INFO 134

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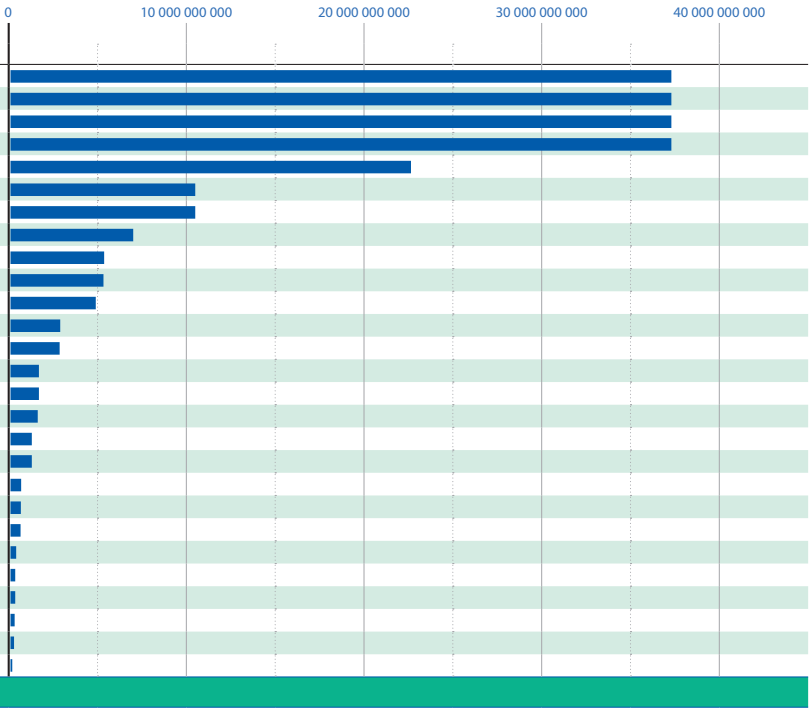
EIB underpinning EU economic recovery

The EIB is rising to the challenge of the economic downturn. In 2008, total lending rose by 21% to EUR 57bn. In the next two years, the Bank will step up further its support for Europe's economic recovery. In order to meet the new lending targets, as of 1 April the EIB's subscribed capital was increased by some EUR 67bn to EUR 232.4bn. This increase was effected through a transfer from the EIB's additional reserves to its capital.

Breakdown of the EIB's capital as at 1st April 2009

	Amount (EUR)	
Germany	37 578 019 000	DE
France	37 578 019 000	FR
Italy	37 578 019 000	IT
United Kingdom	37 578 019 000	GB
Spain	22 546 811 500	ES
Netherlands	10 416 365 500	NL
Belgium	10 416 365 500	BE
Sweden	6 910 226 000	SE
Denmark	5 274 105 000	DK
Austria	5 170 732 500	AT
Poland	4 810 160 500	PL
Finland	2 970 783 000	FI
Greece	2 825 416 500	GR
Portugal	1 820 820 000	PT
Czech Republic	1 774 990 500	CZ
Hungary	1 679 222 000	HU
Ireland	1 318 525 000	IE
Romania	1 217 626 000	RO
Slovak Republic	604 206 500	SK
Slovenia	560 951 500	SI
Bulgaria	410 217 500	BG
Lithuania	351 981 000	LT
Luxembourg	263 707 000	LU
Cyprus	258 583 500	CY
Latvia	214 805 000	LV
Estonia	165 882 000	EE
Malta	98 429 500	MT
Total	**232 392 989 000**	



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In 2008, total EIB lending rose by 21% to EUR 57bn, compared to EUR 48bn in 2007. EU countries accounted for more than 86% of the total volume (EUR 51.4bn). SME lending stands out, recording a 42% surge to EUR 8.1bn – more than half of this in the fourth quarter alone – against EUR 5.7bn in 2007.

Loan signatures rose sharply towards the end of the year. This translated quickly into a 12% increase in disbursements (EUR 48.6bn.) "We are doing our best to respond as quickly as possible to the call from our shareholders, the Member States," said EIB President Philippe Maystadt at the Annual Press Conference in Brussels on 9 March, pointing to the jump in lending to EU states between October 2008 and the end of February 2009 (EUR 31.3bn, 38% more than in the same period of 2007-2008).

To accommodate higher lending, the EIB significantly increased the volume of its bond issues to EUR 59bn from EUR 55bn in 2007. At the end of the year, borrowing became more difficult because of the tightening of market conditions. But despite the huge increase in sovereign bonds on the market, in the first quarter of 2009 the Bank managed to raise more than one third of the funding programme for 2009.

Capital increase to support new lending targets

In the light of the rapid worsening of the situation on the financial markets and the expansion of the economic crisis in 2008, the Bank will increase its lending activity in support of Europe's economic recovery. Last December the EIB's Board of Directors approved the Corporate Operational Plan 2009-2011 , setting out increased lending targets and other practical measures to mitigate the effects of the crisis.

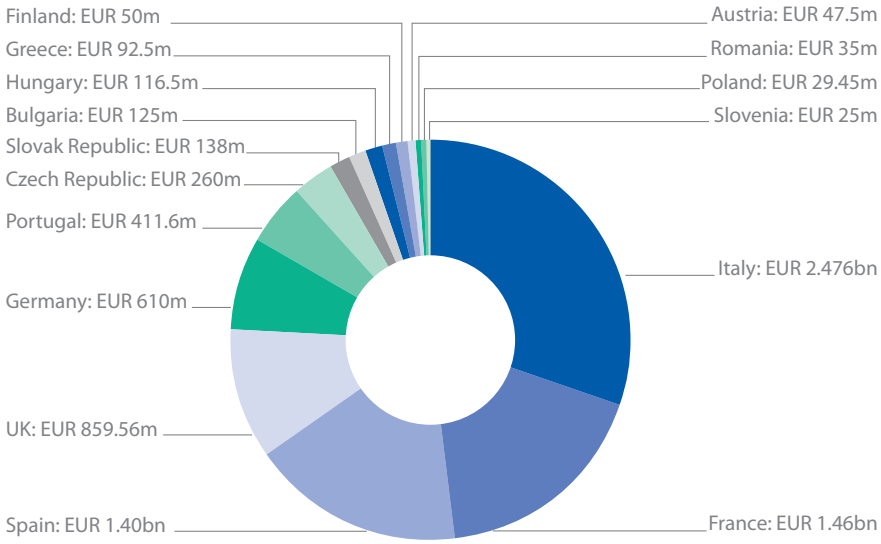
The "EIB economic recovery package" raises EIB lending by EUR 15 bn per year for both 2009 and 2010 compared to previous years. It includes measures targeted at three key areas: small and medium-sized enterprises (SMEs) and mid-cap firms; Europe's less well-off convergence regions ; the fight against climate change, including the production of "clean" cars under the European Clean Transport Facility (ECTF).

[1] The EIB's Board of Directors consists of 28 Directors, with one Director nominated by each Member State and one by the European Commission.
[2] The Corporate Operational Plan (COP) formulates and quantifies the EIB's strategy (operational priorities and goals) over three years and is central to the work of the staff.
[3] The EIB's convergence lending covers a total of 113 regions in the EU-27 with a population of 190 million. These regions also receive the strongest support from the Structural and Cohesion Funds. Over the period 2007-2013, EUR 347bn in grants from the Structural Funds will be allocated.

Gill Tudor, spokesperson, EIB, Philippe Maystadt, EIB President and Philippe de Fontaine Vive, EIB Vice-President


The EIB is addressing micro-enterprises with fewer than 10 employees.

Breakdown of loans for SMEs in 2008



To enable the EIB to meet these increased lending targets, on 16 December 2008 the Board of Directors also agreed to propose to the Board of Governors that the Bank bring forward the capital increase previously envisaged for 2010.

As of 1 April, the EIB's subscribed capital increased by some EUR 67bn to EUR 232.4 bn. As usual, the paid-in capital was 5% of the subscribed capital. The increase in paid-in capital was effected through a transfer from the EIB's additional reserves to its capital, at no cost to the Member States.

The capital increase was necessary since, with the expected 15% annual increase in lending in both 2009 and 2010, the EIB's outstanding loans and guarantees would go beyond the statutory limit of 250% of its subscribed capital . With the capital increase to EUR 232,4bn, the statutory ceiling will increase to about EUR 581bn. This will allow for the expected growth of the Bank's lending activities.

1. Increased support for SMEs

In September 2008 the EIB launched a new product called "EIB loan for SMEs". Simpler and more flexible, this new lending arrangement enables European banks to finance all types of investment of European firms with fewer than 250 employees, whether in the form of tangible or intangible investment, or permanent working capital.

The new SME lending target was already exceeded in 2008, as the Bank signed loans for SMEs worth EUR 8.1bn, up from EUR 5.7bn in 2007. At the same time, the European Investment Fund (EIF), the EIB Group's specialised financing arm for small businesses, provided commercial banks with EUR 2bn in loan guarantees for SME lending and invested more than EUR 400m in venture capital funds.

The boost in the EIB's SME lending was also facilitated by the results of the 2007-2008 consultation of the players in the SME market (chambers of commerce, professional and employers' associations, commercial banks and the public authorities of the 27 Member States). Through this exercise, the Bank was able to get a better understanding of the SME market and support it accordingly, addressing in particular the firms that experience recurring difficulties in accessing credit (micro-enterprises with fewer than 10 employees, high-growth "gazelles" and SMEs wishing to invest in intangible sectors such as research or eco-technologies).

In 2009 the EIB will develop a new product line, allowing risk sharing with banks. A similar and complementary approach is being developed for "mid-cap" companies for an additional EUR 1bn per year. A new EIB mandate has been granted to the EIF to support mezzanine financing and a new microfinance initiative (JASMINE – see EIB Info 132) will be rolled out by the EIB, EIF and European Commission.

2. Additional support for Central and Eastern Europe

Since the financial crisis is having a disproportionate impact on certain Member States, the Bank will increase its "convergence" lending for poorer regions, especially in Central and Eastern Europe. To fulfil this objective and in line with its reinforced SME priority, the EIB already has EUR 8.5bn available and awaiting utilisation to help support SMEs through the local banking sector in Central and Eastern Europe and candidate countries, and expects to increase this in the next two years if necessary.

Moreover, the EIB manages the JASPERS programme. JASPERS (Joint Assistance to Support Projects in European Regions) is a technical assistance partnership between the European Commission, the EIB, the European Bank for Reconstruction and Development (EBRD) and the Kreditanstalt für Wiederaufbau (KfW). The aim of JASPERS is to help Member States and Regions eligible for Structural Funds with the preparation of major projects for submission to the Commission.

In 2008 JASPERS completed 82 projects and provided active assistance to some 280 projects that, if approved by the European Commission, will absorb Structural Funds

investment of around EUR 51bn. The JASPERS portfolio focuses on five sectors: roads (19%), railways/ports/airports (21%), urban development (13% including urban transport, energy efficiency), water/wastewater (24%) and solid waste/energy (17%), with about 8% absorbed by telecoms, culture and R&D infrastructure projects.

3. Energy and climate change

The energy and climate change package approved by the EIB in December 2008 includes a European Clean Transport Facility (ECTF). ECTF will target significant CO2 and other pollutant emission reductions in the EU transport industry, through research, development and innovation expenditure, as well as tangible fixed assets in related infrastructure and production facilities. It will strengthen the leading position of Europe in the development of fuel efficient vehicles, helping to reduce the carbon footprint of the transport sector.

In December 2008 the Bank signed with Italy's Piaggio the first loan under ECTF, followed by a loan to Germany's Volkswagen in January 2009. Other companies benefiting from loans approved in March 2009 cover a number of EU countries and include BMW, Daimler, Fiat, PSA Peugeot-Citroën, Renault, Volvo Cars, Scania and Volvo Trucks.

By the middle of this year, Mr Maystadt explained, the EIB will have approved EUR 7bn in loans to the EU car sector.

As a result of the huge demand from the car sector, the EIB has established a lending ceiling of EUR 400m per car company per year to avoid overexposure to any one company. "We're ready to do more, but there are some limits as regards the risk of sectoral concentration."

The EIB's policy stance on energy fully reflects the prominence of energy on the European Union's policy agenda: energy is a key concern that runs throughout the Bank's activities and colours its lending in other priority areas.

In 2008 EIB loans for energy projects rose to EUR 8.6bn, from EUR 6.8bn in 2007. Loans in the renewable energy (RE) sector, including RE manufacturing, totalled EUR 2.2bn.

A large amount of EIB energy lending went to electricity grids (28%) and natural gas transport and storage infrastructures (21%). Signatures for trans-European energy network projects in 2008 totalled EUR 2.9bn, of which EUR 1.4bn for gas transport infrastructure contributing to the diversification and security of the EU's energy supply.

The EIB Group also actively participated in the creation of the Global Energy Efficiency and Renewable Energy Fund (GEEREF), which is being managed by the EIF and will invest through regional funds in small and medium-scale EE and RE projects in developing countries and emerging economies.

4. EUR 10bn to improve EU's transport links

EIB loans for trans-European transport networks amounted to nearly EUR 10bn.

Public-private partnerships (PPPs) play an important role in investment in transport TENs. In 2008, PPP projects accounted for 30% of EIB transport lending linked to the trans-European networks. Jointly with the European Commission and EU Member States, the EIB also established the European PPP Expertise Centre (EPEC) in 2008. EPEC aims to facilitate the effective sharing of experience and best practice in PPPs (see EIB Info 132, page 11).

The EIB has also contributed to the setting-up of the Loan Guarantee Instrument for Trans-European Transport Network Projects (LGTT). The LGTT received a EUR 500m contribution from the SFF and an additional allocation of EUR 500m from EU budgetary funds over the period 2007-2013. A first operation in Portugal was approved in 2008, and first signatures are foreseen in 2009. The LGTT will work as a mezzanine product, covering traffic-related revenue risks during the critical early operation phase of projects and facilitating private sector participation in PPPs.

5. Risk sharing boosts lending for RDI

The EIB has been able to step up its lending for RDI (Research, Development and Innovation) which reached EUR 7.1bn in 2008.

In 2008, the EIB offered risk sharing loans under the Risk Sharing Finance Facility (RSFF). RSFF is an innovative scheme to improve access to debt financing for private companies or public institutions promoting RDI activities. RSFF is built on the principle of credit risk sharing between the European Community and the EIB and extends the ability of the Bank to provide loans involving financial risks above those normally accepted by investors.

At the end of 2008, total lending under RSFF had reached about EUR 1.5bn in support of 15 highly innovative transactions. ■

by Daniela Sacchi-Cremmer, Communication Department

EIB FORUM 2009

Connecting Europe:

Financing mobility and sustainable cities

There can be no sustainable cities without sustainable transport, and transport policy is as a key driver to bringing Europe out of the economic crisis. This message, above all, emerged most powerfully from the EIB Forum, held in Barcelona on 13-14 March 2009. 650 delegates from 35 countries were hosted and inspired by speakers from across Europe, as the shared dilemmas associated with people and economic flows, investment, and long-term viable city futures were articulated.

Carlos da Silva Costa, EIB Vice-President

by Prof Greg Clark, with Joe Huxley and Tim Moonen

Having invested EUR 25bn in European urban development since 2004, the EIB remains an instrumental actor in the resolution of these dilemmas.

Financial institutions such as the EIB provide a potent tool to address Europe's long-term challenges in the context of an uncertain short term. They bring capital to a much needed financial and investment system, capacity to integrate long-term goals into effective short-term investment plans, and confidence to the market that investment now in long-term goals is an essential means to navigate the current challenge and to be best positioned when better conditions arrive.

'An integrated urban plan is the best tool to combine efficiency with social and environmental improvement'

Philippe Maystadt President, EIB

Don't waste the crisis

The two-day conference focused on the critical themes of financing mobility and sustainable cities. The goal of investments in intra and inter-urban transport is to improve connections between the centres of "inspiration and innovation" that European metropolitan areas represent.

European cities have an extraordinary opportunity to find transport solutions complementary to the fulfilment of sustainability objectives, but only where governance and investment processes can be optimised within an integrative framework. Productive mobility and sustainable cities are mutually reinforcing goals which contribute to both addressing the current economic crisis and to accelerating progress towards a better social and environmental future in Europe. Large-scale, counter-cyclical infrastructure investment represents an opportunity to generate wealth and jobs, while making a lasting contribution to developing the European Union at large. To tackle the expected growth of the demand for transport, integrated urban strategies are needed.

The Barcelona, Catalonian and Spanish experiences represent good examples of how to invest in infrastructure combining public and private finance to achieve broad goals, including competitive connectivity, attractive and sustainable cities, and reduced climate damage. The EIB has active investment partnerships with all three tiers of government.

Making connections: inter-city and inter-regional transport

Several key themes emerged at the opening plenary session, focussing on the key trends in European inter-urban transport and the emerging balance between competition and collaboration across transport modes:

The growing need for infrastructure. National demographic change and deepening international trade are the key drivers of increased transport demand over the coming decades, and place renewed emphasis on the imperative for adequate project finance for major infrastructure programmes.

Balance competition with collaboration. Regulated market competition must be promoted equally alongside collaboration in the public sector to optimise transport infrastructure outcomes.

Coordinate to achieve impact. Despite a number of successes in terms of safety and efficiency, and a shift towards innovative forward-thinking, a lack of systemisation and coordination remains a barrier to achieving high returns on investment, with continued fragmentation between different efforts and between policy goals that require greater integration.

Don't reinvent the wheel. More value can be generated from existing financial instruments, if the right blend of public-private and other investment tools can be struck.

Use the crisis. The economic crisis constitutes a rare opportunity to re-establish

'Transport policy is extremely important to bring Europeans out of the crisis and bring them to a safe harbour'

Antonio Tajani, Vice-President, EU Commission and Commissioner for Transport

transport as a major policy priority and reaffirm the EU as a world leader in transport innovation through support for major interventions that can also underpin other policy goals (such as climate change and job creation).

Coming together: urban and metropolitan infrastructure

A high-profile panel featuring three Mediterranean city leaders considered how cities and metropolitan regions in Europe can manage infrastructural challenges, finance new projects and incorporate sustainability principles. A consensus was forged upon the following lines:

Local governance is key. Local and metropolitan government has an indispensable role to play in managing the period of economic recovery, in particular by maintaining investment and services, active support for private sector projects, and facilitating social integration and economic inclusion.

Take the lead but align your approach. City and metropolitan authorities must take the lead in defining the opportunities and direction in the medium-term future, setting the local agenda aligned with regional and national leadership.

Build the right technical competencies. Many European city governments are gradually enhancing their technical competencies, but must continue to invest in expertise and widen their spheres of administrative responsibility and capacity.

Innovative finance has a role. Innovations at the local level are providing important new sources of complementary finance.

The Spanish perspective

Spain, and the region of Catalonia, constitutes a fine illustration of the social and environmental rewards which can accompany sustainable investment in a transport strategy that focuses on a network of sustainable cities. Spanish people now have access to the whole of Europe thereby ensuring no area is isolated or excluded, and transforming the way people relate to and communicate with one another. By 2020, 90% of the Spanish population will live less than 50km from a high-speed rail station.

The national plan reintegrates Spanish cities through high-speed rail connections and better connects them to the growing and integrated Europe, as Spanish Minister for Infrastructure Magdalena Álvarez Arza showed at the EIB Forum 2009. Its organising framework has not only enabled the acceleration of infrastructural investment in an otherwise hostile economic climate, but has also dramatically improved connectivity while meeting rigorous CO2 impact standards. This has gone some distance to, in Minister Alvarez's words, 'overcoming a historic shortfall' in the field of sustainability in Spain.

Meanwhile at the regional level, the EIB has helped transform Catalonia's public works infrastructure, providing investment to the tune of EUR 4.2bn. The 'roadmap' articulated by Catalonia's Minister for Economy and Finance, Antoni Castells i Oliveres – enhancing economic productivity through robust transport and communications networks – is a model of putative potency that reaffirms the EIB's capacity to drive an integrated investment policy.

This capacity was highlighted by the EUR 500m contract signed at the EIB Forum 2009 for the EIB to finance the 364km Madrid-Valencia high-speed rail line, as part of the first instalment of a EUR 1.3bn loan. The sizeable deal followed an earlier agreement of five finance contracts in Catalonia totalling EUR 495m, including for projects on Barcelona's metro line 9 and in the region's R&D, energy and environment sectors.

Aiming at green and sustainable growth

Things are booming on the transport front but there is still much to do, particularly on reducing the negative impacts of vehicular transport. The car is still the preferred mode of transport for three quarters of trips in Europe, so improving the quality of vehicles has been at the heart of any approach to sustainable transport in Europe. There will be no long-term and lasting growth in response to this economic crisis if growth is not green and sustainable. EIB Vice-President Philippe de Fontaine Vive underlined that better distributed growth is also important. The social challenges to the development agenda must not be forgotten. We must make improved transport links benefit the wider population by pricing and planning appropriately.

Antoni Castells i Oliveres, Minister for Economy and Finance, Government of Catalonia offered the Catalonian perspective with particular reference to the recession. He sug-

'Climate change is the biggest challenge transport has ever faced, but there are huge problems in the transport sector… we can combine these objectives.'

Jack Short, Secretary General, International Transport Forum

gested that ensuring the continued competitiveness of the Catalonian economy is about more than productivity. It is also crucial to invest in strategic factors such as transport, communications and mobility.

Mr Oliveres pointed out the EIB has a critical role to play and has already funded infrastructure projects in Catalonia to the value of EUR 4.2bn. He also made an eloquent call for active cooperation at the European level to manage a crisis of 'unprecedented intensity'.

Getting there - inter-city and inter-regional transport: environmental imperatives

Panellists from a broad pan-European perspective, created a dominant consensus around three urgent themes related to the environmental parameters of transport sustainability:

Better utilise market-based instruments. Despite slow progress, a much more widespread and concrete uptake of market-based instruments must be pursued to encourage behavioural change and new technology adoption. Social and environmental costs of all varieties need to be internalised to investment programmes, incentivising new kinds of responsible projects.

Energy efficiency. Energy efficiency gains in the transport sector have in general been disappointing. Air transport technology improvements are welcomed but will not be especially dramatic in the medium term.

Ensure a balanced approach. There is a growing disparity between the high-cost high-speed rail links in Western Europe, and the decline in rail use in Central and Eastern Europe amid deteriorating maintenance investment. Investment priorities should be redirected towards a more balanced regional transport segmentation, with a greater commitment towards rehabilitation and pragmatism.

'The real problem is actually road transport... the technology already exists, but its development needs to be accelerated, via investment and policy combined'

Jeremy Drew, Senior Policy Adviser, Community of European Railway and Infrastructure Companies (CER)

Places for people: social imperatives of urban and metropolitan development

Local and regional managers at the EIB Forum also considered transport's capacity and potential to meet pressing social needs in urban areas. The panel's initial observations drew on experiences in Piemonte, Rotterdam and even South America to make the case for an integrative, holistic urban planning framework that coordinated fully with social agencies to achieve a high quality of life. The challenges of urban regeneration and immigration were expanded upon, and a robust set of ideas emerged:

The importance of local intervention. The precise and distinct urban geographies of cities matter. Solutions to major transport dilemmas are found first and foremost at the local level, because of each city's indivisible character.

An integrated approach. Nevertheless, the density of cities means attractiveness can be achieved through the promotion of exchange and the facilitation of the thick set of social relations. This density extends to the management process itself. Aligned multi-actor and people-oriented practices exemplify the successful management of urban mobility, including the empowerment of disadvantaged groups and SMEs to become inextricable participants.

The Central City as the focus. The central city remains a key site for urban mobility planning. Its affordable accessibility and mixed-use potential can be targeted for la-

'Citizens demand the same services at the same cost – there's a certain contradiction about this. We need to produce a proper debate about the real costs of the services we provide'

Jordi William Carnes,
Deputy Mayor of Barcelona

bour market and social ends. EIB investment considerations can take these broader socio-economic conditions into account.

Regional, urban and metropolitan transport infrastructure: financing opportunities and challenges.

Another Panel came together to discuss the issue of planning and financing urban transport infrastructure developments, making the following key points:

Challenges are sub national. The diversity of cities means that action must be taken at the local level to meet both macro and micro socio-economic challenges in an appropriate way. In particular, cities must react proactively to the economic downturn and think about which investments and initiatives to prioritise.

Public-public alignment on all scales. To provide an effective and targeted response to the questions of mobility and sustainability it is essential that local, regional and national governments collaborate. Institutional coordination failures set an unstable platform and incoherent context from and within which to build solutions.

Public-private collaboration. The Urban Investment Network has been recently launched to facilitate the exchange of ideas, know-how and insight around investment between public and private actors in urban development. Building relationships between the two can unlock finance, even in the face of the crisis.

Move from a project-by-project to a system approach. To avoid a haphazard and superficial approach and move towards a more holistic and deeper form of urban development we must look beyond single projects. A system approach must be fostered to take into account the complex mix of stakeholders involved in and drivers behind city development. Transport is not the only solution. A balance between public and private finance must be struck. The cost and benefits of infrastructure development must be better communicated to citizens to make user-financed projects more palatable.

Sustainable investment and finance is more essential than ever

Longer-term, smart and sustainable finance has an indispensable role to play in helping European cities and national/regional governments deliver their paired mobility-sustainability goals. Given the EIB's status in the credit markets and exceptional capacity to generate investment in innovative transport and infrastructure even against the backdrop of acute financial turmoil, the Bank is likely to have a central role to play.

With proper local and regional governance and long-term urban and mobility strategies, long-term investment can purposefully support high-performance logistical systems which meet cities' mobility, health and carbon-sensitive aspirations. Long-term investors are in a strong position to embark on a programme of redefinition and modernisation through a series of recovery infrastructure projects. In so doing, they should look beyond the two-three year time frame of the current economic predicament, and link to the long-term priority of developing sustainable cities within strengthened European transport networks. ■

'We need to bring together lots of actors to create a long-term consensus'

Carlos da Silva Costa, Vice-President, EIB

'We believe we have turned over a new leaf in the history of Spanish transport networks'

Magdalena Álvarez Arza, Minister for Infrastructure, Spain

'The EIB should be an example for many other entities. Its role is more important than ever as the projects it funds contribute to the transformation of our competitiveness model'

'The EU will emerge stronger from the crisis if it works as one with a single voice'

Antoni Castells i Oliveres, Minister for Economy and Finance, Government of Catalonia

Forum Concluding Remarks

EIB Vice-President Carlos da Silva Costa brought the forum to a close providing a neat summary of what was a broad range of issues raised throughout the two-day event. They included:

Sustainable cities are highly mobile and well resourced. There is no sustainable city without sustainable transport and investment. Long-term strategies are required which are both visions of what the city can be but also investment prospectuses.

The opportunity of the downturn. The recession creates the imperative and opportunity to think long-term, not short-term. We must not perpetuate unsustainable practices of the past with knee-jerk responses. We must be measured, targeted and strategic in our response.

Build new reliable financial mechanisms. With credit so limited and infrastructure projects a necessity, it is vital that we engineer new ways to secure finance. A range of methods are now available and new ones should be sought but it is essential that these tools are robust and reliable.

The role of the EIB. The EIB is an important actor in mobility and the creation of sustainable cities across Europe. Over the past five years the EIB has invested EUR 25bn across the many facets of urban development – about 10% of total lending. The EIB, particularly at this time, has the power to lend confidence and build momentum behind the urban investment and development agendas.

'To convince people to leave their cars at home we must invest in a top-notch public transport system'

Fernando Gimeno, Vice-Mayor of Zaragoza

'Compact cities which are mixed use and family friendly are a good solution'

Stellan Fryxell, Project Developer of Hammarby Sjöstad, Stockholm

'Governments can't do it alone but we must ensure that market driven developments are sustainable'

Judith Borsboom, Netherlands Environmental Assessment Agency

Prof Greg Clark: Conference Moderator and Rapporteur, EIB Forum 2009.

Greg Clark is an expert rapporteur and moderator of conferences and public events on the subjects of development and investment. He works with local, regional, national and inter-governmental institutions and is the author of four books for the OECD on development and investment topics.

He currently holds a portfolio of core roles, including: Senior Fellow, Urban Land Institute; Visiting Professor at Cass Business School, City of London; Chairman of the OECD LEED Forum of Development Agencies and Investment Strategies; Lead Advisor on City and Regional Development with the UK Government; and independent worldwide advisor on investment and development issues.

Joe Huxley is a senior researcher and senior associate of Greg Clark specialising in research into global case studies on investment and development, and strategy development for cities and regions.

Tim Moonen is an associate researcher specialising in case studies and analysis of leading world cities and regions.

www.citiesandregions.com

EBRD, EIB and World Bank Group

join forces to support Central and Eastern Europe

Up to EUR 24.5bn committed for banking sectors and bank lending to enterprises

The largest multilateral investors and lenders in Central and Eastern Europe – the EBRD, the EIB Group and the World Bank Group – have pledged to provide up to EUR 24.5bn to support the banking sectors in the region and to fund lending to businesses hit by the global economic crisis. This initiative complements national crisis responses and will deploy rapid, large-scale and coordinated financial assistance from the International Financial Institutions (IFIs) to support lending to the real economy through private banking groups, in particular to small and medium-sized enterprises. The financial support will include equity and debt finance, credit lines, and political risk insurance. The response takes into account the different macroeconomic circumstances in and financial pressures on countries in Eastern Europe, acknowledging the diversity of challenges stemming from the global financial retrenchment. Under the two-year plan, the EBRD will provide up to EUR 6bn for the financial sector in 2009-10 in the form of equity and debt finance, to banks and directly to SMEs, and trade finance.

The EIB will provide some EUR 11bn in SME lending facilities in Central, Eastern and Southern Europe, of which EUR 5.7bn is already available for rapid disbursement, with a further EUR 2.8bn set for approval by end-April and further tranches expected to follow. The EIF, the EIB Group's venture capital and SME guarantee arm, is also aiming to increase its activity in the region over the next two years.

The World Bank Group will provide support of about EUR 7.5bn: IFC, through its crisis response initiatives in sectors including banking, infrastructure and trade, as well as through its traditional investment and advisory services, is expected to contribute up to EUR 2bn. The IBRD intends to increase lending in Europe and Central Asia up to EUR 16bn in 2009-10 out of which up to EUR 3.5bn is envisaged for addressing banking sector issues in emerging Europe. MIGA will provide political risk insurance capacity of up to EUR 2bn for bank lending, subject to Board approval.

The response to Europe's integrated financial markets requires fast and coordinated action: from parent banks, which own a large part of the region's financial sectors; from systemically important local banks; from home and host country authorities of cross-border banking groups; and from the European institutions and IFIs. By jointly addressing urgent financing needs, the three institutions in this initiative are drawing on their own mandates and specific capabilities to provide financial support.

The initiative goes beyond the pure provision of finance by engaging all parties concerned to seek appropriate solutions to the problems caused by the global economic crisis. The IFI initiative has been developed in the broader context of the support that is being provided by parent banks to their subsidiaries in Eastern Europe, to provide capital where needed and maintain adequate funding levels. ■

Who are the IFIs involved?

The European Bank for Reconstruction and Development (EBRD) was established in 1991, when communism was crumbling, to support and nurture a new private sector in a democratic environment. Today the EBRD uses the tools of investment to help build market economies and democracies in 30 countries from Central Europe to Central Asia. The EBRD is the largest single investor in the region and mobilises significant foreign direct investment beyond its own financing. The EBRD is owned by 61 countries, the European Commission and the EIB.

The EIB Group consists of the European Investment Bank (EIB) and the European Investment Fund (EIF). The European Investment Bank, owned by the EU Member States, was created by the Treaty of Rome in 1958 as the long-term lending bank of the European Union. The task of the Bank is to contribute towards the integration, balanced development and economic and social cohesion of the EU Member States. The EIB raises substantial volumes of funds on the capital markets which it lends on favourable terms to projects furthering EU policy objectives. The Bank continuously adapts its activity to developments in EU policies. EIF is the EU's specialised financial body for small businesses (SMEs), supporting European objectives. It uses market-based instruments to provide venture funding and guarantees to promote the creation and growth of European small businesses. EIF is active across the enlarged European Union. EIF's shareholders are: the EIB (66%); European Commission (25%); and some 30 European financing institutions (9%). The principal area of cooperation between the EIB and the EIF is support for small and medium-sized enterprises (SMEs). Their relationship encourages a productive sharing of expertise in support of SMEs.

The World Bank Group incorporates five closely associated entities that work collaboratively towards poverty reduction: the World Bank (International Bank for Reconstruction and Development, IBRD, and International Development Association, IDA), and three other agencies: the International Finance Corporation (IFC); the Multilateral Investment Guarantee Agency (MIGA); and the International Centre for Settlement of Investment Disputes (ICSID).

IBRD (International Bank for Reconstruction and Development) aims to reduce poverty in middle-income and creditworthy poorer countries by promoting sustainable development through loans, guarantees, risk management products, and analytical and advisory services. Established in 1944 as the original institution of the World Bank Group, IBRD is structured like a cooperative that is owned and operated for the benefit of its 185 member countries.

IDA (International Development Association) is the part of the World Bank that helps the world's poorest countries. Established in 1960, IDA aims to reduce poverty by providing interest-free loans and grants for programmes that boost economic growth, reduce inequalities and improve people's living conditions.

IFC (International Finance Corporation) fosters sustainable economic growth in developing countries by financing private sector investment, mobilising capital in the international financial markets, and providing advisory services to businesses and governments. IFC helps companies and financial institutions in emerging markets create jobs, generate tax revenues, improve corporate governance and environmental performance, and contribute to their local communities. The goal is to improve lives, especially for the people who most need the benefits of growth.

MIGA (Multilateral Investment Guarantee Agency) promotes foreign direct investment (FDI) into developing countries to help support economic growth, reduce poverty and improve people's lives. MIGA provides non-commercial guarantees (insurance) for investments made in developing countries.

ICSID (International Centre for the Settlement of Investment Disputes) is an autonomous international institution established under the Convention on the Settlement of Investment Disputes between States and Nationals of Other States with over 140 Member States. The primary purpose of ICSID is to provide facilities for conciliation and arbitration of international investment disputes.

The EIB-University Action Programme

The EIB-University Action Programme hosted its second annual meeting last December at the EIB's headquarters in Luxembourg. The meeting included participants from Oxford Brookes University, Universidad Politécnica de Madrid, Università di Bologna, Università Ca' Foscari di Venezia, EURANDOM (University of Eindhoven), Università degli Studi di Milano, Università di Verona, University of Oulu, University College Cork, and UNIMED.




by Luisa Ferreira and Mateu Turró, Projects Directorate

During the meeting, the participants had an overview of the various activities that the programme is sponsoring and took part in a brainstorming discussion during which they could share experiences and elaborate ways to improve performance. Three parallel seminars were held on topics with research supported by EIBURS: (i) Cost-benefit Analysis Research Issues in the New Member States of the EU, (presentation by Prof. Massimo Florio, Università degli Studi di Milano); (ii) New Models for the Rating of Asset-Backed Securities (ABSs) (presentation by Prof. Wim Schoutens, K.U. Leuven); (iii) An Environmental Economics Outlook of the Climate Change Impact on Forest Ecosystems and Biodiversity: results from an empirical application to Europe (presentation by Dr Paulo Nunes, Ca'Foscari Università di Venezia); and Economy-Wide Impacts of Climate Change: A Country and Sectoral Perspective (presentation by Prof. Francesco Bosello, Università di Milano).

Since the first annual meeting in December 2007, the EIB-University Action Programme has sponsored many other activities throughout the year. These included:

- EIB staff participation at summer programmes held by the Università di Bologna intended to promote research in the field of intellectual property systems and intangible assets;
- a conference organised with the Universidad Politécnica de Madrid on traffic risk assessment "Traffic Risk in Concession Projects";
- the first EIB-ERSA Prize in Regional Sciences, supporting a prize awarded yearly since 2002 by the European Regional Sciences Association (ERSA) to an outstanding scholar in recognition of major contributions to the understanding of key processes in regional science. The 2008 prize was awarded to Professor Tony Venables;
- a presentation, together with the Université de Nice-Sophia Antipolis, on "The evolution of macro-financial aggregates in the new EU Member States and in Candidate Countries: a reading through the theory of monetary circuit".

What is the EIB-University Action Programme about?

In parallel to its lending activity in the education sector, the Bank has developed the EIB-Universities Research Action to channel its institutional support to higher education and academic research. The Action is designed to respond in a consistent way to the requests coming from European universities – notably for financial assistance but also for research inputs. It also facilitates the academic and research work of the Bank's staff. The EIB-Universities Research Action, which is supervised by the EIB-Universities Steering Committee chaired by the President of the Bank, consists of three programmes: EIBURS, STAREBEI and EIB University Networks. EIBURS, the EIB-University Research Sponsorship Programme, provides grants to EU University Research Centres working on research topics and themes of major interest to the Bank. STAREBEI, STAges de REcherche BEI, is a programme for financ-

Summer school in Bologna (June, 2008)

ing young researchers working on joint EIB-University projects; and the EIB University Networks, is a labelling mechanism for university networks, focused on areas of interest to the EIB. In 2008, the Bank is sponsoring eight EIBURS on topics as diverse as: The Social Dimensions of Sustainable Development; Financial and Economic Valuation of Environmental Impacts; Public-Private Partnerships; Technology Assessment and Acceleration of Innovation; Quantitative Analysis and Analytical Methods to Price Securitisation Deals; Public Investment under Budgetary Restrictions in New Member States; Infrastructure Funds; and Financing Young Innovative Firms in Europe. The programme has four on-going STAREBEI and has already concluded 10 research sponsorships. It has also awarded its label to three university research networks (UNIMED, FEMISE and CREDIT). You can learn more about the programme by visiting the Bank's website www.eib.org/universities. ■

Public Consultation on EIB's Environmental and Social Statement

After almost a year of intensive discussions with internal and external stakeholders, the EIB's Board of Directors approved the revised "Statement of Environmental and Social Principles and Standards" on 3 February 2009. The statement has been published on the EIB's website.

The public consultation process, from March until November 2008, was the third such consultation on an EIB policy. A Public Consultation Report, outlining the consultation process and summarising the stakeholder contributions and the EIB's comments on these has also been posted on the EIB's website.

The new statement, which replaces the Bank's Environmental Statement of 2004, provides a much greater sense of urgency about the problems of climate change, expands the social dimensions of sustainable development and recognises the importance of bio-diversity. Overall the statement seeks to achieve a much stronger alignment with EU requirements in all regions. Responsibilities are also attributed more clearly, and in particular more explicit reference is made to the role of the promoter as well as to potential "no go" areas. The main focus is on principles and standards with details on the laws themselves and the practices in the Sourcebook and Handbook.

The consultation process

The Bank adopted a flexible approach in terms of timetable and procedures to allow as full a consultation as possible. The consultation process included two rounds of respectively 45 and 20 working days, which were extended to take account of the needs of external stakeholders. In addition, the Bank held three public consultation meetings to discuss the Statement face-to-face with interested stakeholders. A review panel was set up within the EIB to consider all stakeholder contributions and examine the extent to which they could be taken into account.

As part of the consultation process, internal stakeholders were also encouraged to comment. The draft statement and details about the consultation process were widely distributed within the Bank. EIB Directorates had an opportunity to submit contributions to each new draft of the statement, including Draft I prior to the launch of the public consultation process. EIB staff, including the College of EIB Staff Representatives, were also consulted and provided constructive comments at the presentation of the statement to the staff. The Board of Directors was informed about the consultation process on 7 May 2008.

For the sake of transparency the final draft statement was published for information on the EIB's website 15 working days prior to Board approval. This allowed stakeholders to see which contributions had been taken into account and why other comments had been rejected.

What's next?

Further consultation processes on selective EIB policies are scheduled for the near future. In 2009, the Bank will hold one large consultation process with interconnected elements on a review of three separate but closely related EIB policies, namely the Transparency Policy, Public Disclosure Policy and Complaints Mechanism Policy. Information on this process will be available on the EIB's website. ■

by M. del Valle, Communication Department

European banks launch Sourcebook on EU environmental legislation

The European Investment Bank (EIB), Council of Europe Development Bank (CEB), European Bank for Reconstruction and Development (EBRD), Nordic Investment Bank (NIB) and Nordic Environment Finance Corporation (NEFCO) recently launched a joint Sourcebook which outlines the environmental legislation, including principles and standards, adopted by the five multilateral financial institutions. This is a further instance of cooperation to promote the EU's approach to environmental sustainability between these institutions, building on the launch of the European Principles for the Environment (EPE) in 2006.

The Sourcebook is designed to enable project sponsors in EU Member States, candidate countries, potential candidates and countries covered by the European Neighbourhood Policy to identify and understand the EU environmental standards which projects supported by the EPE banks in these regions are expected to meet. It will also be used by EPE bank staff and third parties with an interest in the banks' project financing activities.

The focus of the document is on project-specific standards across a range of key sectors in which the EPE banks concentrate their lending activities. The sectors covered include energy, infrastructure, metal production and processing, waste management, agriculture and the chemical and extractive industries. Moreover, the Sourcebook offers cross-sector guidance on issues such as environmental impact assessments (EIAs), environmental management systems and environmental liability.

The Sourcebook, which was initiated by the EIB and funded by all the institutions, was prepared by a group of consultants from the Institute for European Environmental Policy (IEEP) under the guidance of a working group with representatives from all five EPE banks. The initiative enjoys the support of the European Commission, Directorate General Environment.

The Sourcebook, which will be periodically updated by the EPE banks, is available online at the following link: http://www.eib.org/about/publications/sourcebook-on-eu-environmental-law.htm ■

by Úna Clifford
Communication Department

EIB and Portugal

coordinate action for key infrastructure


Aguas de Portugal
Gaia sanitation


Alto Minho
wind power

The European Investment Bank and Portugal recently signed a framework agreement to coordinate finance for key infrastructure projects in Portugal up to 2018.

The deal, signed by Philippe Maystadt, President of the EIB, Fernando Teixeira dos Santos, Minister of State and Finance, and Carlos da Silva Costa, Vice-President of the EIB, will provide a consistent framework for the development of EIB operations in Portugal in future years. The granting of loans will be subject to a positive outcome of the Bank's customary technical, environmental, economic and financial appraisal of each project, and to the specific approval by the Bank's management and governing bodies of individual projects.

The programme covered by this agreement caters for investments over a period of 10 years whose aggregate cost is currently estimated at EUR 40bn. It has a particular focus on the following sectors and projects, although this list is not exhaustive:

- Transport: high-speed rail network; new Lisbon international airport; road infrastructure;
- Energy: renewable energies (water, wind and solar power); development of the electricity supply network and improvement of energy efficiency;
- Water: management and planning of water use and supply;
- Waste: waste disposal and treatment;
- Urban centres: regeneration and rehabilitation of urban centres.

The EIB could finance up to one third of those investments or, over 10 years, provide finance for a total amount of some EUR 13-14bn.

This is the third agreement of this type that the EIB has signed: in the past, similar operations were concluded with Spain and Italy. ■

by Hellen Kavvadia
Communication Department

EIB supports research and innovation in Hungary

The EIB is lending EUR 440m to part-finance Hungary's national contribution to the implementation of priority projects in the areas of research and innovation identified under the Hungarian National Strategic Reference Framework for the period 2007-2013.

Philippe Maystadt, EIB President and János Veres, Hungarian Finance Minister and EIB Governor

by Dusan Ondrejicka, Communication Department

EIB long-term funds, provided on favourable terms at a time of difficult market conditions, will help the Hungarian Government to finance projects focusing on the development of a knowledge economy in six regions of the country.

The projects co-financed by the EIB loan, the State budget and the EU Funds under the Economic Development Operational Programme will be located in the following regions, which are priority areas for EU regional policies: Central, Western and Southern Transdanubia, Northern Hungary, Northern and Southern Great Plain. In keeping with the government's strong commitment to developing science and technology as a tool for competitiveness, and to help modernise the corporate sector, projects will mainly relate to applied research, experimental development and the market launch of new products, thereby improving SMEs' technological strength, competitive position and access to capital (including through the JEREMIE initiative). ■

The EIB finances the Regional **Solar Energy Plan** in Poitou-Charentes

The aim of the Poitou-Charentes Region's Solar Energy Plan, part-financed by the European Investment Bank with a EUR 200m loan, is to develop a fully fledged photovoltaics industry in Poitou-Charentes. The Caisses régionales du Crédit Agricole and Crédit Agricole Leasing have been selected to implement this key regional project and co-finance it to the tune of a further EUR 200m. The Poitou Charentes Region has undertaken to guarantee the loans.

The Regional Solar Energy Plan (2009-2012) signed at the end of February by Ségolène Royal, President of the Region, Noël Dupuy, Vice-President of Crédit Agricole SA, and Philippe de Fontaine Vive, EIB Vice-President, is an unprecedented agreement in Europe. It guarantees attractive finance for public authorities, enterprises, associations, professionals and farmers. The tripartite partnership between the EIB, the Poitou-Charentes Region and Crédit Agricole is also innovative in terms of the size of the loans committed and the synergy of the mechanisms used. It will optimise and leverage the partners' lending capacities at almost zero cost to the taxpayer.

The Plan, which was adopted by the Poitou-Charentes Region in January 2008, aims to foster the production of renewable energy through the installation of 650 000 m² of solar panels. The solar energy generation target for 2012 is ambitious: 73 GWh in Poitou-Charentes, i.e. 1.5 times what the whole of France produced in 2007, for just 2.8% of the country's population. This challenge fits in perfectly with the European Union's renewables target of 20% of the energy mix by 2020, explaining why the Region's Solar Energy Plan has received the full backing of the EIB.

In 2008, the EIB earmarked EUR 2.2bn for the development of renewable energy sources, a figure that has trebled in the past two years. Of the renewable energy segments financed by the EIB in ten European countries, solar energy made rapid inroads in 2008, accounting for 35% of loans compared to 9% the previous year. ■

Ségolène Royal, President of the Region and Philippe de Fontaine Vive, EIB Vice-President.

by Daniela Sacchi-Cremmer, Communication Department

Fifth FEMIP Conference
Brainstorming on Mediterranean SMEs

On 6 March 2009, FEMIP[1] held in Rabat, Morocco, its fifth conference on the subject of "Mediterranean SMEs' needs along the business life cycle". This event brought together policymakers, entrepreneurs, bankers and representatives of international financial institutions and civil society to discuss a core issue for the partner countries: how to help SMEs become the driver of growth and job creation in the region.

Philippe de Fontaine Vive, EIB Vice-President.

The challenge

The countries of the southern and eastern rims of the Mediterranean region will have to create around 30 to 40 million jobs by 2020, just to keep the unemployment rate at its present level. This long-term development of the partner countries will depend to a large extent on productive jobs being created in very small, small and medium-sized enterprises, which employ two thirds of the local working population.

However, these firms often struggle to obtain bank loans to finance their development and fulfil their potential. Current tensions on the financial markets are exacerbating this problem, jeopardising the capacity of SMEs to develop and grow into regional champions. As in Europe where the EIB has launched a massive plan to support funding for SMEs, FEMIP has initiated discussions on the appropriate solutions for the Mediterranean countries.

Great diversity under the SME heading

The organisation of the conference into three sessions examining the main stages in the life cycle of businesses (creation, growth, transmission) was intended to highlight the extreme diversity of SMEs in the Mediterranean region.

While the first session was dedicated to very small enterprises, with fewer than 5 to 10 employees, operating at a local level, the second and third sessions focussed on medium-sized enterprises, many of which have managed to develop beyond their national borders and establish a presence in other Mediterranean countries. The juxtaposition of these two types of SME underlines the need to develop products that are tailored to the size of the businesses.

What is the best way of meeting the requirements of SMEs?

The discussions resulted in a set of recommendations, which will be submitted to the FEMIP Committee, and then to the Euro-Mediterranean Finance Ministers at the FEMIP ministerial meeting on 7 July 2009 in Brussels.

These recommendations include an improved flow of information between the banks and the SMEs. On the one hand, SMEs must be better informed about available bank finance and how to access it. On the other, the information available to banks for evaluating the credit risk of SMEs must be improved.

The participants also discussed ways of enhancing FEMIP's services. It already sup-

[1] The Facility for Euro-Mediterranean Investment and Partnership (FEMIP) brings together the whole range of services provided by the EIB in the Mediterranean partner countries: Algeria, Egypt, Gaza/West Bank, Israel, Jordan, Lebanon, Morocco, Syria and Tunisia.

ports small businesses, having channelled EUR 1.5bn to them since 2002 through credit lines to local banks, equity participations in companies and funds, and also loans to microfinance institutions. It could in the near future diversify its action by offering guarantee products and helping small businesses to invest in research and development and expand internationally. Finally, in partnership with other institutions operating in the region, FEMIP could also arrange local currency loans as soon as governments grant it access to markets on the same terms as these institutions. This facility would be particularly appropriate for very small enterprises.

In addition, a number of participants stressed the need to contribute to the modernisation of the banking system through better in-bank training so that local banks can upgrade their credit risk assessment tools and strengthen their SME financing capacity.

The crisis – an opportunity?

Issues arising from the international financial crisis were, of course, touched upon time and again during the course of the conference. Although it remains difficult to measure its impact on the partner countries and on SMEs in particular, many participants stressed the need to regard the crisis as an opportunity rather than a disaster.

Bankers, policymakers and entrepreneurs agreed that the current crisis meant change that could help the region to attain a more favourable economic position in the international arena. ■

by Joyce LIYAN
Europe's Neighbour and Partner Countries Department

Second regional forum on the investment climate

Appeal to continue reforms in the Mediterranean region despite the crisis

As a follow-up to the first forum, which was held in Cairo in November 2005, the EIB, in cooperation with the European Commission, the World Bank and the International Finance Corporation (IFC), hosted the second regional forum on the investment climate in the Southern Mediterranean Region and the Middle East in Rabat on 4 and 5 March 2009.

This event, organised in collaboration with the Moroccan Ministry of General and Economic Affairs, was attended by almost 150 participants, including government officials, bankers and managers of private and state-owned enterprises, as well as academics and researchers from the Mediterranean partner countries and the Middle East.

The forum afforded an opportunity to take stock of the progress with reforms achieved since 2005. In doing so, the participants observed that the private sector was playing an increasingly important role in creating jobs and stimulating the region's growth. It was also noted on the basis of concrete examples from Egypt and Morocco that private-sector associations are becoming more involved in the definition of the reforms implemented by state authorities. This cooperation between the public and private sectors was welcomed and encouraged.

The meeting also led to an exchange of opinions on the potential effects of the economic and financial crisis on the economies of the countries in the region. Despite the uncertainty generated by this crisis, the participants agreed that the need to continue on the path of reform remained unquestionable.

The issue of strengthening regional integration was also tackled, as well as the necessity to reap the full benefits of the regional agreements that have already been signed, notably the Agadir Agreement, which is a key initiative for integration between the southern countries.

Finally, the participants expressed their desire to see this forum constitute a further step towards enhanced cooperation between the countries in the region and the four institutions.

Over the last few years, the EIB, the European Commission and the World Bank Group have built a strategic partnership for increasing the effectiveness of the efforts undertaken by each of the institutions to meet the requirements of the countries in the region.

This partnership was formalised by the signing in May 2004 of a Memorandum of Understanding aimed at enhancing coordination in the Middle East and southern Mediterranean region. The IFC joined in September 2007. A number of activities have been conducted under this agreement including the cofinancing of operations, coordination meetings to identify potential links between sector policies and investment initiatives and the organisation of conferences and workshops.

Bringing clean and safe water to Malawi's poorest areas

The EIB recently lent EUR 15.75m to the water sector in Malawi with the aim of providing safe drinking water to a total of 720 000 urban inhabitants and basic sanitation to 470 000 people in some of Malawi's poorest areas. The project is of critical importance to the economic development of Malawi – a Highly Indebted Poor Country – as well as the social well-being of its people.

The EIB is well known to the water sector in Malawi. In fact, loans to water and sanitation projects account for a large part of the Bank's activities in the country. Since 1987, the EIB has worked with the water boards of the country's major cities, Blantyre and Lilongwe, on four occasions and has channelled almost EUR 32m into the provision of clean, safe and reliable water and sanitation services. Thanks to these efforts, much of the population of Lilongwe now benefits from a 24-hour water supply. With the help of this EIB loan, which will finance projects by both water boards, a 24-hour water supply will be made available to 400 000 Blantyre inhabitants and both authorities will extend their services to low-income areas.

Supplying more than clean water

Previous EIB loans to the Malawi water sector have focused solely on physical investment to perform much-needed upgrades to water infrastructure. Nonetheless, the Bank's most recent investment also aims to develop institutional capacity and improve the efficiency of the Lilongwe and Blantyre Water Boards. A private sector service contractor will review the organisational structure, help to improve financial and commercial management, enhance operational performance and carry out the planned investments under this project.

Cooperating with non-governmental organisations and the European Commission

Another innovative feature is the close cooperation with local civil society organisations which allowed the water boards to explore possibilities to increase access to affordable water connections and sanitation for the areas' poorest inhabitants who are currently completely unserved. In support of this effort, an innovative financing

instrument (the Access to Water Facility) will be established. The Access to Water Facility will be set up as a revolving fund and managed by the water boards and will make 35 000 individual connections affordable for low-income customers.

The positive development impact was reinforced yet further by means of a coordinated EU funding approach, EIB concessional financing being blended with a EUR 14.9m EU Water Facility grant (47% of the total project cost, amounting to EUR 32m). The Government of Malawi also contributed EUR 1m (3%) towards the project costs. In addition, the EIB dedicated a EUR 250 000 technical assistance grant to appoint a consultant to support the boards in the procurement of a service contractor.

A project which educates

The latest EIB-funded water project in Malawi will benefit from the presence of WaterAid, a major international NGO, which will act as a project partner. WaterAid will work alongside local NGOs to promote the adoption of safe hygiene behaviours, improved sanitation and equitable access to safe drinking water. Moreover, they will support the capacity-building of local institutions and small-scale private water operators to ensure sustainable access for poor and currently unserved communities. With the help of WaterAid's sanitation marketing, communities will be offered a range of sanitation technology options which they will be encouraged to adopt and maintain.

This all-important water project addresses the urban section of the water sector reform programme of the National Water Development Programme II (NWDP II), which was initiated by the Government of Malawi with the support of the World Bank. An official project implementation ceremony will be held in Malawi later this year to celebrate the fruitful cooperation of all parties towards the common goal of improved water and sanitation services in Malawi. ■

by Petia Manolova
Financing operations outside EU/Africa, Caribbean and Pacific

EIB interest rate subsidies: putting development at the heart of ACP activities

In the African, Caribbean and Pacific (ACP) countries the EIB has a mandate for development, using its lending activities to alleviate poverty and encourage sustainable economic growth. In addition to traditional loans, the Bank employs the EU budget which it manages on behalf of the Member States – the Investment Facility – in an innovative manner through a wide range of financing instruments. All of this to ensure that the development impact of its activities is directed where it is most needed – to the poorest and most underserved communities. Interest rate subsidies, which are effectively used as grant finance, are one of the most interesting and effective examples of this lesser-known side of the EIB's activities in the ACPs.

NamPower, Namibia's national power utility, has subscribed to the interest rate subsidy scheme for some time, with the aim of bringing electricity to remote villages and improving the quality of life of the country's poorest people. Whilst Namibia is a relatively wealthy country, this wealth is concentrated on a small number of individuals and there is a high degree of poverty, especially in rural communities, which lack access to the most basic services.

The EIB and NamPower are cooperating, with the support of Namibia's Regional Electricity Distributors (REDs), to use interest rate subsidies to help implement the national energy development plan. Interest rate subsidies to the value of EUR 5.5m were granted on a loan made by the EIB to the utility under the Lomé mandate in 2001. Instead of the subsidy being used to reduce NamPower's repayments, the state-run electricity provider has agreed to inject this amount into a specially created development account. The money which accumulates in the development account is then dedicated in the form of grants to the construction of basic electricity infrastructure in villages nationwide.

The projects which benefit from the subsidy are put forward for EIB consideration by NamPower in cooperation with the REDs who have direct knowledge and experience of the local electricity situation. The Bank requires the projects to demonstrate a positive net present value and, in addition,

asks that they conform to at least one of a set of eligibility criteria which was established in collaboration with NamPower and the REDs themselves. These criteria traditionally include electricity studies and capacity-building for the electricity sector. More recently, the criteria linked to the development account for the Caprivi interconnector were established. In addition to NamPower's criteria, they include renewable energy and energy efficiency projects, and projects which benefit all of the poorest segments of the population in order to include the urban poor. Funding exceptions are made for projects which do not demonstrate a positive new present value but where the village has a school or clinic currently operating without electricity.

Once the EU institutions approve the REDs' suggested projects the interest rate subsidy is put to good use. The Bank follows the progress of these projects with input from NamPower. An annual report informs on the status of the development schemes and all parties have a positive story to tell. The EIB and NamPower enjoy fruitful cooperation; the REDs are able to implement more of their region's priority projects; and the final beneficiaries report improved living conditions.

The EIB's work with NamPower on such projects is ongoing and similar interest rate subsidies have been established with other companies in the ACP regions to facilitate the maximum development impact of the Bank's activities. ■

by Úna Clifford
Communication Department

EIB and CAF to increase cooperation in the Andean region

From left to right: José Brito, Gonzalo de Castro (CAF), Regan Wylie-Otte, Francisco de Paula Coelho, Carlos Costa EIB Vice-President, Enrique García, President of CAF, Alberto Barragán, Susan Antz, Germán Jaramillo.

The EIB and Corporación Andina de Fomento (CAF) have enhanced their cooperation in the area of co-financing, coordinating their strategies and activities in CAF's shareholder countries[2] and common priority sectors and exchanging information in order to benefit from each other's experiences and expertise. This collaboration on matters of common interest will lead to the better achievement of common development objectives, said EIB Vice-President Carlos Costa and CAF Executive President L. Enrique García at the signature of a Joint Statement in Luxembourg in January 2009.

Since 1993 the EIB has implemented four successive lending mandates for Asia and Latin America. Under the current mandate (ALA IV), covering the period 2007-2013, the EIB is authorised to lend up to EUR 3.8bn for financing operations that contribute to supporting the EU's presence in those regions through foreign direct investment and the transfer of technology and know-how, as well as investments aimed at mitigating the effects of climate change. The EUR 3.8bn regional ceiling is broken down into indicative sub-ceilings of EUR 2.8bn for Latin America and EUR 1bn for Asia.

Established in 1970, in Caracas, Venezuela, Corporación Andina de Fomento is a multilateral financial institution that channels resources from international markets to Latin America, in order to provide multiple banking services to both public and private clients of its shareholder countries. The institution is committed to sustainable development and regional integration, and to encouraging greater economic cooperation between its Latin American and Caribbean shareholder countries and Europe. So far, Spain is a non-regional shareholder in CAF, and Portugal and Italy are in discussions to become shareholders in the future. ■

[2] Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, Jamaica, Mexico, Panama, Paraguay, Peru, Spain, Trinidad and Tobago, Uruguay, Venezuela.

by Mercedes Sendín de Caceres
Communication Department

Panama Canal Expansion

by Alberto Barragán, Susan Antz, Financing Operations outside EU
Pierre Poinsignon, Manuel Fernández-Riveiro, Projects Directorate

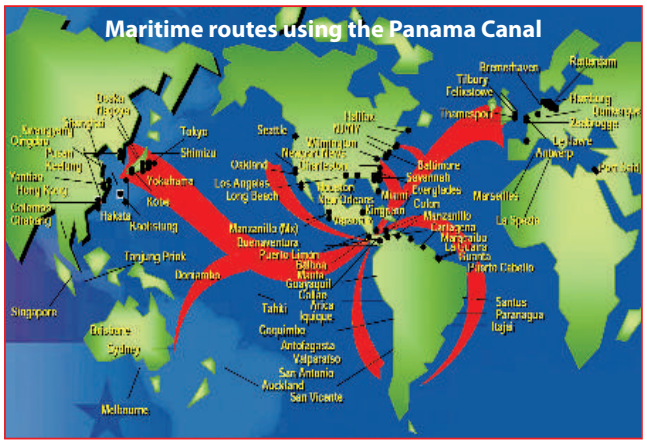
EIB and other IFIs finance Panama Canal expansion

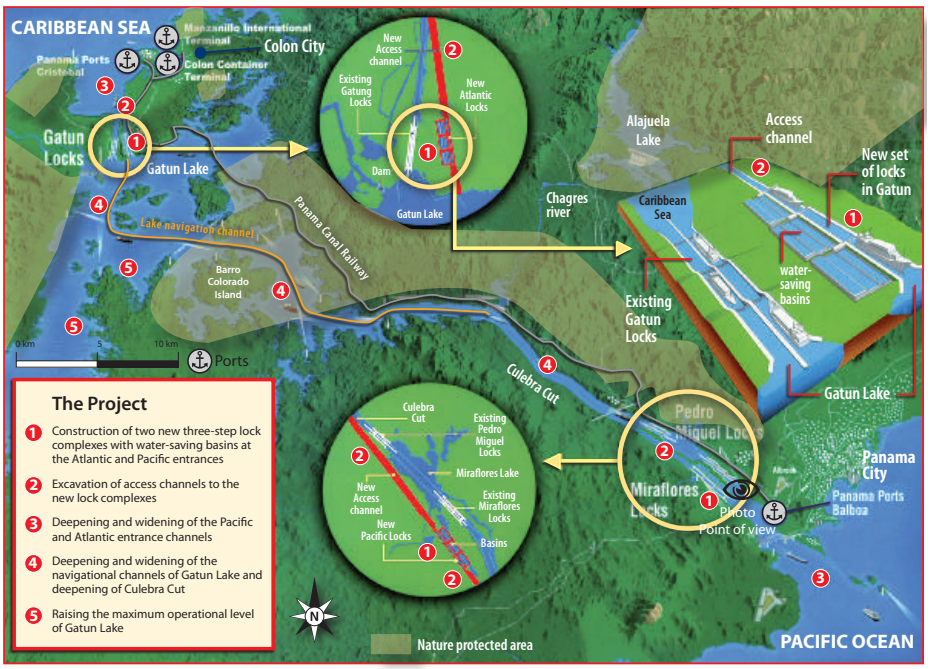
The Panama Canal recently initiated its first expansion project since it was inaugurated in 1914. The European Investment Bank, the Inter-American Development Bank, the International Finance Corporation, the Andean Development Corporation and the Japanese Bank for International Cooperation have provided USD 2.3bn of external financing in a club deal to support the Canal's ambitious USD 6bn expansion. The remainder of the investment will be financed by the Canal's own cash flow from the tolls it charges for ship transits.

Only twice in history has external funding ever been raised for the Panama Canal: the first time was during the 1880s, when a French company led by Ferdinand de Lesseps, the builder of the Suez Canal one decade earlier, obtained a concession to build an inter-oceanic canal across Panama and raised equity to do so; and the second, some 125 years later, when in 2008 the Autoridad del Canal de Panamá (ACP) sought USD 2.3bn of external financing for the expansion of the very same idea that Lesseps attempted to build. In between those two dates, all the funding the Canal ever required for its actual construction or maintenance came either from the US state budget, or from the Canal's own cash flow generation.

Brief history of the Panama Canal

The Panama Canal's history is closely related to the very existence of Panama as an independent nation. The idea to build a waterway connecting the Atlantic and Pacific oceans goes back to the XVI century. In 1525, Charles I of Spain and V of Germany commissioned the first survey of the Central American isthmus, and the first plan for an inter-oceanic channel. In the early XIX century, German scientist Alexander von Humboldt revived interest in the project and in 1819 the Spanish government formally authorised the construction of a canal. This was interrupted by the independence process of a number of Latin American countries from the metropolis during the XIX century. In 1880, Ferdinand de Lesseps' company obtained from Colombia a concession to build a sea-level canal through Panama. Daunting excavation and rock cutting works took place between 1881 and 1888. Technical challenges, the inadequacy of the machinery, landslides, logistical problems, and major health issues derived from disease-carrying mosquitoes in a humid and tropical environment constituted major setbacks. As early as 1883, it was realised that different tidal ranges at the Atlantic and Pacific oceans would make a sea-level canal unfeasible. The company started to run into financial difficulties and eventually in 1899 the French attempt at constructing the Panama Canal was abandoned. However, a total of





59.75 million cubic meters had been excavated and the value of work completed was about USD 25m.

In 1899, the US Congress created an Isthmian Canal Commission and the French company sold its assets to the US for USD 40m. With the support of the US, Panama declared independence from Colombia in 1903 and the US and the new state of Panama signed the Hay-Bunau-Varilla Treaty, by which the US guaranteed the independence of Panama and secured a perpetual lease on a 10-mile land strip for the Canal. The construction of a locks canal reaching in stages 26 meters above average sea level was recommenced by the US in 1904 and in 1914 the Panama Canal was finally inaugurated.

Omar Torrijos, an army colonel who seized power in Panama in a coup in 1968, negotiated with the Carter administration the return of Canal sovereignty to the Panamanian people, which led to the signature of the Torrijos-Carter Agreement in 1977, by virtue of which sovereignty over the Canal was to be transferred to Panama on 31 December 1999. Nearly 7 years after the sovereignty transfer to Panama, in October 2006, a national referendum widely approved the expansion of the Panama Canal.

And 31 years after Omar Torrijos signed the treaty that would grant sovereignty over the Canal to the Panamanian people, his son Martín Torrijos, the democratically elected (2004) President of Panama, was present as representatives of the European Investment Bank, the Inter-American Development Bank, the International Finance Corporation, the Andean Development Corporation and the Japanese Bank for International Cooperation signed the contracts of a club deal that would provide the ACP with USD 2.3bn of external financing to support the Canal's ambitious USD 6bn first expansion since it was inaugurated in 1914. Works of the expansion project are expected to be completed in 2014, and the inauguration date of the project has already been set: precisely 100 years to the day after the Canal was originally inaugurated.

A unique project

The Panama Canal is an 80 km waterway connecting the Atlantic and Pacific oceans through an integrated system of locks and channels. From the Atlantic to the Pacific, vessels navigate successively through the Atlantic locks, Gatun Lake (an artificial lake at about 27 m above sea level, which was created for the Canal), an inland canal section, and the Pacific locks (see longitudinal profile). The average transit time is about 8 hours. The dimensions of the locks allow the transit of so-called Panamax ships, equivalent to containerships with a capacity of up to 4 500 TEUs. Both the Atlantic and Pacific lock complexes currently have two lock lanes.

The Panama Canal has a limited capacity determined by the operational times and cycles of the existing locks. Aside from the physical aspects, there is a series of other market and weather factors that influence the Canal's maximum sustainable capacity. The most relevant of these is the mix of vessel sizes, configurations and types that transit the Canal. The larger the vessels, the smaller the number of transits

the Canal is able to handle. This is partially due to larger vessels taking more time to pass through locks and navigational channels. Additionally, these vessels have more operational restrictions, such as the need to navigate the Gaillard Cut by day and in a single direction. During the last five years a 20% increase in average vessel size transiting the Canal has been recorded. The vessel size increase has been accompanied by a reduction in the number of transits as growing cargo volumes have been handled with larger and larger vessels. During 2005, more than 80% of the cargo transited in large vessels. However, since 2004 total cargo volume growth has coincided with an increase in transits, given that a large part of the cargo is already being transported by the most efficient vessels for each route. Consequently, with its present capacity, it will become harder for the Canal to handle growing traffic volumes in terms of size as well as vessel numbers.

Another factor influencing the Canal's maximum sustainable capacity is the level of service that its users require. For the Canal route to be competitive, international maritime commerce needs to be able to transit in a reliable and safe manner. This is especially important to those segments involving high-value cargos, such as containerships, which constitute the main driving force of Canal traffic growth. During fiscal year 2007, this segment represented 55% of its toll revenues. Containerships operate with regular itineraries, which follow a predefined series of port calls. Any significant delay at any point in the route has costly impacts, which have repercussions on a vessel's subsequent port calls. Besides higher costs for both ship owners and cargo owners, delays in Canal transits cause other delays due to the shipper's need to reprogramme dockings for cargo unloading and loading as well as additional unbudgeted land transportation cargo needs in the event that a vessel has to skip a port in order to get back on its itinerary. This makes container traffic demand very sensitive to changes in the service quality provided by the canal, making reliability one of the most important factors in the selection of the itineraries and routes to be used.

The maximum capacity of the existing canal facilities is estimated at approximately 340 million tons per year, equivalent to approximately 14 000 vessel transits per year. Despite the 24/7 opening of the Canal, it can no longer cope with the increased demand. The Panama Canal is nowadays so popular that ships literally line up outside the waterway, sometimes for days, waiting for the transit. In addition, many ships today, especially the larger container vessels, are too big to fit through the Panama Canal. These so-called Post-Panamax vessels have to avoid the waterway, which results in long maritime and/or terrestrial detours for the cargo concerned.

The expansion of the Panama Canal will solve this problem by adding a third lane of larger locks at each end of the Canal. The new locks will be long and wide enough to accommodate the inter-ocean transit of Post-Panamax vessels, equivalent to containerships with a capacity of up to 12 000 TEUs. In addition, existing navigation channels will be improved and Gatun Lake's maximum level will be raised by about 0.5m. The Canal will remain in operation during the expansion works. The new locks will use water-reutilisation basins that will reduce their water consumption by 60%. The maximum capacity of the expanded canal is estimated at approximately 600 million tons per year, equivalent to 16 000 transits per year, albeit transits of larger ships. Marketing studies commissioned by ACP indicate that in the most probable demand scenario the Canal's traffic volumes will almost double in the next twenty years, increasing by an average of approximately 3% per year.

The project's benefits will be twofold. Post-Panamax ships will be able to fit through the new locks, and increasing the capacity of waterway will cut waiting times and increase the reliability of services. Additionally, the improvement of the Canal's competitiveness in relation to competing routes will have environmental implications resulting from the reduction of greenhouse emissions per transport unit. As such, the expanded Canal will bring major economic benefits not only to Panama and its people, but to the whole world.

European interest

In addition to the project's environmental and economic benefits, Canal traffic with its origin or destination in Europe represents some 15% of total traffic. The relevance of the expansion project for the EU's trade with the West coast of the Americas and, to a lesser extent, with Asia is therefore evident. The EU's interest in the project was announced by Commissioner Benita Ferrero-Waldner during her visit to Panama in December 2007, where the Bank was also represented. EIB Vice-President Carlos Costa visited the country in February 2007 to meet with the authorities and show the Bank's interest in participating in the financing. In addition to the strategic interest for the EU, there was also a commercial interest for European design, construction and dredging companies, attracted by the largest infrastructure project in Latin America at present.

Financing during a credit crunch

Discussions on the financing of the project started shortly after the 2006 referendum, and before the start of the credit crunch. At that time, the borrower had access to a wide range of financial instruments and sources such as commercial bank lending, bonds, export credit agencies and multilateral loans. The Canal, which had solid revenues, could finance about half of the expansion from its own cash flow, generated by about 5% of the world's seaborne freight passing through annually. But the ACP still needed some USD 2.3bn to complete the deal. As the global financial crisis settled in, the borrower soon realised that the multilaterals maintained their appetite for the project while offering the necessary maturities, and that they could also supply the geographical diversity that the borrower was looking for from the beginning, as banks from Japan, the US, Europe and Latin America presented offers. Commercial banks still found a role in the transaction as B-lenders in the loan structures of some of the multilaterals.

The financiers had to find a common platform which would both satisfy the borrower's needs and meet the specific requirements of the individual financing institutions. Under these circumstances, the negotiation and signature of a joint Common Terms Agreement between five public banks from three continents, which from the first draft of the document until its finalisation took only 6 months, is considered to be a great achievement and an excellent example of successful cooperation on a multilateral basis. It could also serve as a solid base for future transactions and as such lead to the simplification and alignment of sometimes heavy administrative requirements. ■

New JASPERS Sofia office

Jaspers
Joint Assistance to Support Projects in European Regions

On 3 April 2009 the EIB opened a new JASPERS Office in Sofia, Bulgaria, to bring services helping to develop projects qualifying for EU Fund financing closer to Bulgarian customers. The office responds to the increasing number of the Bulgarian assignments and the foreseen development in the number of projects, and will represent a new interface to facilitate sharing of professional experience provided by JASPERS. The Sofia office is served by the JASPERS staff from the Bucharest office supported by the JASPERS teams in Luxembourg, Vienna and Warsaw.

JASPERS (Joint Assistance to Support Projects in European Regions) was set up by the European Commission, the EIB, the European Bank for Reconstruction and Development and the KfW Bankengruppe to assist the twelve Member States which joined the EU in 2004 and 2007 to make use of EU Structural Funds faster and more effectively. Between 2006 and April 2009, JASPERS completed 116 project assignments and is actively providing assistance in over 400 projects that, if approved by the European Commission, will absorb investment of more than EUR 50bn. For more about JASPERS: http://www.jaspers-europa-info.org/. ■

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Matthias Kollatz-Ahnen, EIB Vice-President with Medlena Plugchieva, Bulgarian Deputy Prime Minister and EIB JASPERS staff

EIB President Philippe Maystadt and Vice-President Dario Scannapieco welcomed Mr Giorgio Napolitano, President of the Italian Republic

EIB welcomes Italian President Giorgio Napolitano

EIB President Philippe Maystadt and Vice-President Dario Scannapieco, responsible for financing operations in Italy, Malta and the Western Balkans, welcomed Mr Giorgio Napolitano, President of the Italian Republic, at the EIB headquarters in Luxembourg on Wednesday, February 4. This event marked the first official visit to the Bank of an Italian Head of State since the EIB was created in 1958.

Mr Napolitano first met with the operational management of the EIB, then, accompanied by his wife Clio, spent some time with the Italian staff of the EIB. ■

Focus on civil society: new subsite launched on EIB's website

The EIB launched a civil society subsite on the occasion of the Annual Briefing for Civil Society Organisations (CSOs) in Brussels on 9 February by EIB Vice-President Philippe de Fontaine Vive. This initiative was taken to reinforce the EIB's interaction with CSOs, including non-governmental organisations (NGOs), and to contribute to its transparency as well as visibility and credibility with these organisations

The EIB's civil society web pages provide information on a range of activities organised for – and together with – CSOs. The subsite has been developed with the specific aim of facilitating easy access to information and documents. Moreover, the pages focus on the principles and procedures for public consultation on selected EIB policies and respond to CSO project-related questions and comments by providing information on topics that raise particular public interest.

EIB Vice-President de Fontaine Vive is in charge of the EIB's relations with civil society. In a short introductory film which was specifically produced for the launch of the subsite, he illustrates the approach and dynamics of the Bank's relations with CSOs. The film is available on the subsite at: http://www.eib.org/about/partners/cso/index.htm.

Currently available in English, a French and German version of the subsite will be coming to the website soon. ■

by Viviana Siclari
Communication Department

"Regards croisés": EIB and BCEE exchange works for joint exhibition

To celebrate their 40-year commercial and financial partnership, the EIB and Banque et Caisse d'épargne de l'État de Luxembourg (BCEE) have exchanged part of their collections for a joint exhibition entitled "Regards croisés".

A selection of 93 works belonging to the EIB by more than 50 artists from some 17 countries has been lent to BCEE for the exhibition "Paper and more" (February-April 2009), currently showing at the Am Tunnel gallery in Luxembourg.

The exhibition shows how European artists from very different generations and backgrounds have exploited the wealth of possibilities of a medium as common as paper. The works, including photographic prints, give free rein to the most sophisticated experimentation, sometimes constituting the rough sketch of a sculpture or painting or reflecting the unique worlds of an artist.

The EIB has been purchasing art since its foundation in 1958 and has a collection of 350 works (paintings, sculptures, installations, works on paper, photographs) by artists from the countries of the European Union. For the Bank, this is not simply about buying art to decorate offices, but rather a "socially responsible investment" designed to support artists who are sometimes very young or relatively unknown.

The impact of man-made urban change and Man's relationship with the natural environment are the central themes of some sixty works owned by BCEE, which are showing simultaneously on the EIB's premises.

This exhibition displays an exceptional range of visual qualities and formats. Some images depict and glorify Man's creations while others evoke the desecration of urban spaces, the damage caused to nature and the potentially dehumanising impact of mankind. These images remind us of a world that no longer exists, destroyed by the "Hand of Man". ■

Victor Rod, Président du Conseil d'administration de la BCEE and EIB Vice-President Carlos da Silva Costa, Chairman of the Arts Committee

by Daniela Sacchi-Cremmer
Communication Department

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

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Dates for the Diary...

- **09 May 2009** – EU Institutions Open Days. Luxembourg and Brussels
- **10-11 May 2009** – 6th FEMIP Conference on "Sustainable Water Financing and Climate Change in the Mediterranean". Monaco
- **15 May 2009** – EIB-CSO Workshop on Road. Brussels
- **09 June 2009** – Board of Governors Annual General Meeting 2009. Luxembourg

Details and registration at www.eib.org/events

New EIB publications

January 2009

- Review of the EIB Statement of Environmental and Social Principles and Standards, final draft
- FEMIP Trust Fund

February 2009

- EIB Diversity Strategy Leaflet
- Investment Facility and loans from EIB own resources, outline of terms and conditions
- Technical Assistance for Project Preparation - JASPERS
- Environmental and Social Principles and Standards
- FEMIP for the Mediterranean
- Corporate Operational Plan 2009-2011
- FEMIP Instruments
- The EIB's role in financing sustainable urban transport projects

March 2009

- EIB activity in Spain: 1981-2008
- EIB financing of the Trans-European Networks
- EU-Africa Infrastructure Trust Fund - Flyer

Annual News Conference – March 2009:

The EIB published 16 background notes about activity in 2008, covering each of its operational objectives. See at **www.eib.org/about/events/annual-press-conference-2009.htm.**

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