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(see article page 2)

Session I: from left to right, B. Hendricks, I. Mikloš, W. Roth, D. Hübner, P. Haran.

New EIB Vice-President

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(see article page 5)

European Parliament discusses Lisbon agenda with Philippe Maystadt

Praise for EIB's progress on transparency

Under the chairmanship of MEP Ms P. Berès, some twenty members of the European Parliament's Committee on Economic and Monetary Affairs (ECON), together with external experts from the Commission's Group of Policy Advisers, the banking industry and NGOs, gathered in Brussels on 23 November 2004 to discuss the Bank's contribution to the Lisbon Agenda with EIB President Philippe Maystadt. President Maystadt's meeting with ECON was one of numerous ongoing contacts that the EIB has established with parliamentary committees (see article page 11).

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"Investing in the New Member States"

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The President then set the Forum's agenda: "we shall tackle an issue that is most important for the European Investment Bank, as its main task is to support the overall harmonious development of the Union and, in particular, to reduce economic disparities between the different regions. We shall discuss how the new Member States will make up ground economically; look at their national development plans and how these are linked to the Union's policy on cohesion; examine the strategies for achieving balanced regional development within the new EU countries; and also discuss financing issues such as small and medium-sized enterprises' access to finance. The theme throughout will be how the limited financial resources can be used efficiently to help bring about sustained economic growth and improve living standards.

Up to now, the European Investment Bank has been the single most important source of external funding for the new Member States – the Bank's lending since 1990 amounts to EUR 27 billion. Now, the EU Structural Funds are set to become a highly significant source of external finance. They are, however, not intended to replace private capital, but to provide additional resources to co-finance investment projects – the Structural Funds and national budgets on the one hand, and private capital on the other. The need for infrastructure investment in the new EU countries is enormous and this investment cannot be financed without raising private capital.

The European Growth Initiative decided on by the European Council last year is also relying on the use of private capital to finance infrastructure projects and R&D investment. The EIB supports the Growth Initiative, and is ready to fund the building of infrastructure with long-term loans of EUR 50 billion in the period up to 2010. Much of the planned investment in transport will take place in the new Member States and will be used to extend the trans-European transport networks. This investment is urgently needed, because better transport links are essential for ensuring that the new Member States are able to participate fully in the European internal market.

Consequently, the Bank has so far focused on financing investment in transport infrastructure. Indeed, 46% of the EIB's total lending in the region has targeted all modes of transport, from roads, railways and ports to airports. Much has been achieved but even more remains to be done. In particular, investment in cross-border links needs to be accelerated and coordinated at EU level.

But the need to improve cross-border links should not distract us from the necessity to have national transport systems that promote integration within the new member countries. Often, transport investment tends to favour capital cities and prosperous industrial regions. In contrast, less developed and remote regions are frequently left out. As adequate infrastructure is a requirement to attract private investment, there is a risk that disparities among regions

P. Maystadt and M. Belka, Prime Minister of Poland.

could become larger over time. Here we need to be attentive.

Now that the new member countries have access to the Structural Funds, their interest in public-private partnerships (PPPs) for infrastructure investment has been reawakened. Through grants from the Structural Funds, many PPPs could be turned into profitable operations. PPPs make it possible to overcome budget shortages and move ahead with investment. But their key value is that they focus minds on the viability of projects and enable infrastructure to be built and operated more efficiently, with the State capitalising on the productivity of the private sector. Ultimately, PPPs are about a new division of labour between the State and the private sector, aimed at creating a more efficient public sector. When budgets run out, the public sector has to become more efficient, everywhere in Europe. The EIB has experience of PPPs throughout Europe and has to date lent some EUR 14 billion for around 160 PPPs. And we would like to bring that experience and knowledge to the new Member States.

So far, foreign direct investment has provided major support for the new member countries in modernising their economies and making them more competitive, because such investment not only means injecting capital, but also the transfer of technical expertise and knowledge of external markets. The EIB therefore has been - and will continue to be - keen to finance foreign direct investment.

At present, pay differentials are probably the strongest attraction for foreign investment. In the long term, though, increasingly important aspects for investors are likely to be the training of the workforce, professional skills and scientific excellence. Our aim must be for more research centres and high-technology businesses to become established. This is likely to be of great

importance for the new Member States, as it could counteract the "brain drain" that is currently weakening their economies and societies.

The enlarged EU is faced with major challenges: we must enhance innovation and competitiveness so as to counter new and very competitive rivals from other parts of the world. We must achieve higher economic growth to combat social tensions and social exclusion in our societies. However, the resources for this are limited. National budgets are stretched almost everywhere, and will become more so as our population ages further. We therefore have no choice but to improve the efficiency of our economies, including the public sectors, and use the financial resources that are available in the best possible and in a forward-looking way. The European Union's future political weight and influence in the international arena will depend on the way in which it rises to these challenges."

The Forum's keynote speaker was the Polish Prime Minister, **Marek Belka**. He evoked the fifteen years of "transition", which had been "very busy years, overloaded with change, but during which more was achieved than in many Western countries over decades". The common goal of joining the EU, shared by the political parties and the population, had provided the political will to bring about change and political stability, more stability than the many Prime Ministers that Poland had seen coming and going might suggest. Poland as well as the other Central and Eastern European new members of the Union were now no longer "transition countries" but "catching-up countries" that were poised for

strong long-term growth. Much change still lay ahead, with the next goal being to join the eurozone. "People have got accustomed to change, and this creates dynamism that may affect positively the highly developed and established Western Europe". The Prime Minister thanked the EIB for its financial support over the last fifteen years and for its "policy-related know-how, good advice and efficiency".

In the first session on policy strategies for regional development, the new Commissioner for regional policy, **Danuta Hübner**, presented the main lessons from the European Commission's report on social cohesion and the approach taken in the new Member States. Slovakia's Deputy Prime Minister and Minister of Finance, **Ivan Miklos**, explained the country's tax and labour market reform, which had made it a highly business friendly and dynamic country, and left no doubt that Slovakia would give preference to fast economic growth first and to regionally balanced development only second. A representative of the Irish Ministry for Enterprise, **Paul Haran**, highlighted a number of factors in Ireland's success, notably the efficiency of central government and administration, learning of lessons from others, focus on the needs of the markets and efficient use of the Structural Funds as well as tax incentives and foreign direct investment. Against the success story of these two smaller countries, it was more difficult for the Secretary of State of Germany's Ministry of Finance, **Barbara Hendricks**, to highlight Germany's experience with regional policy.

The second session was dedicated to the development of regional infrastructure and the priority attributed to transport, environmental protection and education in the National Development Plans of the new Member States. Speakers from Poland, Deputy Minister **Krystyna Gurbiel**, and Hungary, State Secretary **Imre Rethy**, took the floor and discussed the preparation and selection of projects, cooperation with the European Commission and financing provided by the Structural and Cohesion Funds, particularly for building pan-European transport corridors and TENs. They underlined the need to mobilise private funds to complement public funds in order to progress faster, and the Greek Deputy Minister of Economy and Finance, **Christos Folias**, discussed his country's experiences with public-private partnerships for infrastructure projects.

Additional information, including the list of the EIB Forum speakers and their presentations, can be found on the EIB Website: www.eib.org/forum

The third session, on restructuring and modernising industry, was introduced by Professor **Stefan Collignon** of the London School of Economics. He underlined the significant contribution that foreign direct investment (FDI) has made to the restructuring of the new Member States' capital stock, and discussed the importance of good governance, tax systems and exchange regimes for attracting FDI. He dismissed "old" Europe's obsession with "relocation" to new Member States and pointed out that the real challenge is Asia, not Central and Eastern Europe. **Radomil Novak** of CzechInvest explained its approach to attracting FDI, and **Brigitte Ederer** of Siemens/Austria provided an example of a large transnational company's strategic approach to Central and Eastern Europe.

The fourth and last session centred on financing infrastructure and

from left to right, B. Hendricks, W. Roth.
Dinner at the Polytechnical University

modernising industry. **Graham Meadows**, the European Commission's Director-General for Regional Policy, explained the strategic orientation and functioning of the Structural and Cohesion Funds, while **Ingrid Matthäus-Maier** gave an overview of KfW's activities in Central and Eastern Europe. **Heinz Knotzer** of Ceska Sporitelna/Erste Bank, an EIB partner bank, demonstrated a successful SME financing scheme, and **Jacques Guerber** of Dexia Crédit Local/France discussed innovations in financing municipal infrastructure that will shortly also be seen in Central Europe; he also saw good prospects for more public-private partnerships. **Laszlo Wolf** of OTP Bank/Hungary outlined the remarkable development of the only fully independent bank in the region, which went from a slow, undeveloped bank to rapidly become a highly profitable and fast-growing innovative leader, offering a wide range of credit products to finance SMEs at every stage of their life cycle. This led EIB Vice-President **Wolfgang Roth** to ponder whether the Western European banks and their Eastern European affiliates did not have something to learn from OTP's success. Finally, **Terence Brown**, the EIB's Director General for lending operations in Europe, discussed the EIB's role in the provision of innovative and long-term financing for the integration of the new Member States of the Union. His focus was on financing the extension of infrastructure links with the rest of the EU, the EIB's ample experience in financing public-private partnerships, and support for the further development of technology, innovation and human capital. He concluded that the increasing sophistication of financial markets in the new Member States is fuelling demand for more innovative funding structures from institutions such as the EIB.

The next EIB Forum will be held in autumn 2005

New EIB Vice-President

Torsten Gersfelt has been appointed Vice-President of the European Investment Bank with effect from August 2004, on a proposal from the shareholder constituency of Denmark, Greece and Ireland.

T. Gersfelt and M. G. Tutty

Mr Gersfelt is a Danish citizen and succeeds **Mr Michael Tutty,** who ended his four-year term and was conferred the title of Honorary Vice-President of the EIB. Mr. Gersfelt takes over the same portfolio within the EIB's Management Committee, and his supervisory responsibilities include financing operations in Denmark, Ireland, the Netherlands, the ACP States and South Africa, the Cotonou Agreement Investment Facility, project appraisal and ex post evaluation, regional development policy, general aspects of global loans, and staff training.

Since 1997, Mr Gersfelt had been the Danish representative on the Board of Directors of the European Bank for Reconstruction and Development (EBRD) in London (Constituency of Denmark, Ireland, Lithuania and the Former Yugoslav Republic of Macedonia). In 2003-04, he served as Chairman of the EBRD Board Steering Group and "Informal Board".

Mr Gersfelt previously held the positions of Deputy Permanent Secretary at the Ministry of Economic Affairs (1992-97), and Chief Economist at the Ministry of Taxation (1987-92), in Copenhagen. He began his career as an economist with the Danish central bank, Danmarks Nationalbank (1972-87). Between 1978 and 1980, he was posted as financial attaché at Denmark's Permanent Representation to the European Communities in Brussels.

Torsten Gersfelt was born in 1945 and holds a master's degree in economics from Copenhagen University. He is married and has two children.

Mr Gerrit Zalm, Dutch Minister of Finance, and Mr Philippe de Fontaine Vive, EIB Vice-President in charge of FEMIP

Second FEMIP Experts Committee meeting in Amsterdam

FEMIP calls for extension of trans-European networks (TENs) and strengthening of public-private partnerships (PPPs) in water and transport sectors in the Mediterranean region

Under the Dutch Presidency of the European Union, the Experts Committee of the Facility for Euro-Mediterranean Investment and Partnership (FEMIP) met for the second time in Amsterdam on 25 and 26 October 2004.

Conceived as a think tank and tasked with putting forward practical and operational recommendations to FEMIP's Ministerial Committee, made up of the Economics and Finance Ministers of the EU and the MPCs, this Committee was chaired by **Mr Gerrit Zalm**, Dutch Minister of Finance, and **Mr Philippe de Fontaine Vive**, EIB Vice-President in charge of FEMIP.

Mr Zalm stressed that: "While this meeting is focusing on specific sectoral issues, its underlying aim is to develop a better business climate. This is FEMIP's primary objective. The challenge is to reduce the cost of doing business through regulatory reforms that will enhance the quality of the investment climate. This can increase annual economic growth by up to 2% and result in productive jobs, profitable businesses and poverty alleviation. There is still ample opportunity to increase growth through further reducing the administrative burden and introducing 'smarter' regulation in both regions. I would therefore welcome an initiative from FEMIP to discuss recent regulatory reforms and remaining challenges at the Ministerial Meeting in Morocco next year".

The speakers – senior representatives of EU countries and MPCs, banks, industry, business organisations, academic institutions and the European Commission – sparked a fruitful exchange of views among the 100 or so participating experts. They concentrated on the role of private sector participation (PSP) and the appropriate financial instruments for developing the water/sanitation and transport sectors in the Mediterranean region. More specifically, they called for the creation of a Euro-Med Transport Network and more frequent involvement of the private sector in the management of water/sanitation and transport services.

The first session, on water and sanitation, was chaired by **Mr Gérard Payen**, a member of Kofi Annan's Advisory Board on Water and Sanitation and of the World Panel on Financing Water for All, while the second session, devoted to transport, was chaired by

Mr Alfonso Gonzalez-Finat, Director in the Directorate-General for Energy and Transport of the European Commission.

The participants reached the conclusion that, for both sectors, the MPCs and international finance institutions (IFIs) should focus their attention and support on:

- the need for public-sector capacity building, in terms of planning and regulation;
- the need for tariff reform to ensure cash flow for the expansion of water/sanitation and transport services;
- the identification and preparation of sound projects;
- the encouragement of a public-private partnership (PPP) strategy;
- the expansion of the local private sector's role;
- the progressive development of local currency lending to reduce the exchange risk.

To these ends, it is proposed to:

- improve donor coordination in order to to (a) develop coherent projects and a sectoral framework and (b) optimise the mix of available funding instruments for projects with regard to their revenue potential (loans) and social and environmental impact (grants);
- use available financing resources to (a) support institutional restructuring, (b) develop environmental the capacity of the public sector to create and regulate PPPs and (c) provide technical assistance for regulation;
- foster the development of PPPs: initially, mainly to improve services and private funding; and subsequently, if this adds value, along two lines:
  - promoting the transfer of operational know-how from international private operators;
  - encouraging the local private sector to supply specific sector expertise to public entities;
- consider developing sub-sovereign and local currency lending instruments for funding investment and lowering exchange risks for infrastructure services remunerated in local currencies.

Mr Philippe de Fontaine Vive, said: "We are all committed to achieving results in the development and management of effective water resources, which are a key prerequisite for sustainable growth. Creating an environment conducive to private investment is essential and particularly relevant for the Mediterranean region, which is an area with a high, if not the highest, level of water stress. Building on its experience, FEMIP believes that reducing water and sanitation deficits requires a combination of reforms from governments, a supply of expertise from private enterprises and different types of funding from a wider range of sources."

"A few months after a new phase of enlargement, which has redrawn Europe's borders", continued Mr de Fontaine Vive, "FEMIP has considered it crucial to put on its agenda the extension of the TENs to the Mediterranean partner countries, which are now, more than ever, Europe's new neighbours. I believe that the financing of an expanded transport network, designed to strengthen economic, social and cultural ties between the two shores of the Mediterranean, represents a significant opportunity for cooperation between all the financial institutions active in the region. FEMIP is meant to examine the options for financing and managing efficiently the principal infrastructure necessary to establish a large Euro-Mediterranean area as aspired to under the Barcelona Process, as well as determining how FEMIP itself can best serve this goal."

In his closing address, Mr de Fontaine Vive noted that: "Funds are ready to flow into well-structured sectors and viable projects in water/sanitation as well as transport in the MPCs. FEMIP's lending in 2003 and 2004 is in the order of EUR 2 billion, of which some 50% for the private sector. FEMIP should now establish itself as the benchmark for the Euro-Mediterranean economic partnership."

Since 1995, out of a total of EUR 11.9 billion in the MPCs, environmental lending has amounted to some EUR 2.4 billion, i.e. 20% of total lending in this period (of which half for water and sanitation), while lending for transport projects likewise reached EUR 2.4 billion (21%).

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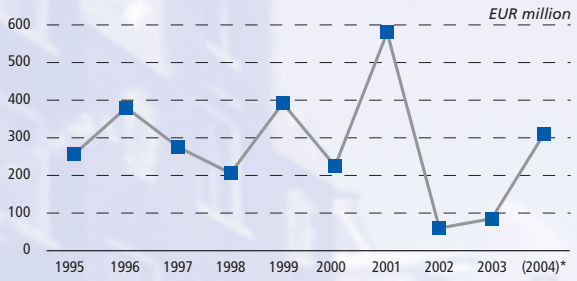
Lending for the environment in the Mediterranean partner countries (MPCs)

Trend of FEMIP environmental lending in the Mediterranean countries

*1995-2004**

FEMIP environmental projects declined in 2002-2003 as regional priorities shifted and subsidies from MEDA were reduced.



**Estimate*

FEMIP puts particular emphasis on the protection of the environment. It plays an active role in implementing the environmental policy of the Union. Not only does FEMIP finance projects protecting and upgrading the environment, reducing pollution and improving the quality of life, but it also assesses the environmental impact of all projects it considers for financing. All borrowers are encouraged to take steps that go beyond the minimum legal requirements.

The environment has always been a priority in the region, partly because of the scarcity of water resources. In addition, pollution does not respect borders – some 90 million European Union inhabitants living in the Mediterranean catchment basin share a precious common heritage and a challenge to the quality of life with the MPCs on the southern and eastern borders of the Mediterranean. In the spirit of the Barcelona Process and of true partnership with the countries in the region, environmental remedies and protection measures require an international response. Here FEMIP is well placed to play a significant role by financing projects on both sides of the Mediterranean. Substantial funds have been made available for drinking water, urban sewerage, and wastewater treatment projects in EU Member States along the northern Mediterranean coast, as well as in Algeria, Egypt, Gaza/West Bank, Jordan, Lebanon, Morocco, Tunisia and Turkey, including the large conurbations of the eastern Mediterranean region.

Such schemes improve the living conditions of the local population. They also promote economic development by stimulating new economic activity in tourism, which is of particular interest to all the Mediterranean countries. Sustaining rural development and employment is also important. This is why FEMIP has funded cooperative agricultural sector ventures in most of the countries, as well as projects for the conservation of farmland through irrigation schemes in the Nile Delta, Morocco and along the Syrian coast. Responding to natural disasters, e.g. floods, forest fires and earthquakes, FEMIP has also increased its lending for reconstruction projects. Its loans have focused on the reconstruction of damaged infrastructure and short-term clean-up operations, but also on preventive investment, in particular flood prevention.

Traditionally, FEMIP loans for environmental protection have concentrated on water and sanitation projects. However, investment to reduce atmospheric pollution or improve urban transport and waste management is equally eligible for FEMIP finance.

FEMIP has supported projects in the environmental protection sector with some EUR 2.4 billion in loans in the ten-year period since 1995, representing some 20% of its lending during this time. Loans went to:

- projects to collect, monitor, treat and distribute drinking water supplies, as in Algeria (Algiers, the Oran region, and the towns along the Tizi Ouzou-Algiers axis), Gaza/West Bank (southern West Bank, and mainly around the Hebron/Bethlehem area), Jordan (Amman, Irbid, Zarqa and Souf) and Morocco (six major Moroccan towns, including Marrakech);

- municipal sewerage and sewage treatment schemes in Algeria (Algiers, Wilaya de Boumerdès), Egypt (Cairo), Gaza/West Bank (southern West Bank including Bethlehem), Jordan (the towns of Fuheis, Mahis, Salt, Irbid, Ramtha, Madaba, Zarqa and Ma'an), Morocco (Settat and Meknès), Tunisia (Tunis, Menzel, Bourguiba, M'saken, Monastir, Kelibia, Medenine and Sousse) and Turkey (Bursa, Adana, Mersin, Diyarbakir, Izmit and Tarsus);

- investment to reduce air pollution from coal-fired power stations, refineries and other industrial plants in Tunisia (rehabilitation of the Southern Lake in Tunis, cleaning up of Groupe Chimique's industrial site in Gabès) and Turkey (desulphurisation equipment at the Yeniköy power station on the Aegean coast);

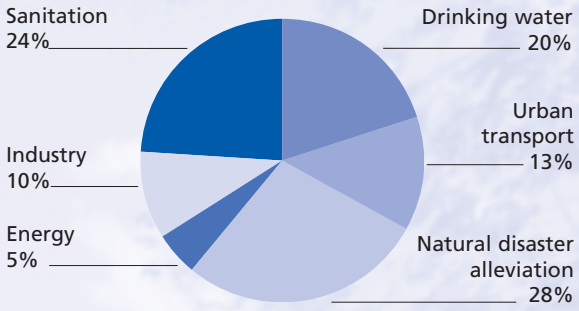
- investment in urban development, mainly transport projects: Algeria (Algiers ring road), Egypt (Cairo Metro line 2), Jordan (Amman ring road), Tunisia (Tunis ring road and light metro) and Turkey (Bursa and Eskisehir light metros);

- FEMIP has also made a facility available to part-finance investment in environmental protection undertaken by the private sector in tourist resorts in the Gulf of Aqaba, Gulf of Suez and Red Sea. This long-term funding is expected to provide a solid incentive to hotel promoters to invest in pollution abatement infrastructure and optimise the use of scarce water and other local resources in a context of rapid sector growth.

Lending to projects in the environmental sector is a major objective for FEMIP, but it faces a number of key constraints in the region: weak institutional frameworks, national budgetary constraints and insufficient project preparation and implementation capacity. The opening of FEMIP offices in the region (Cairo, operational since 2003, and Rabat and Tunis, coming up soon) along with the planned provision of enhanced technical assistance for the region should help to reinforce FEMIP's environmental activity in the region.

Lending for the environment in the Mediterranean partner countries

1995-2004: EUR 2.4 billion*



**Estimate*

Lending for transport in the Mediterranean partner countries

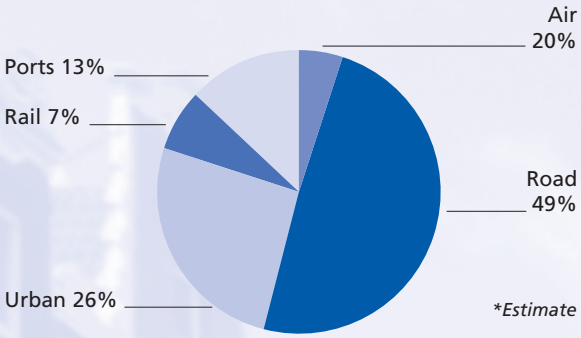
Since ancient times, transport has been strengthening the common features of the peoples around the Mediterranean by enabling communications and trade. The economic development of the Mediterranean area, as well as the establishment and at a later stage the smooth operation of the Free Trade Area in the region, will depend to a significant extent on expanding and strengthening the links between the MPCs themselves (South-South links), as well as their collective and individual links (North-South links) with the neighbouring Enlarged European Union and its internal market of some 450 million consumers.

Integration needs a physical base. In its drive to promote the integration of the Euro-Mediterranean area in the framework of the Barcelona Process, and on the basis of the proven track record of European integration, FEMIP has also funded the creation of the necessary physical links in the Mediterranean region: national and regional infrastructure facilitating trade, personal exchanges and the use and distribution of common resources. It has likewise been actively working on extending the intra-EU Trans-European networks (TENs) for transport, telecommunications and energy to the Mediterranean region.

Amounting to EUR 2.4 billion, projects in the transport sector account for 21% of the total FEMIP loan book in the region in the period since 1995. Transport projects supported include road, rail, air and maritime links.

Lending for transport in the Mediterranean partner countries

1995-2004: EUR 2.4 billion*



• Road development has been the focus of financing in this 10-year period, attracting a total of more than EUR 1.0 billion or 49% of aggregate lending in the transport sector. Most of the large projects co-financed are sections of South-South ring roads and links to TENs. Examples are to be seen in Algeria (trans-Algerian East-West motorway), Egypt (North African highway), Jordan (Amman-Aqaba highway), Lebanon (Beirut-Tripoli trunk road), Morocco (Rabat-Fès and "Autoroute du Nord" motorways), Tunisia (M'saken-Sfax motorway and the link around the lake of Bizerta) and Turkey (Adapazari-Bozuyuk and Ankara-Samsun priority roads). FEMIP finance has also been channelled into improvements to national and interregional road transport links.

• In terms of improving the quality of life, financing has supported urban transport projects in the Mediterranean partner countries for a total of EUR 566 million in the period since 1995. Examples of urban transport projects in Mediterranean cities include schemes in Algeria (Algiers ring road), Egypt (Cairo Metro line 2), Jordan (Amman ring road), Tunisia (Tunis ring road and light metro) and Turkey (Bursa and Eskisehir light metros).

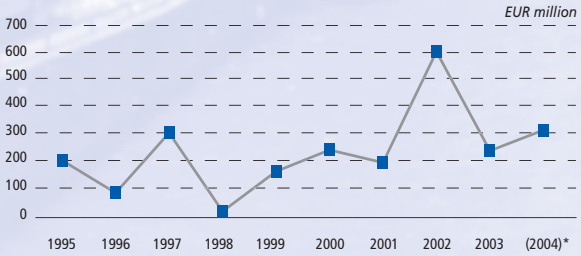
• Ports are a major transport node for the Mediterranean countries. In this 10-year period, funding provided amounted to a total of EUR 288 million, i.e. 13% of FEMIP's transport lending. Major projects are in Lebanon (port of Tripoli), Morocco (9 major ports - Agadir, Casablanca, Mohammédia, Jorf-Lasfar, Kenitra, Nador, Mehdia-Kenitra, Sidi Ifni and Tangiers), Syria (port of Tartous), Tunisia (major port infrastructure rehabilitation) and Turkey (container handling equipment in Haydarpasa-Istanbul, Mersin and Izmir).

With a total of EUR 165 million over the period since 1995, funding has contributed to the development of several railway lines, including in Morocco (Marrakech-Casablanca main line and Sidi Kacem-Fès line) and Tunisia (Tunis-Sfax-Gabès main line).

For air transport, funding provided amounted to a total of EUR 115 million in the period since 1995 for projects in Algeria (air traffic control system), Egypt (renewal of the Egyptair fleet) and Lebanon (air traffic control system).

Trend of FEMIP transport lending in the Mediterranean partner countries

*1995-2004**



** Estimate*

European Parliament discusses Lisbon agenda with Philippe Maystadt

Praise for EIB's progress on transparency

Under the chairmanship of MEP Ms P. Berès, some twenty members of the European Parliament's Committee on Economic and Monetary Affairs (ECON), together with external experts from the Commission's Group of Policy Advisers, the banking industry and NGOs, gathered in Brussels on 23 November 2004 to discuss the Bank's contribution to the Lisbon Agenda with EIB President Philippe Maystadt. President Maystadt's meeting with ECON was one of numerous ongoing contacts that the EIB has established with parliamentary committees.

Listening to the elected representatives of the Union's citizens and explaining the Bank's action to them is one of the many ways in which the EIB gives concrete meaning to its policy of transparency, dialogue, and accountability. At the ECON meeting, the EIB's increased openness was commended by MEP Alain **Lipietz**, who is the draftsperson for the next EP resolution on the EIB's 2003 Annual Report. Mr Lipietz called the Bank "one of the most advanced international financing institutions" insofar as transparency policy and political accountability are concerned. Ms **M. Stockiewicz** of the NGO CEE Bankwatch Network confirmed this view, even if the implementation of some of the Bank's policies could still be improved at times, she said.

The ECON meeting with Mr **Maystadt** presented an opportunity to assess how the Bank's transparency policy applied to the Lisbon agenda. The Agenda's objective is to build a competitive European economy based on knowledge and innovation. After the European Council adopted this ambitious objective at its meeting in Lisbon in March 2000, the EIB Group set up its Innovation 2000 Initiative (i2i) to increase its financing of research and development, innovative small and medium-sized enterprises, human capital formation, technology networks and innovation in the audiovisual sector. In the meantime, i2i has been renewed as the Innovation 2010 Initiative, underlining the Bank's commitment to stay deeply involved in the implementation of the Lisbon agenda.

Since 2000, the EIB has already approved loans for a total of EUR 21 billion, while the EIF, the venture capital arm of the EIB group, has invested EUR 3 billion in i2i projects. These are significant amounts, but as Professor Sapir of the Commission's Group of Policy Advisers underlined, not sufficient in themselves to achieve the overall Lisbon objectives. According to Sapir, EUR 200 billion in investments would be necessary for the European Union to catch up with the United States in terms of research and education. Mr Maystadt explained that the best way to achieve the Lisbon objectives was to use the budget lever, in other words to optimise the combination of budget grants from the European Union or the Member States and EIB loans. Cooperation between the Commission and the EIB was crucial to ensure coherent implementation of innovation policy, including through tripartite investment programmes with recipient countries.

If the Bank's contribution was not sufficient by itself, it was nevertheless an important building block in the realisation of the Lisbon objectives. The external experts from the banking sector – Ms **A. Perrazzelli** of Banca Intesa S.p.A. (Italy) and Mr **P. Scott** of Barclays (UK) – both stressed the important contribution that EIB global loans arranged with their banks made in supporting SME initiatives in i2i sectors.

Technology Transfer Accelerator ("TTA"): an EIF initiative to bridge the seed financing gap

In June 2004, the EIF's Advisory Services Division launched a unique initiative to develop a risk capital and technology transfer vehicle. The Technology Transfer Accelerator project (TTA) seeks to assess the feasibility of a new type of investment vehicle focused on financing the commercialisation of the results of research. Its aim is to bridge the financing gap between research and early-stage investment through a new scheme that could be implemented by the European Investment Fund (EIF) and the European Investment Bank (EIB).

The phase that the TTA typically addresses comprises the validation of an invention from a technology and intellectual property point of view, filing of patents, in-licensing of complementary patents, identification of potential market applications, evaluation of market potential, development of prototypes, assembly of a management team, drafting of a first business plan and signature of the first contracts with the very first customers. For simplicity, we call this phase the seed phase, though venture capitalists, especially in Europe, use the same term in a looser way, sometimes to describe the next stage of development, at which they start to invest.

The TTA is a consulting assignment carried out on behalf of the European Commission's Directorate-General for Research. It is undertaken by the Advisory unit of the European Investment Fund. EIF Advisory is a new activity that was started at the end of 2003 and provides assistance and advice in the areas of SME finance, venture capital and guarantees. It provides both strategic advice and operational support. It works for a variety of clients, such as regional governments seeking help in defining SME development and financing policies and fund sponsors looking for assistance in setting up a venture capital fund.

Over the past few years, the EIF has made a number of observations that form the genesis of this project.

First, existing European research and technology transfer infrastructures suffer from a major lack of critical mass. European public research organisations remain largely fragmented. For example, most technology transfer offices have fewer than five people on board and generate less than one resource-earning licensing deal and less than one spin-off per year. It is clearly impossible to offer a comprehensive technology transfer approach with skills that are both broad and deep enough in such circumstances. A number of initiatives have been undertaken to create critical mass, but these tend to be largely regional. There are very few initiatives going beyond the regional scope and seeking to create critical mass in specific technolo-

gies, whatever the country or region in which the technology originates.

Second, venture capital is largely absent from the seed phase. There are a number of reasons for that. In particular, the amounts involved are often too small in relation to the size of the fund and the intense level of effort that goes into those types of investment. Also, venture capitalists have a hard time appraising opportunities largely based on technology, with limited information in the way of business prospects and an absence of any track record. Finally, venture capitalists can simply sit it out and wait until a spin-off is sufficiently advanced before they invest.

Third, a number of research commercialisation projects do not lend themselves to existing standard financing tools and techniques. In particular, the EIF has been confronted with projects that, though potentially attractive, could not be financed through available instruments.

Fourth, a number of indicators show that in research Europe is falling behind the US in a number of key areas. This is compounded by a better commercialisation record in the US. This is due to a number of factors, including significantly larger R&D budgets, the advantages provided by a large homogeneous market, aggressive technology transfer organisations, the presence of numerous world-leading corporations, and a more developed and innovative seed and early-stage venture capital scene.
As a result, the EIF believes that there is a significant opportunity for those who provide creative, pragmatic solutions for Europe to fully reap the commercial benefits from research.

The initiative is structured in two main phases:

- Firstly, a targeted assessment of the current situation in tech transfer in Europe. This involves face-to-face interviews with more than 60 university and research institute technology transfer organisations, as well as a number of interviews with early-stage VCs and venturing arms of corporations. Where appropriate, this analysis will review foreign practice (mainly US and Israeli). It will also address issues related to ownership and commercialisation of intellectual property. The output of this phase will be a diagnosis of the existing technology transfer landscape in Europe, from an economic and legal point of view, the identification of a number of research institutes that are both willing and able to participate in a TTA, and a short-list of potential high-level TTA models. This phase will extend from September 2004 until the end of the year.

- The aim of the second phase will be to design one or more TTAs. It will address questions such as the structuring of the vehicle, legal and tax structure, management structure, as well as financing. The output of this phase will be a detailed "ready-to-implement" blueprint structure of a TTA, as well as possibly worked-out structures involving specific research institutions. It will take place in the first half of 2005.

Overall the objective is to build one or more operating pilots, which would prove the concept and could then be replicated or enlarged. Ideally, those pilots would revolve around a number of research institutions and would seek to address their seed-stage financing needs. The exact nature of the relationship between the TTA and those research institutions will be for the project to define.

The TTA presents a unique opportunity to design from scratch an instrument that meets the pressing needs of tech transfer in Europe. As such, it represents a significant commitment and ambition on the part of DG Research.

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Panama Canal Bridge

EIB loan helps to construct second Panama Canal Bridge – the "Puente Centenario"

In 2004, the European Investment Bank supported the construction of a second bridge over the Panama Canal. The bridge is called "Puente Centenario" (Centennial Bridge), in commemoration of the 100th anniversary of the separation of Panama from Colombia on 3 November 1903. This high-profile project, which also includes the bridge's connecting motorways, cost a total of USD 220 million and was undertaken by the Republic of Panama, which obtained a USD 50 million loan from the EIB for this project.

From history…

The Panama Canal was completed by the United States Government in 1914 and full authority over the Canal remained with the US for more than 80 years. For nearly 50 years, a ferry transported passengers and goods between the eastern and western banks of the Canal. Then in 1962, the "Puente de las Américas", the Bridge of the Americas, was built on the southern end of the Canal and, until the construction of the Centennial Bridge, it was the only road connection between the two parts of the American continent divided by the Canal.

The "Puente de las Américas" reached the limits of its capacity a long time ago and the Government of Panama had considered building a second bridge as far back as the 1980s. However, concrete plans for the construction of the second bridge began to materialise only when Panama gained absolute control over the Canal at the end of 1999.

Possible ways of diverting traffic away from the metropolitan area of Panama City and reducing traffic congestion and pollution had been considered for decades. The location of the new bridge, 15 km north of the existing bridge, was deemed the most suitable for several reasons: its proximity to the capital city; the narrow width of the Canal at that point; the possibility of car-

rying out the construction without disrupting Canal operations; the suitability of the location in view of planned works to widen the locks; and the favourable topography and geological conditions. Furthermore, the area where the new bridge is located is a former US military area and therefore now belongs to the Panama Canal Authority. Owing to the restricted public access and lack of other activity in the area, construction was made much easier.

The Presidents of Panama and Colombia, **Ms Mireya Moscoso** and **Mr Álvaro Uribe**, officially inaugurated the Centennial Bridge on 15 August 2004, the 90th anniversary of the Canal and 485 years after the foundation of Panama City.

…to European technology…

The main infrastructure financed by the Bank includes a 1 052 metre-long cable-stayed bridge with two 184 metre-high towers, one either side of the Canal, a central span of 420 m and a clearance of 80 m between the water level and the bridge. The bridge features a three-lane dual carriageway with a pedestrian walkway in the middle, and is designed for a maximum speed of 120 km/h. Panama is a seismic area and the bridge was designed to resist major earthquakes ("it is the safest place to be in the event of an earthquake", as some experts put it). The project also includes connecting motorways to the bridge: a 12 km stretch to the east and one of 10 km to the west.

Cable-stayed bridges and suspension bridges look similar – both have towers and roadways that hang from cables, but they support the load of the roadway in very different ways. The difference lies in how the cables are connected to the towers. In suspension bridges, the cables ride freely across the towers, transmitting the load to the construction without anchorages at either end. In cable-stayed bridges such as the Centennial Bridge, the cables are attached to the towers, which alone bear the load. A key reason for this choice of technology was that the construction work could be carried out without any disruption of the traffic on the Canal.

The horizontal (420 metres) and vertical (80 metres) clearance parameters of the new bridge take into account the development of the size of major ships worldwide and the planned future expansion of the Panama Canal. Furthermore, special cranes shipped on the Canal and used to maintain the locks require a vertical clearance even superior to that needed for larger ships. The capacity of the Canal is today some 36-38 ships per day. Around 92% of the world's current shipping fleet is built to the specifications of the Panama Canal and can therefore fit through it. These are called "Panamax" ships.

The bridge design and construction was a technically challenging undertaking, mainly because the operation of the Canal was not to be interrupted during construction. The German construction company Bilfinger Berger AG carried out the construction work, under the supervision of the Danish consultancy COWI A/S.

…for a better quality of life

The Centennial Bridge over the Panama Canal and its connecting infrastructure has opened up a new transport corridor that provides the required extra capacity to cross the Canal. It will take transit traffic around the city of Panama, instead of through the city, and will significantly reduce the traffic pressure on the old bridge. The new bridge and motorway sections allow for a better traffic flow on the Pan-American highway, facilitating traffic both inside Panama and to other Central American countries.

The economic benefits include considerable improvements in travel time, reduction in vehicle-operating costs for many commuters and freight traffic, as well as direct and indirect job creation. In addition, emissions and noise levels have been significantly reduced.

Furthermore, great efforts were put into the environmental studies of various project alternatives and into how to mitigate any negative impact on the natural environment and the areas in the vicinity of the motorways. These efforts have even found their way into Panama's environmental legislation, for example the requirement that for each hectare of forest cut down an area double the size must be reforested in an area contiguous to the existing forest. This requirement was met for the construction of both the bridge and the motorways.

The EIB's support for this highly visible project has helped to underpin the application of European know-how in a technically demanding scheme. It has promoted economic development and regional integration, not only in Panama but more widely in Central America, while at the same time the project is improving the quality of life of Panama's population.

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Evaluation of the EIB's investments in airlines

Just before the summer, when people were getting ready to jet off on holiday, the EIB published an ex post evaluation *of its investments in airlines. Two investments in freight airlines were included, but the emphasis was on passenger carriers, with Operations Evaluation looking in-depth at six EU investments and two in Partner Countries. These represented a mix of publicly and privately owned carriers offering national, international and transcontinental services.*

The EIB has a long history of financing a range of different types of aircraft: large and small passenger aircraft, freighters, fire-fighting and rescue aircraft, etc. However, for this evaluation Operations Evaluation, working with the operational departments of the Bank, decided to concentrate on recent investments in commercial aircraft. Between 1990 and 2001, the Bank financed thirty-one projects with a total value of over EUR 5 billion. Most of these were within the European Union, and covered a range of types of airline. As part of the evaluation, ten projects considered to be typical of the Bank's operations were evaluated in-depth. Eight of the investments were with EU-based airlines: two for freight aircraft, four for new long-haul passenger aircraft, and two investments with smaller airlines for regional and intra-EU flights. The other two investments were with non-EU "flag carriers" - one small and one medium sized. In all cases, the main intention was to modernise fleets rather than expand capacity. There were some capacity gains through the more efficient use of aircraft, etc., but the real benefits were the decreases in fuel consumption, lower exhaust gas emissions, and reductions in noise, particularly during take-off and landing. The full text of the synthesis report "Evaluation of EIB Financing of Airlines" may be found at www.eib.org/projects/evaluation/.

Market background

Demand for air travel has shown strong, consistent, long-term growth since the late 1940s. This is expected to continue at around 4% per annum for at least the next decade, but year-on-year growth has shown large variations. A shrinkage of 5% in 1991, coinciding with the first Gulf War, was converted into growth of 10% in 1992. Broadly speaking, demand has followed changes in GDP, but overlying this are large swings caused by national and international events, e.g. 9/11, SARS, international conflicts.

Despite these variations, a growing market might have been expected to generate profits for the airlines. In reality, out of the fourteen years between 1990 and 2003, the industry as a whole was only profitable for four of them – and average losses were always bigger than average gains. At the same time, the sector has been substantially deregulated within the EU, many Member States have moved towards privatisation of their national, or "flag" carriers, and the European Commission has been taking action to limit state aid. Finally, the sector has seen the rise of low-cost or "no-frills" airlines. So far, the effect of these airlines has mainly been to develop the market by attracting a new clientele, although some traditional airlines have been losing customers. However, in the longer

term they are likely to have a much larger impact on the business model of traditional airlines in a range of different areas: fare structures, pricing, levels of service, aircraft utilisation, destinations, etc.

Clearly, air travel is becoming a difficult sector in which to do business.

Air transport and the environment

The environment was not a key element of the evaluation, but the current debate on the environmental impact of air travel could not be ignored. Air travel cannot be seen in isolation: it has to be seen in the broader transport context. So, consider the data published by the Intergovernmental Panel on Climate Change (see graph below).

Clearly, there is little difference between flying and personal transport in terms of the carbon emissions per passenger-kilometre. Assuming comparable occupancy rates, passenger trains and buses are significantly better, but high-speed trains running on electricity generated using fossil fuels are similar to medium-haul aircraft. Another environmental issue for air transport is noise. Exhaust emissions may be more important in environmental terms, but it is noise which is the most immediate nuisance. Between 1980 and 2000, Heathrow airport in London, Europe's busiest, saw a 60% increase in aircraft movements. However, during the same period the number of people affected by aircraft noise fell by some 80%. Air transport has had, and will continue to have, a negative impact on the environment. However, increasingly strict noise and exhaust gas emission regulations have reduced this to the point where air travel can be considered comparable with other forms of mechanised transport.

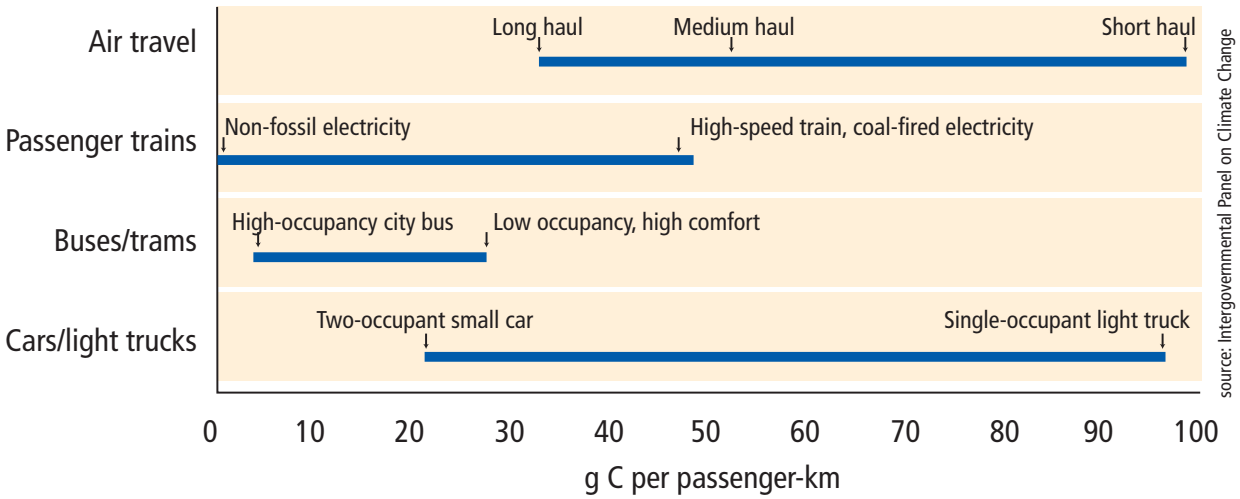
The EIB follows EU policy on air transport, i.e. that air transport is a legitimate form of transport but that its environmental impact should be minimised. As already noted, all of the projects involved the renewal of aircraft fleets to improve fuel consumption, reducing the carbon emissions per passenger kilometre flown, lower exhaust gas emissions and reduce noise. Within that context, therefore, the Bank's investments in airlines during this period can be seen to have had a net positive impact on the environment.

Project performance: achieving objectives

When considering a project for a loan, the Bank looks first at whether the proposed investment is a good fit with EU policies. Apart from EU environmental policies, the most obvious policies to consider are transport and regional development. All of the projects were fully in line with EU policies, with a particular emphasis on intra-EU links and connections with the EU's major trading partners.

After project "relevance", which is one of the Bank's four major evaluation criteria and which looks at how well projects fit with EU policies, we have "efficacy". This is also referred to as "effectiveness" and tries to identify whether the project can achieve what it was meant to achieve. For an airline investment, this would mean asking whether the aircraft will be able to perform to specification and whether they will be delivered on-time and on budget. As might be expected, the evaluation found that the projects scored very highly against this criterion, reflecting the nature of the aviation industry. Although there may only be two suppliers for a particular class of air-

CO_2 intensity of passenger transport



craft, there is still a high degree of competition. Pricing of aircraft is very sensitive to the overall deal that the airline wants to negotiate, and to a combination of short-term market sentiment and stage in the economic cycle. The lead time on aircraft manufacture is long and, again depending on the economic cycle, there can be substantial waiting lists. These characteristics mean that airlines tend to have a rolling acquisition programme with a supplier, whereby they will negotiate a deal based on firm orders for a few aircraft, options for more aircraft, and longer-term letters of intent. These deals can extend over many years and may be signed before development of an aircraft has even been completed. At the same time, aircraft are very tightly regulated throughout their life. An aircraft which is given a certificate of airworthiness will have been so thoroughly tested that the manufacturer will be prepared to guarantee its performance.

The effect of all this is to make it almost certain that aircraft investments will be to specification and will be delivered at the price and on the date negotiated years before.

Project performance: economic and financial performance

The Bank's third criterion is "efficiency" and compares the economic benefits with costs. The airline industry in the EU has been a liberalised market since the mid-1990s. This means that the financial efficiency of an investment can be taken as a proxy for the economic efficiency, although there are some distortions. These include: a biased distribution of landing slots at airports, some environmental costs, flag carriers' preferential landing rights and constrained market exits. However, a financial assessment ignores the wider environmental benefits of using modern aircraft.

The ex ante financial, and hence economic, efficiency of all the projects was sound and in some cases was very high. However, it is important to realise that the efficiency of the project only relates to the aircraft being purchased, not the airline as a whole. This explains why the evaluation could show a positive outcome when the profitability of some of the airlines involved could be quite weak. With the combination of established airlines, very little increase in capacity, and purchase and operating costs known in advance, the ex post efficiency was very close to ex ante predictions and was wholly satisfactory for all of the investments.

Project performance: sustainability

Where the difference between "project profitability" and "airline profitability" shows up is in the final evaluation criterion: "sustainability". Again, the tight technical regulation of the industry, with aircraft certification and strict controls on maintenance, means that physical sustainability is not an issue. All reputable carriers, the only type of airline the Bank would finance, make sure that their aircraft are technically sound throughout their life. The airlines themselves are less fortunate. Two major European carriers have been put into receivership in recent years, along with numerous smaller operators. However, the Bank has only seen one of its borrowers go into liquidation. Two lessons may be drawn from that experience. Firstly, although the Bank was prepared to finance the airline's investment in regional aircraft, it refused to fund larger aircraft because it felt that the company's plans were overambitious. The judgment of the Bank's project and lending staff turned out to be correct. The original "EIB project aircraft" were sold at full market value to another EU airline and are performing a similar role to that originally envisaged – and to that extent perhaps the original project was still a success.

All of the EU airlines evaluated in-depth are either profitable or breaking even with a positive trend towards profitability. This is despite the problems created by 9/11, SARS, the second Gulf War, etc. There is still excess capacity in the EU air-travel market, and observers are confident that the next few years will see either airline consolidation, as is happening with Air France and KLM, or smaller national airlines retreating from international competition and concentrating on domestic and regional travel.

The situation with projects outside the EU is less positive. In one case, the airline is dominant in both the domestic and regional markets. It is technically fully competent, but a history of long-term profitability has turned into short-term losses, probably due to political instability in the region. As a state-owned flag carrier it is unlikely to be allowed to fail, and it certainly has the potential to return to profitability. However, to achieve this it will need to develop its commercial awareness and take action on operating costs, particularly in the areas of flight crew and administration. The second airline is in a more difficult situation. When the Bank offered its original funding it said that it would only finance some of the aircraft proposed, and that the other aircraft could not be justified. However, although the airline was going through a restructuring plan, it went ahead and purchased most of the aircraft

the Bank felt were unnecessary. The additional capacity, plus an economic recession, has meant that an airline which was supposed to return to profitability has continued to make substantial losses and has to be "bailed out" by the government every year. Again, this is a case where the "EIB project aircraft" are performing well, but the airline may collapse around them.

Future directions for the EIB

The Bank's airline projects have performed well, although they have sometimes become trapped inside ineffective airline structures. However, ex post evaluation is not just about rating the performance of projects, and the Bank, against a set of evaluation criteria. It is also about learning – certainly from mistakes, but equally importantly from the past generally. One lesson which stands out is that the airline sector is becoming increasingly dynamic, with new entrants which play by a different set of rules from the old national flag carriers. The analysis of future investment proposals will need to take this into account, with more emphasis on corporate sustainability than on financial viability at the project level. Similarly, if it is to achieve broader objectives, including regional development and international competitiveness, the airline sector will need to continue to broaden its client base, with more attention being paid to regional and low-cost operators, where the Bank also has the opportunity to increase its value added.

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New Member and Accession States Debt Management Handbook

The EIB has brought out a new publication: the New Member and Accession States Debt Management Handbook 2004.

This handbook was prepared by the EIB's Capital Markets Department on the basis of data gathered from the Debt Management Offices of the ten new EU Member States and the two Accession States (Bulgaria and Romania). It contains information on all aspects of national debt management in the countries concerned, as well as on debt management at the EIB, and includes key contacts in all the debt offices. Information is up-to-date as of 31.5.2004.

In recent years, the Bank has been providing substantial support for the new Member States, not only by stepping up its lending operations in these countries but also by acting as a borrower on a number of their capital markets. The Debt Management Handbook has proved to be a useful tool for potential investors and other national market participants in the local government bond markets of the new Member States.

The New Member and Accession States Debt Management Handbook 2004 is available only in English.

Copies can be obtained free of charge from investor.relations@eib.org or downloaded from the EIB's Capital Markets website: http://www.eib.org/investor_info/

A cleaner future for the Balkans

Following the accession of ten new Member States earlier this year, the European Investment Bank (EIB) is now focusing increased attention on the Balkan countries as they move towards closer integration with the European Union in the context of the EU's South-Eastern Neighbours policy.

Having been active in the Balkans for some thirty years, before and after the hostilities, the Bank has the necessary experience to make a contribution to the process, just as it has promoted the transition from centrally planned to market economies in the new Member States of Central and Eastern Europe. A big step for the region was taken in 1999 with the conclusion of the Stability Pact and again in 2001, when the Bank diversified its lending in the Balkans to provide increased support for the private sector. Thus, the EIB has leveraged investment to promote reform and development right across the region.

Part of the effort to foster investment involves encouraging Balkan countries to promote growth, stability, the rule of law and sustainable development. In this the Bank works with other institutions that are active in the region in the context of the Stability Pact, such as the European Agency for Reconstruction, the Black Sea Trade and Development Bank and the EBRD.

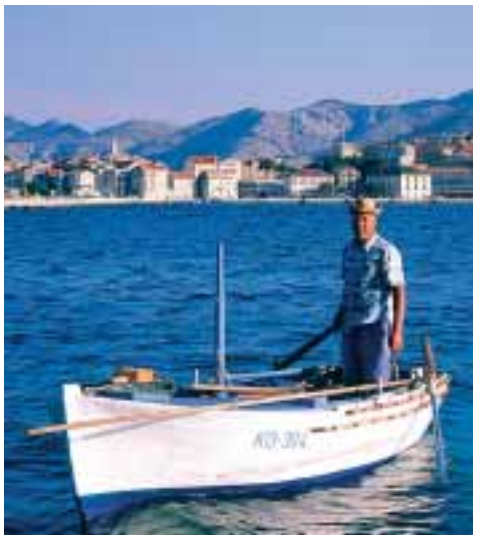
Fortunately, the Balkans are already seeing increased political stability and better cooperation between neighbouring countries. Memories of the conflicts of the 1990s are beginning to recede. Businesses see the appeal of the region's large and growing market, while tourists are returning to the Adriatic Sea.

Developing environmental safeguards

Economic development should not take place at the expense of the environment. Therefore, the EIB and the international donor community have integrated environmental safeguards into the assistance process right from the start.

Following the pivotal regional donor conference in 2000, a special Regional Environmental Reconstruction Programme for South Eastern Europe (REReP) was created at the initiative of the European Commission. The EIB identified the effort to improve master planning for the Adriatic coastal region as a key initiative. At the invitation of the EIB, the Italian Government decided to donate some EUR 600 000 towards the Adriatic Sea Environmental Master Plan (ASEMP), which was, in the first instance, put forward by the Croatian Government's Ministry of the Environment.

The project took some time to get under way, but this was necessary to obtain the best possible expertise. The partner agency identified by the EIB is the United Nations Educational, Scientific and Cultural Organization (UNESCO), through its Venice Regional Bureau for Science in Europe. This partnership has, so far, proved ideal for the project. UNESCO is steering the operational and contractual phase of the project and the EIB acts as an advisor, providing dedicated specialised expertise through the technical specialists of its Projects Directorate.



Towards sustainable development

In the framework of the Barcelona Convention, the Croatian Ministry of Environmental Protection and Physical Planning (MoEPP) has set as one of its objectives the sustainable development of Croatia's Adriatic Sea coastal area. This is to be achieved by developing the ASEMP Master Planning Tool (which is available over the internet) and identifying suitable pilot testing areas. This will enable:

- a central system to be developed for storing, updating and integrating all existing planning data and assistance to be provided for making planning decisions;
- environmental master planning for the Croatian coastal zone to be supported to comply with EU environmental legislation;
- projects to be identified for environmental improvement and the sustainable development of the Croatian coastal zones.

The ASEMP project thus consists of two essential elements. The first involves the development of a web-based environmental Master Planning Tool involving a Geographic Information System (GIS); the second concerns the identification, in cooperation with the Croatian MoEPP, of suitable pilot study areas and themes to test and calibrate the tool, in particular its Decision Support System (DSS).

The Planning Tool will contain all the environmental indicators that are currently being used. It includes those indicators that apply to master planning projects in coastal zones. The Planning Tool can also be used to prepare applications for funding from international agencies or other sources. At the same time, the tool will help Croatia to comply with the EU Directive on Coastal Zone Management and the EU Water Framework Directive.

Not only is the use of state-of-the-art GIS technology unique in this part of the world, the partnerships are also unique – the Italian Government as donor, multilateral institutions with specialist experience, such as the EIB and UNESCO, as technical adviser and implementing agency, and the Croatian Government as beneficiary, applying European Union environmental standards to achieve sustainable development.

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First annual report of the Investment Facility

In June 2004, the European Investment Bank (EIB) published the first annual report of the Investment Facility (ACP/IF), which it is responsible for managing under the Cotonou Partnership Agreement concluded between the European Union's Member States and the ACP States. This report covers the period between the Facility's launch on 2 June 2003 and the end of the year, during which the Bank approved and committed EUR 146 million under the ACP/IF, against a total of EUR 453 million in loans signed in the ACP in 2003.

Successful launch

The Cotonou Agreement contains an important new feature for EIB lending in the ACP. Over the next five years, the EIB will be able to grant up to EUR 1.7 billion in long-term loans from its own resources and EUR 2.2 billion in risk financing under the Facility. Devised as a revolving fund, replenished from the budgetary resources of the EU Member States, the ACP/IF consolidates the EIB's traditional risk financing activity in the ACP countries (in the form of subordinated or conditional loans and injections of equity or quasi-equity), while introducing innovative instruments such as guarantees and credit enhancement.

In line with the "Millennium objectives" set by the EU in Johannesburg, the EIB's goal in support of the Cotonou Agreement is to work towards reducing poverty by financing viable projects that help to develop the local private sector, especially SMEs, and may in some cases contribute towards regional economic integration. To this end, the Bank's role, via the Facility, is to provide assistance to new or developing enterprises, bolster the local financial sector and improve the economic environment of the public sector. Featuring such varied projects as the development of the Kansanshi copper mine in Zambia, the construction of hotels in Mauritius, the introduction of a mobile telephony network in Nigeria and participation in a range of risk capital and microfinance funds, the Facility's first annual report reflects the fact that these new financial instruments are tailored to a genuine economic need, in pursuit of the objectives set.

Combining available forces

As the Facility's manager, the EIB brings to the task of implementing the Facility its considerable experience in the ACP countries, where it has been active since the mid-1960s, as well as the operational co-operation links that it has forged with the community of multilateral banks and bilateral development agencies over nearly forty years.

The Investment Facility's Annual Report is available on the EIB website www.eib.org (Publications).

Thus, while defining the lending policies and investment choices of the ACP/IF is the responsibility of

the EIB's governing bodies, in close consultation with the Facility Committee (which is made up of representatives of the donor states), the Bank has been keen to increase its cooperation with EDFIs (European Development Finance Institutions). In January 2004, a framework agreement was signed with the AFD and KfW on coordinating strategy and the possibility of co-financing, which resulted in the establishment of a dedicated joint venture, EFP (European Financing Partners).

At the same time, cooperation between the EIB, the Commission, multilateral development banks and international financial institutions (IFIs) takes the form of regular high-level meetings on topics of common interest, such as environmental protection, the HIPC initiative and combating corruption and money laundering.

The EIB, the European Commission and the African Development Bank (AfDB) are currently also preparing an agreement to coordinate their operational activities in African countries.

Outlook

The next annual report, which will cover a full year and encompass activities taking place in 2004, will undoubtedly confirm the fruitful continuation, under the new Cotonou Partnership Agreement, of forty years of EIB project financing in the ACP countries ("it is not necessary to hope in order to undertake, nor to succeed in order to persevere", William of Orange).

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HM King Abdullah II of Jordan visits the EIB

His Majesty King Abdullah II of the Hashemite Kingdom of Jordan and a high-level Jordanian delegation visited the European Investment Bank on 25 November for discussions with the Bank's President, ***Mr Philippe Maystadt*** *and the EIB Vice-President in charge of the Facility for Euro-Mediterranean Investment and Partnership (FEMIP),* ***Mr Philippe de Fontaine Vive****.*

On this occasion **HM King Abdullah II** also met with EIB Vice-Presidents **Peter Sedgwick**, **Sauli Niinistö** and **Torsten Gersfelt** as well as senior EIB officials.

King Abdullah's visit to the Bank is testimony to FEMIP's major role in the financial and economic cooperation between the European Union and the Mediterranean Partner Countries (MPCs).

The King's visit to the Bank was particularly auspicious as 2004 marks the 25th anniversary of the very fruitful cooperation between Jordan and the EIB, which started back in 1979. Since then almost 60 operations have been signed, adding up to a total loan volume of almost EUR 750 million. The Bank's lending contributed to project investment in excess of EUR 1.5 billion.

During the meeting, progress on projects recently financed in Jordan was reviewed and a long and constructive discussion was held on proposals for the future FEMIP financing of important investment projects in the country. King Abdullah expressed his gratitude for the contribution made by the Bank to the economic development of Jordan and the Mediterranean region. Mr Maystadt and Mr de Fontaine Vive assured him of the Bank's intention to maintain and enhance that support in the future.