sustainable development and restructuring of Eastern European cities in their transition towards EU standards, the EIB is also financing housing projects **in the Acceding countries**. This is especially the case **in Poland** where EIB lending in this sector during the last two years amounted to EUR 213 million. A first project consisted in the financing of small and medium-scale housing programmes aimed at renovating the low-cost rental social housing stock showing evidence of severe deferred maintenance affecting living conditions, as well as for the construction of new energy-efficient rental housing. Investment was mainly concentrated in derelict urban areas with the largest housing deficits. The improved urban environment in cities throughout Poland will help to reduce regional disparities in housing conditions, promote labour mobility and alleviate unemployment. Better energy efficiency will contribute to reduced air pollution and CO2 emissions. A loan of EUR 200 million was granted for this project in 2002 to a local intermediary, Bank Gospodarstwa

Krajowego (BGK), for Housing Construction Associations (TBSs), often majority-owned by individual municipalities, and Housing Co-operatives (SMs) throughout Poland. Another EUR 13 million of EIB financing supported the City of Poznan, for the rehabilitation and upgrading of 50 old buildings (many of them listed) located in or near the historic centre of Poznan and owned by the Municipality. Significant energy-saving components, sanitary fittings and basic services in line with EU standards were included in the project. This represents the first phase of a wider urban renewal programme to improve living standards and foster the attractiveness of Poznan, the fifth largest city in Poland, in order to reverse the "depopulation" trend of its central area. Strategically situated on the Berlin-Warsaw transport corridor, Poznan and its region are among the fastest growing areas of the country. Overall, the project will help the city to offer a better urban environment and converge with EU standards.

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For the Sake of the City

A recent ex-post evaluation⁽¹⁾, carried out by Operations Evaluation with the help of independent consultants, examined in-depth 21 urban development projects financed by the EIB in the European Union. The consultants visited the projects and spoke to the project promoters and other important stakeholders as appropriate. Operations Evaluation also studied the in-house dossiers of another 26 projects to complement the in-depth evaluations, in order to obtain as accurate a view as possible of the EIB's activities in this field.

The European Investment Bank has financed urban development projects for many years. At first it only provided loans for such projects in assisted areas. The focus then was on stimulating economic development in the poorest parts of the EU. However, since the end of the 1980s the Bank has financed these projects throughout the whole Union and the goal has become much broader: to improve urban quality of life and promote greater economic and social cohesion.

In the period covered by the EV report (1998-2001), funding for urban development projects in the European Union totalled EUR 29.5 billion, or 10% of all EIB lending in

the Union. Two thirds of that amount went to urban transport: metro and urban railways, urban roads, tram and bus projects, and combinations of these various elements. The remainder went to "multi-objective, (called "urban use" projects in the evaluation) large urban restructuring projects, such as land reclamation and sewerage systems, the renovation of historical city centres and cultural and historical buildings, and, to a lesser extent, social housing and the development of office space. Examples of all such projects were included in the ex-post evaluation.

The main purpose of ex-post evaluation in the European Investment Bank is to determine whether the investments that the Bank has financed contribute to the realisation of European Union and national

policy objectives and are of good quality. After all, to finance such investment is the raison d'être of the EIB. Ex-post evaluation also looks at the value added by the Bank's involvement.

Multiple objectives....

So why did the Bank finance the urban development projects that the evaluation looked into? According to the report, for many reasons. Typically, the range of objectives listed in the project documentation was extensive. For a single project, the objectives might include promoting economic development, reducing traffic congestion or increasing the reliability of the transport system, attracting foreign and domestic visitors, and so on. With that many objectives – often without an obvious order of priority – it becomes very difficult to determine ex-post how well the project performed and whether it should be considered a success or failure.

Faced with this situation, the evaluators took an unusual step. In retrospect, working on the basis of European Union and national policy objectives, they reformulated a set of seven fundamental objectives:

(1) "EIB Financing of Urban Projects in the EU", July 2003

- **Promote economic development**, for example by contributing to economic activity, or by overcoming bottlenecks, especially in urban transport.
- **Improve capability (capacity and reliability) of urban public transport.** This can be done by reducing journey times or by creating new direct connections, by improving the quality of service, etc.
- **Improve physical attractiveness, ambience or image of the urban environment**, for example by providing local rest and recreation facilities such as parks and promenades, or promoting public image projects that receive widespread public and political support.
- **Enhance the environment.** In an urban context, a typical example is the decontamination of polluted and derelict land.
- **Maintain European heritage**, for example by renovating historical buildings or city centres.
- **Strengthen the compactness of the European City.** One of the benefits is the preservation of open landscape by restricting urban sprawl; another is increased employment options and consumer choices.
- **Maintain social cohesion**, by reducing disparities within large conurbations.

Judged against these objectives, the vast majority of the projects that were evaluated in-depth, were successful. Based on the measurements of actual traffic, changes in modal distribution and financial performance, all transport projects met their key objectives and the promoters' needs. The urban use projects were also considered effective, with the exception of one programme that was too diverse to evaluate and one project the outcome of which was poor.

...but difficult to gauge

This generally positive judgment was based on the data collected during the evaluation.

In transport projects, particularly urban metro and public transport projects, one of the prime objectives was to reduce traffic congestion by achieving a transfer of users from private transport. However, that effect was difficult to monitor as were the wider benefits. It may be understandable that promoters have difficulty monitoring the wider benefits associated with their investments, but often they are important. For example, the projects' contribution to improving the environment is a secondary objective in urban transport projects, but the projects' benefits in this area are difficult to gauge.

The availability of data on whether urban use projects are meeting their objectives was generally limited. For example, for three projects the promoters could not provide the data for the main indicator of success (theatre attendance for restored theatres, number of non-local visitors to an extended trade fair, number of visitors on a new promenade).

When issues such as these are pinpointed, Operations Evaluation discusses them with the operational directorates and makes recommendations to improve the Bank's activity as required. The evaluation of urban development projects identified other issues as well, of two kinds: at project level and concerning the Bank's added value.

Project issues

One of the problems observed at project level was unproductive competition. Regions and cities compete with each other on many fronts, including on investment and finance. The positive effects of competition are well known: it is often one of the drivers of efficient public action. But when access to attractive finance, such as the EIB's, comes into play, investment decisions might be inspired by a "me too" attitude. This can stand in the way of an efficient allocation of

funds; in some cases competing investments may actually harm each other. Only in three out of the 21 projects evaluated in-depth, the evaluators found some evidence of unproductive regional competition. In one urban use project, two access roads were constructed to a deserted harbour with the objective of reviving activity, even though some kilometres south – but in another county – there was a bigger harbour with idle capacity. Another example of unproductive competition was the extension of a trade fair, which was fuelled by inter-city competition, but was situated in a market segment that already suffered from excess supply.

Some of the EIB's lending for urban development went to grouped projects, with the number of projects ranging from two to several hundred. Grouped loans or Framework loans are not necessarily a problem, the crucial factor being the organisation and procedures on the promoter's side. However, in the case of the large programme loan for hundreds of urban projects, implemented by a series of promoters in one of the Union's capitals, it was a problem. The evaluation concluded that it was simply impossible to know whether the objectives of the projects were achieved beyond their physical implementation.

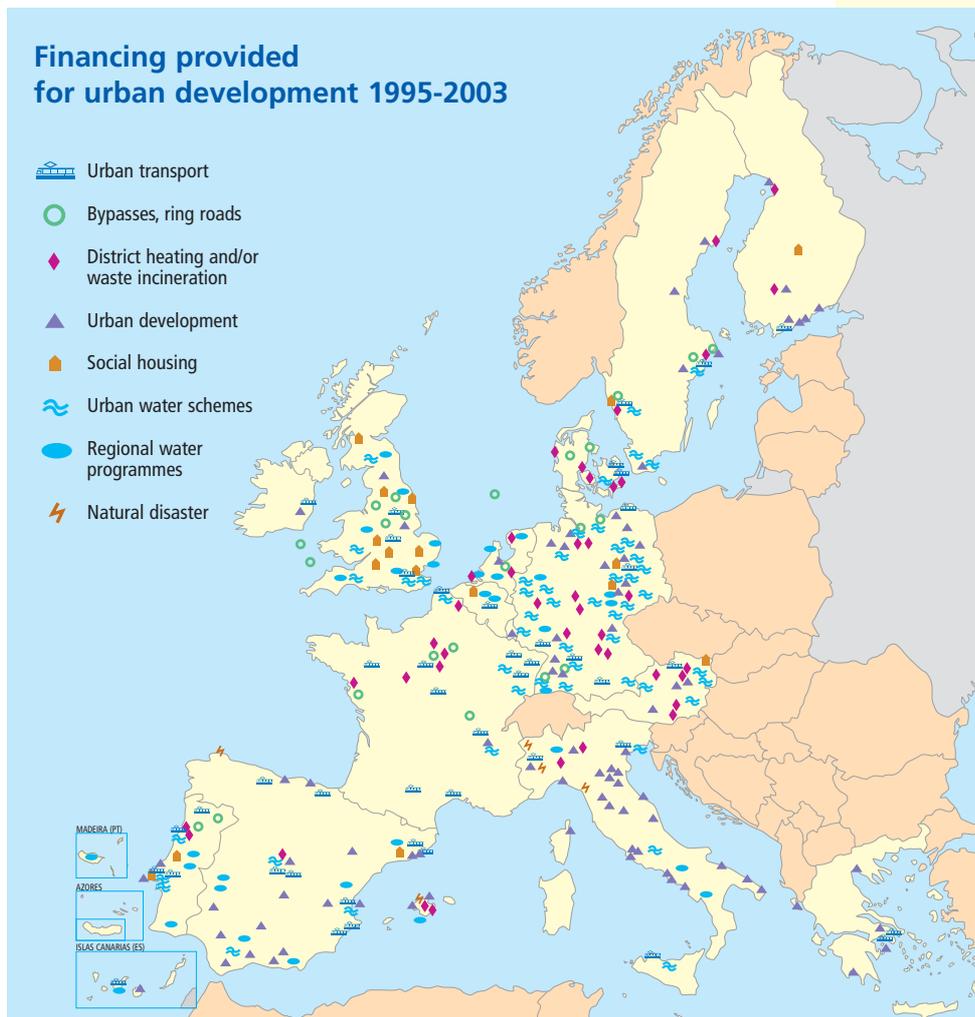
A third project issue concerned the participation of the private sector in urban development projects. Public Private Partnerships as such were not the subject of the evaluation, but there were ten of them in the combined in-depth / desk review sample. Half of them, four urban transport projects and one urban use project, faced problems because revenues were lower than anticipated or were seriously at risk. The causes were the non-acceptance of (increased) tolls by local users, actual traffic turning out lower than expected, and a downturn in property market prices. After public intervention, four out of the five

projects went on to achieve satisfactory results. However, the PPPs that experienced problems show that risk allocation between public and private stakeholders is a crucial issue. These PPPs were among the first financed and the Bank has accumulated vast experience, also in risk allocation, since.

EIB issues

The EIB's involvement can add value in at least two ways: technical and financial. The Bank normally deals with competent promoters in the European Union and contributing technical value added beyond the Bank's due diligence is rarely possible. But even due diligence can be an important contribution. The evaluation gives positive marks for the Bank's project appraisal procedures. Nevertheless, in three of the 21 urban development projects, the evaluators detected superior design alternatives producing equivalent or

The evaluation made a qualitative judgment of the Bank's financial value added, distinguishing three levels. The first level of value arises from the loan's terms and conditions. The Bank's comparative advantage in this respect has been progressively eroded in the decade since most of the projects in the urban development evaluation were financed, but borrowers still mention flexibility on repayment options, loan tenor and grace period on repayment of principal as features that differentiate the EIB from other lenders. A second level of value is added through the Bank's quality stamp: the fact that the Bank agrees to a loan has often acted as a catalyst that brings in further finance. The evaluation shows that this aspect of financial value added remains important, half of the projects having been co-financed with other lenders. The Bank adds most value when it provides financial expertise, offering innovative and attractive finance structures. Among these projects financed in the 1990s, there was one



such case. In that particular case, a PPP, the Bank also accepted project risk and drew in other sources of finance.

Learning from the past

By covering issues that are very much in the spotlight today, the ex-post evaluation of urban development projects not only looks back, but also helps the EIB to fulfil its role as the European Union's finance institution in future operations. There are lessons learned concerning the sector, but the evaluation also points at wider issues that the Bank must continue to address: awareness of regional competition, the problems that must be

dealt with in grouped or Framework loans, the importance of risk allocation in Public Private Partnerships, and the way in which the EIB can best add technical and financial value.

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Visit of Hungarian Prime Minister



P. Medgyessy,
P. Maystadt,
W. Roth

Prime Minister of Hungary Mr. Péter Medgyessy who paid an official visit to the Grand Duchy of Luxembourg met President of the European Investment Bank Mr. Philippe Maystadt and EIB Vice-President Mr. Wolfgang Roth on 3 December 2003.



The Prime Minister, who was accompanied by Mr. Imre Réthy, State Secretary of the Ministry of Economy and Transport and Mr. István Salgó, Deputy State Secretary of the Ministry of Finance and Mr. János Eros, Chief Executive Officer of the Hungarian Bank for Development, discussed with EIB representatives development of Hungarian infrastructure, especially the project for extension of the Hungarian motorway network and upgrading of the Budapest metro in addition to EIB support in other fields such as research and development.

EIB lending policy in Hungary is focused on financing invest-

ment projects that contribute to economic integration of Hungary into the EU and help to implement European standards in various sectors such as the environment. This includes support for investment in transport and the environment, energy and communications, industry and foreign investment, in addition to future possibilities in areas such as health and education. The EIB has also extensively co-financed European Union funds, under the ISPA programme, and this will continue with EIB support for Cohesion and Structural Funds financing.

Since 1990, the EIB has lent over EUR 23 billion in total in

Central and Eastern Europe. Loans provided to Hungary so far amount to EUR 3.2 billion, of which EUR 1.252 billion (almost 40%) has gone to transport projects. Global loan facilities aimed at supporting small and medium-scale projects exceed EUR 700 million (approx. 20% of total loans provided to Hungary).

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