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The EIB - the EU bank

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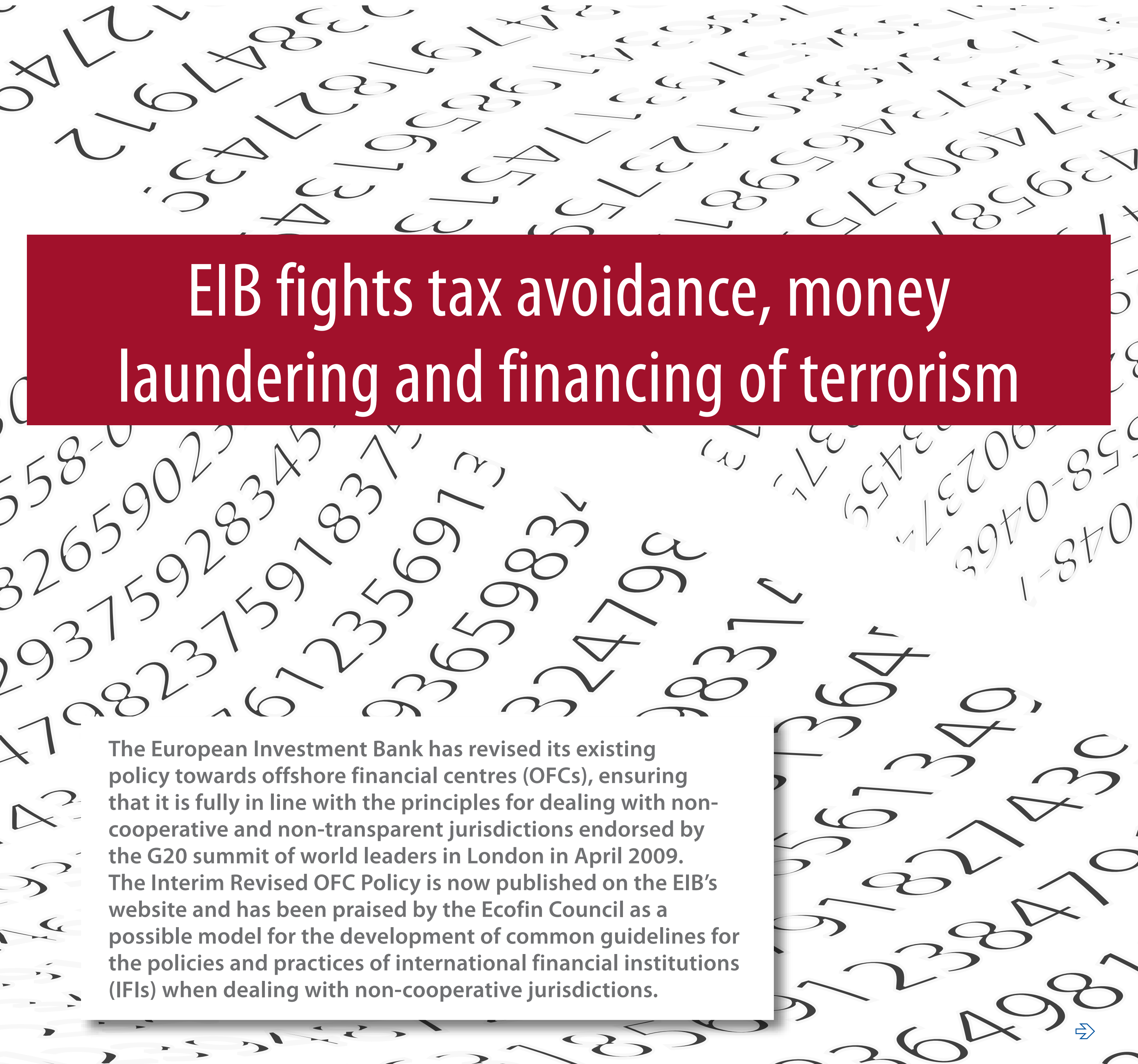

EIB fights tax avoidance, money laundering and financing of terrorism

The European Investment Bank has revised its existing policy towards offshore financial centres (OFCs), ensuring that it is fully in line with the principles for dealing with non-cooperative and non-transparent jurisdictions endorsed by the G20 summit of world leaders in London in April 2009. The Interim Revised OFC Policy is now published on the EIB's website and has been praised by the Ecofin Council as a possible model for the development of common guidelines for the policies and practices of international financial institutions (IFIs) when dealing with non-cooperative jurisdictions.

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by Juan Manuel Sterlin Balenciaga, Communication Department

Strict internal rules regarding the use of OFCs have been in place for several years at the EIB, which from 2005 was among the first of the IFIs to have a policy on such jurisdictions applicable to all the EIB's lending, borrowing and treasury activities. Furthermore, in April 2008, the EIB's Board of Directors approved the Bank's Anti-Fraud Policy, which enunciated the EIB's commitment to "zero tolerance" of corruption, fraud, collusion, coercion, money laundering and the financing of terrorism in EIB activities, required EIB members of staff and the EIB's business partners to adhere to the highest standards of integrity, introduced the harmonised definitions from the IFI Anti-Corruption Task Force's Uniform Framework Agreement, and described the measures the EIB takes to combat fraud and corruption.

The EIB's Interim Revised OFC Policy was developed at the initiative of the EIB's Board of Directors and approved on 14 July 2009, following extensive discussions with EU Member States, key expert Lead Organisations, IFIs and other concerned stakeholders, including civil society organisations. With the adoption of the policy, the EIB, as the European Union's long-term financing institution, confirmed its leading role in addressing the problems caused by non-cooperative jurisdictions, including tax havens, as well as its commitment to ensuring that its loans are used for the purposes intended, that is, for the promotion of the EU's priority objectives.

As before, the new OFC policy does not tolerate any activity carried out for illegal purposes, including money laundering, terrorism financing, tax fraud and tax evasion, and discourages prohibited activities and harmful tax practices. In addition, the new policy includes the following key features:

It refers to the country lists and reports produced by the key expert Lead Organisations, such as the OECD, the IMF, the Financial Stability Board and the Financial Action Task Force (FATF).

It confirms the EIB's existing commitment to refuse to operate wherever there is an OFC link to a prohibited ("blacklisted") jurisdiction, unless a project is physically located in such a jurisdiction and there is no suggestion that the OFC structure is being used for illegal activities or harmful tax practices. This exception is necessary to avoid penalising the general population of countries for which the EIB has a mandate from the European Council to support development.

The EIB will insist on active measures in cases where monitored ("grey-listed") jurisdictions are involved. For all OFC operations approved by the Board of Directors on or after 31 March 2010, the EIB will impose on any counterparty incorporated in a grey-listed jurisdiction an obligation to transfer its place of incorporation to a jurisdiction that is not an OFC prior to signing the relevant contracts.

From the same date, all the EIB's new contracts will include a relocation clause requiring the counterparty's relocation to a jurisdiction that is not an OFC if its jurisdiction of incorporation subsequently becomes classified as an OFC or equivalent by a Lead Organisation. Such relocation will have to be completed within 12 months.

Recognising that developments on these issues will continue at the political level, the EIB will keep its OFC Policy under review and propose updates to the Board of Directors as appropriate. ■

EBRD/EIB carbon fund active in Russia

In the first such transaction in Russia, carbon credits generated by utilising gas which would otherwise be flared at an oilfield in eastern Siberia will be purchased through a carbon fund set up by the EBRD and the European Investment Bank. Flaring of natural gas at oil fields is a significant source of greenhouse gas emissions and the Russian government is seeking to put an end to the practice.

Once government approval has been obtained and other conditions fulfilled, the carbon credits will be bought from a subsidiary of Irkutsk Oil which operates the Yarakta oil field in eastern Siberia. Irkutsk Oil recently received a loan from the EBRD, part of which was earmarked for implementing gas-flaring cuts. Its subsidiary is now building a gas processing plant and installing re-injection equipment at the Yarakta field.

The plant will separate condensate from associated petroleum gas, a by-product of oil extraction. The company plans to sell the condensate or mix it with oil. The remaining dry gas will be re-injected into the field – with liquid petroleum gas to be produced at a second stage through the separation of butane and propane. This process will allow some 95% of the total volume of associated petroleum gas produced over the whole life of the field to be re-used, resulting in important reductions of greenhouse gas emissions.

The fund buying the carbon credits is the Multilateral Carbon Credit Fund (MCCF), whose other participants besides the EBRD and EIB are the governments of Finland, Belgium (Flanders), Ireland, Luxembourg, Spain and Sweden, as well as six private sector participants. The MCCF is one of the few such funds dedicated specifically to countries in central Europe and central Asia. ■

JESSICA

in operational mode

The JESSICA initiative (Joint European Support for Sustainable Investment in City Areas) was launched in 2006 and in February 2007 the dedicated team of the JESSICA Task Force was created at the EIB. Until the end of 2008, the focus of the Task Force's activity was on improving and clarifying the European Structural Fund regulatory framework for deploying the JESSICA instrument and delivering technical assistance to Member States through JESSICA Evaluation Studies. These were aimed at assisting Managing Authorities in the respective Member States to employ part of their Structural Fund resources as financial engineering instruments, with investment delivered through Urban Development Funds (UDFs)[1] and, where applicable, Holding Funds (HFs), in support of sustainable investment in cities.

by Nicole Stuemmler, JESSICA Task Force

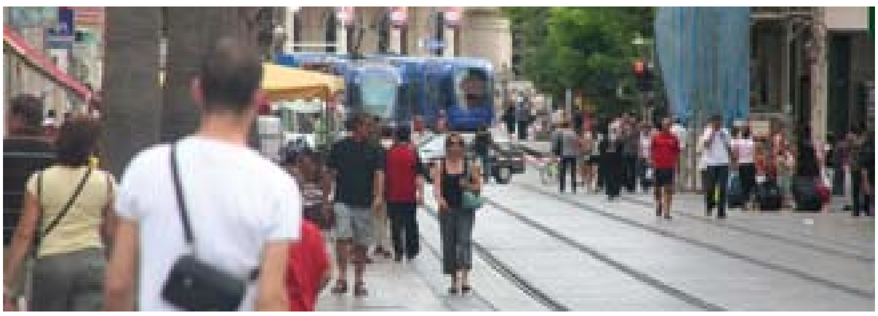
To date, 40 Evaluation Studies have been launched in 18 Member States, 23 of which are now completed. Requests for further studies are anticipated for 2009-2010, with the majority expected to be finalised by 2011. As a result of this work, awareness of the JESSICA programme has grown, with an increasing number of Managing Authorities expressing an interest in establishing Holding Funds to expedite JESSICA implementation and in appointing the Bank for that purpose, as provided for in the Community regulations. So far, this interest has resulted in the signature of the first six HF mandates, totalling approximately EUR 600m, with a further four HF mandates expected by the end of the year, bringing the total volume of funds under management to more than EUR 1bn.

JESSICA has thus well and truly moved into operational mode, with the prospect of increased asset management volumes and requests for new advisory services. This trend is reinforced by the expectation that in the future a higher proportion of Structural Fund resources could be channelled into financial engineering mechanisms such as JESSICA, a possible outcome of the mid-term review of the current programming period (expected in 2010) and the formulation of the 2014-2020 financial perspectives.

An illustration of the increasing need for effective asset management in cities is most notably in the area of energy efficiency, as the EU recognises the need to rapidly mobilise cost-effective energy efficiency improvements in the built environment to achieve the relevant targets. Among other instruments involving the EIB and the Commission, JESSICA is already set to play an important role in this area and the JESSICA Holding Fund investment strategies for Lithuania, Andalusia, London and Greece are already seeking to address this concern and are expected to channel more than EUR 500m of long-term capital investment into energy efficiency for housing, public buildings and other urban infrastructure. This exemplifies the flexibility in the scope of the JESSICA instrument and represents a scalable model, which could assist in creating synergies between different but complementary instruments in sustainable energy investment.

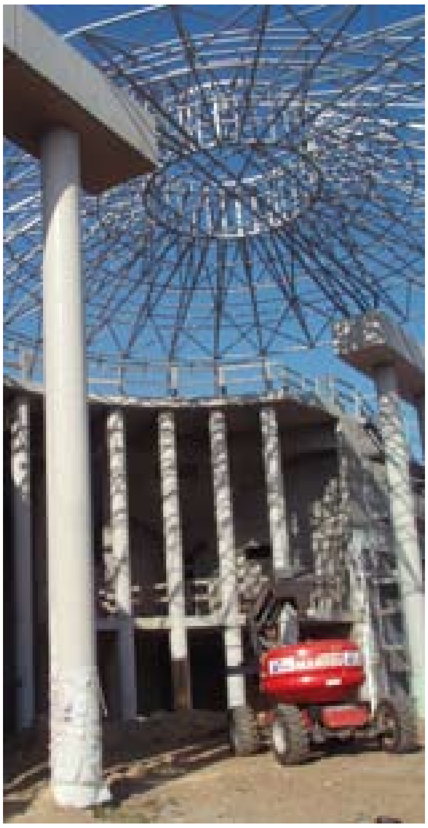
Against this backdrop, technical assistance and advisory services are increasingly in demand as the Task Force begins to capitalise on the knowledge and experience gained in undertaking JESSICA Evaluation Studies, managing Holding Funds, and taking part in cross-European networking and knowledge-sharing platforms.

The future of JESSICA therefore appears to be moving in the direction of supporting European cohesion objectives and meeting the long-term need for investment and advice in sustainable urban development by exploiting three areas of expertise: institutional technical support for Member States and Managing Authorities through Evaluation Studies; asset management functions for urban sustainable development on their behalf; and tailored technical assistance and advisory services, primarily to European cities and regions, on the establishment and management of Urban Development Funds. ■



[1] Urban Development Funds invest in public-private partnerships (PPPs) and urban projects included in an integrated plan for sustainable urban development. Holding Funds are funds set up to invest in several UDFs.

JASPERS
initiative takes off



After an impressive surge in activity in 2008, JASPERS (Joint Assistance to Support Projects in European Regions), the technical assistance partnership between the European Commission, the EIB, the European Bank for Reconstruction and Development (EBRD) and KfW, continued to expand its activities on behalf of the twelve beneficiary EU Member States in the first nine months of 2009.

by Daniela Sacchi-Cremmer, Projects Directorate/JASPERS

Between January and September 2009 JASPERS completed 72 assignments. Since 2006, the year in which it started operations, JASPERS has completed 179 assignments and as of 30 September 2009, there were 445 active assignments in progress.

The JASPERS portfolio, balanced among the beneficiary Member States broadly in line with their share of EU funding, is divided into five sectors: roads, ports, airports and railways; water and wastewater; solid waste and energy; urban infrastructure and services; and telecoms, culture and R&D infrastructure.

Out of 35 projects in the EU-12 approved by DG REGIO as at September 2009, 30 have been supported by JASPERS.

JASPERS encourages EU-12 beneficiary Member States to submit further grant applications to Brussels as speedily as possible and to prepare such grant applications in line with the requirements of the European Commission. The ultimate aim is to promote the absorption of EU Structural Funds, thereby stimulating future investment.

A key player at EU level

The economic recovery package announced by the European Commission on 26 November 2008 included measures to further support cohesion policy.

A first stakeholders meeting took place in Krakow, Poland, in May 2009. More meetings of this kind will be held in the future as they provide invaluable feedback.

The significant increase in the number and complexity of assignments, and the continued support given by JASPERS to projects after the grant application has been submitted to DG Regio, are having a significant impact on JASPERS' resources. This is why new experts and support staff are being recruited for the JASPERS regional offices (Bucharest, Vienna and Warsaw) to start work in the fourth quarter of 2009. ■

The main objective of the Joint Assistance to Support Projects in European Regions (JASPERS) is to provide the Member States which joined the European Union in 2004 and 2007 with technical assistance to make use more effectively of the EUR 347bn in grant finance made available by the EU for the implementation of EU cohesion policy during the period 2007-2013. The support provided by JASPERS is comprehensive and covers all stages of the project cycle from the initial identification of a project through to the grant application to the Commission. JASPERS operates on the basis of country Action Plans prepared annually for each Member State in cooperation with the beneficiary Member State concerned. A Managing Authority acts as a central coordinator for each country and it can request assistance from JASPERS. During the process of preparing the annual country Action Plans, JASPERS works in close cooperation with the Commission and the Member States to assist the latter in producing mature project proposals that are capable of meeting EU requirements, as well as to identify potential projects for assistance.

R&D and the financing of innovation in Europe

2009 EIB Economics and Finance Conference

On Thursday 22 October the EIB hosted the 2009 Economics and Finance Conference on the subject of "R&D and the financing of innovation in Europe". Opened by President Maystadt and chaired by Vice-President Sakellaris, the conference was very well attended thanks to an impressive selection of speakers.

by Hubert Strauss, Economic and Financial Studies Division (EFS)

Plutarchos Sakellaris (EIB Vice-President), Philippe Maystadt (EIB President)

In his opening address, **Philippe Maystadt** stressed the growing role of investment in knowledge for economic growth and, hence, the EIB's operations. The Conference shed light on the macroeconomic significance of Research and Development (R&D) and innovation. It also helped to explain why markets alone might tend to under-invest in R&D and discussed how public policies could address this problem.

Hubert Strauss of the EIB's Economic and Financial Studies Division (EFS) started off the session entitled *Intangible capital – facts and figures* by illustrating that the business sector's stock of scientific and engineering knowledge (the so-called R&D capital) was lower in the EU than in the US and Japan, but also unevenly spread across EU countries and industries. **Bart van Ark**, chief economist at The Conference Board, a global research organisation, stressed that other intangibles such as architectural designs, brand equity and organisational change also mattered for growth. He presented some broad measures of intangible investment for a dozen countries, including new estimates for Austria, the Czech Republic, Denmark, Greece and Slovakia. This showed that intangible capital is a key driver of growth in countries at the technological frontier and their close followers but is so far of limited importance in less advanced countries.

The main insight from **Werner Röger**'s (EU Commission, DG EcFin) presentation was that budgetary support for R&D is not enough to close the EU's productivity gap with the US. In addition, policies to improve framework conditions are required such as reducing the cost of market entry, cutting risk premiums on intangibles and raising the supply of high-skilled workers. Together these policies would make it possible to close half of the EU-US productivity gap. To achieve more, the EU would need to spur service sector competition and enhance the quality of higher education.

The issue of knowledge spillovers took centre stage during the second session dealing with the *economics of R&D*. EFS senior economist **Kristian Uppenberg** kicked off the session by explaining that firms invested in R&D in order to make money and to survive, but pointed out that knowledge spillovers may nevertheless lead to collective under-investment.

Corrective policies can take many forms. **Dirk Czarnitzki** of Leuven University (KUL) scrutinised science-industry collaborations and presented new results for Belgium and Germany. He found that private firms working together with scientific institutions tend to invest more in R&D than firms working together with other firms and that subsidised science-industry collaborations were even more R&D intensive. **Jacques Mairesse** (UNU Maastricht and CREST Paris) reviewed the effectiveness of the R&D tax credit, whereby a company can deduct part of its R&D expenditure from its tax bill. The R&D tax credit generally creates the desired increase in business R&D investment. Yet how large a "bang for its bucks" the country gets, varies widely across countries.

But is the additional R&D conducive to higher innovation outputs such as patents? **Bruno van Pottelsberghe** (ULB Brussels) presented a new industry perspective on the R&D-patent relationship. More R&D does lead to more patents but the relationship is weak: patent filings are an imprecise measure of research productivity since the propensity to file for patent protection depends on intellectual property (IP) rights, exposure to international markets and other country and industry characteristics. Disentangling the increasing propensity to file enables a 'clean' look at R&D productivity.

The afternoon session was dedicated to *financing innovation*. Setting the stage, **Bronwyn Hall** (UC Berkeley) showed that moral hazard and asymmetric information between innovative entrepreneurs and financiers lowered the supply of debt capital for new innovative firms. Moreover, the latter have essentially intangible assets, which are difficult to use as collateral. Equity is therefore the prevailing mode of financing innovation. **Laura Bottazzi** (Bologna University) discussed the role of venture capital (VC) in financing new dynamic firms. She found that in contrast to US experience, VC in Europe was not associated with particularly dynamic companies. A key factor in VC effectiveness is human capital. Higher levels of post-graduate education and professional experience affect the level of activism of venture capitalists and their value added. However, over time, VC investment styles in the EU appear to be converging towards those in the US.

Jacques Darcy of the European Investment Fund discussed trends in technology transfer, another field in need of both financing and entrepreneurial expertise. Drawing on EIF experience, he pointed to the risks and capital needs involved in the transition from university research to business innovation. He reviewed new financial instruments helping to align the incentives of inventors, entrepreneurs and investors. **Dietmar Harhoff** (University of Munich) explained that patents could serve not only as IP protection but also as collateral. Patents have been used as assets in patent funds seeking to commercialise patent rights. Patent auctions are indicative of a nascent market for patented technology, the development of which depends on an appropriate design of patent systems.

In his concluding comments, EIB Vice-President **Plutarchos Sakellaris** reminded the audience that a proper understanding of knowledge creation and innovation was paramount for ensuring high standards of living in the long run. Large players like the EU need to take the lead in addressing the policy challenges and the EIB Group has a role to play in alleviating financing constraints.

The slides of the presentations are available on the EIB website. The full articles will be compiled into Volume 14 of the EIB Papers and published in December. ■


Bronwyn H. Hall


Eric Perée, Jacques Mairesse, Dirk Czarnitzki


Bart van Ark


Dietmar Harhoff, Jacques Darcy


Kristian Uppenberg, Eva Srejber (EIB Vice-President), Hubert Strauss, Bart van Ark, Plutarchos Sakellaris (EIB Vice-President)

ELENA: Supporting sustainable energy investment at the local level

The EU Climate and Energy Package seeks to reduce the Union's greenhouse gas emissions by at least 20%, lower energy consumption by 20% and increase the share of renewable energies in energy consumption to 20% by 2020 – the so-called "20-20-20" Initiative. As local actors are crucial for the achievement of these energy policy objectives, the EU and the EIB have adopted a European Energy and Climate Change Initiative that aims to finance energy efficiency and renewable energy projects in the EU, focusing on municipalities. The initiative offers technical assistance that accompanies Bank lending.

Urban areas account for around 70% of the energy consumption of the EU; the EU Energy Efficiency Action Plan[1] therefore includes the creation of the Covenant of Mayors as one of its priorities, focusing on the local investment potential, which is significant. Sustainable energy investment at the local level will bring benefits for local economies, improve the quality of life for citizens and help mitigate climate change.

To facilitate the mobilisation of funds for investments in sustainable energy at local level, the European Commission and the European Investment Bank have established the ELENA technical assistance facility, financed through the Intelligent Energy-Europe programme.[2] ELENA covers a share of the cost of the technical support that is necessary to prepare, implement and finance the investment programme, such as feasibility and market studies, structuring of programmes, business plans, energy audits, preparation for tendering procedures – in short, everything necessary to make cities' and regions' sustainable energy projects ready for EIB funding.

Investment programmes that can be supported by ELENA

Many EU cities and regions have recently started to prepare or are initiating large energy efficiency and renewable energy proposals to tackle energy and climate change challenges. However, most of them are still at the conceptual stage and their implementation is proving difficult because many regions and cities, particularly medium to small ones, often do not have the technical capacity to develop large programmes in this area. ELENA helps public entities to solve such problems by offering specific support for the implementation of the investment programmes and projects such as retrofitting of public and private buildings, sustainable building, energy-efficient district heating and cooling networks, or environmentally-friendly transport etc.

Contacting the EIB

ELENA assistance may facilitate access to EIB finance or finance from another bank. ELENA is managed by the EIB. Contacts with the EIB can be in any form – by telephone, fax, e-mail or letter (the preferred way is through e-mail to elena@eib.org). For a first contact a brief description is needed of the planned investment (e.g. type of investment, approach to implementation), the expected investment cost and time schedule for the programme, plus the amount, scope and main needs to be addressed by the requested technical assistance. ■

by Bram Schim van der Loeff,
Communication Department

[1] http://ec.europa.eu/energy/action_plan_energy_efficiency/doc/com_2006_0545_en.pdf
[2] http://ec.europa.eu/energy/intelligent/index_en.html.

ACP Ambassadors

visit the EIB's Luxembourg headquarters

ACP Ambassadors, Catherine Collin, Philippe Maystadt, Martin Curwen

Ambassadors from 30 African, Caribbean and Pacific (ACP) countries visited the EIB's Luxembourg headquarters in July 2009 to be reassured by top management that the Bank would continue to support their countries' strategic investment projects despite the limitations on the ACPs' access to finance during the crisis. Another point on the agenda: the EIB's commitment to the successful implementation of the Investment Facility and the upcoming revision of the Cotonou Agreement between the European Union and the ACP countries. ■

EIB-ERSA Prize 2009

awarded to Professor Paul Cheshire

by Luisa Ferreira, Coordinator, EIB-Universities Research Action

The EIB, represented by Mr Hugo Woestmann, a member of the EIB Universities Committee, awarded Professor Paul Cheshire, Professor Emeritus of Economic Geography at the London School of Economics, the second EIB-ERSA Prize in Regional Science on 25 August in Lodz, Poland, on the occasion of the 49th Congress of the European Regional Science Association. The EIB-ERSA prize was created in 2008 to recognise the outstanding contribution of scholars to the advancement of regional science and related spatial area studies, and is awarded yearly on the recommendation of an independent jury of six eminent regional scientists. This year's prize recognises the outstanding contribution of Prof. Paul Cheshire to the economics of land markets, and European urban and regional development. ■

The Belwind offshore wind project in Belgium

EIB forces crack in the ice of project finance market freeze

The Bank recently signed its first non-recourse financing of an offshore wind farm project, and also the first large-scale offshore wind farm in Belgium, thereby setting important precedents. This concerns the financing of the first phase of the Belwind offshore wind project currently being built 47 km off the coast of Zeebrugge, comprising 55 large wind turbines and a 55 km-long subsea cable to connect to the onshore grid. The total nominal installed capacity amounts to 165MW, so that the wind farm could supply electricity to around 120 000 households.

by Melchior Karigl, Directorate for Operations in the European Union and the Belwind project team

In terms of dimensions, such an installation is quite impressive: the entire wind farm will cover an area of approximately 15 km2, which corresponds to about 2 150 soccer fields; the turbines will be built on steel piles at a water depth of up to 30 m. Each pile has a length of more than 70 m and a diameter of 5 m, weighing some 500 t. The highest point of a turbine will be 160 m above sea level, which is marginally higher than the second visitors' platform of the Eiffel tower. The project aims to meet the EU and national target of energy generated from renewable sources, and strongly supports the Bank's priority energy-lending objectives concerning renewable energy.

The main obstacle for the renewable power sector has been the shortage of debt finance for projects, resulting from the meltdown in the banking sector last autumn. Many project developers and promoters had to delay the construction of projects, and some urgently needed to search for deep-pocketed companies or utilities to buy the assets. This was also the case for Econcern, a major European wind developer based in the Netherlands and (former) Belwind project owner, which filed for bankruptcy at the beginning of 2009 in the middle of the ongoing negotiations on the financing of the project. This added another layer of complexity to the financial and legal structure of the Belwind project.

With Econcern effectively unable to commit new equity finance, and in fact selling its minority stake in the Belwind project as the bankruptcy administrators worked to realise Econcern's assets to cover its outstanding liabilities, the race was on to quickly find a major Belwind equity investor to avoid potential construction delays (construction is dependent on good weather conditions) and to ensure vessel availability. A new major investor was rapidly identified, and the project was only slightly delayed despite difficult market conditions. A final agreement on the detailed financial structure/risk allocation acceptable to all parties was achieved in July 2009 after a marathon 3 days and nights of negotiation with some 60 bankers, lawyers, advisors and investors.

This project is the first of several expected, and the Bank's financing has played a pivotal role given the project size and market conditions. The construction of Belwind already started in August and should be completed by early 2011, at an expected total project cost of EUR 613.9m financed 70% by senior debt and 30% by equity and mezzanine debt. Altogether the Bank provided nearly 50% of the liquidity, EUR 150m on project risk and EUR 150m guaranteed by EKF (the Danish Export Credit Agency).

Other lenders include Rabobank, Dexia and ASN, a publicly owned Dutch bank.

Belwind sends a key signal for the development of the European offshore renewable energy sector in general and is significant for the development of renewable energy in Belgium. The Bank has received independent recognition for its role in financing Belwind and was awarded the title "Renewable Energy Lender of the Year" by Euromoney in September 2009. ■

GEMASOLAR,

the latest innovative concentrating solar power (CSP) plant

During the last five years renewable energy in Spain has experienced spectacular growth rates, compounding annually at more than 200%. This is a result of the strong support from the Government (through the implementation of a stable feed-in tariff) and the efforts made by Spanish companies in the research, development and innovation (RDI) field.

by Gratianne Dascon, Department for Operations in Spain, Banks and Corporates

The Gemasolar project is the latest highly innovative project in a series of seven concentrating solar power (CSP) plants financed by the Bank since 2005. This state-of-the-art project is paving the way for a new solar thermal electricity generation technology, a more efficient alternative to parabolic-type commercial solar thermal power plants.

The promoter, Torresol Energy Investment SA, is a joint venture between Sener, a medium-sized Spanish engineering company with substantial RDI activity, and Mubadala (through a vehicle called Masdar), a public company wholly owned by the Government of Abu Dhabi. It was created with the aim of becoming the world leader in CSP, with plants in Southern Europe, North Africa, the Middle East and the south-western part of the United States (also known as the "sun belt").

The project is part of a strategy developed by the Bank that combines support for the deployment of innovative commercial plants with RDI loans to corporates that have demonstrated an ability to move the technologies forward.

The Gemasolar project concerns the implementation of a CSP applying the most innovative central receiver (or solar tower) technology. CSP systems produce heat or electricity using hundreds of mirrors to concentrate the sun's rays to achieve a temperature of typically between 400 and 1 000°C. A range of technologies can be used to concentrate and collect sunlight and turn it into medium to high-temperature heat, such as a parabolic trough (as in other projects the Bank has financed in Spain), a central receiver or solar tower, a parabolic dish or linear fresnel reflectors. The EIB is studying and appraising projects that cover these four different technologies.

Gemasolar is located in Seville (Spain) and will have a capacity of 17 megawatts (MW). It will be the first commercial-scale application in the world of a CSP plant based on a central tower technology with molten salt as the heat transfer and storage fluid (other projects used synthetic oils or water as the heat transfer fluid). Another significant technological innovation will be the solar collection system. The project will include a high-temperature thermal storage system (up to 15 hours) to meet the expected electricity dispatch at night and during cloudy periods.

If the European Union is today a world leader in the development of CSP, it is because of major RDI efforts made by companies such as the Spanish groups Sener and Abengoa or the German company Solar Millennium and the strong tariff regime structures (as in Spain, France and Italy). In order to promote investment in renewable energy, in 2004 the Spanish Government introduced incentives via a stable feed-in tariff regime that includes a tariff subsidy designed to make the projects bankable. As a result, over 1 000 MW of CSP plants are under development in Spain and 131 MW of commercial plants are already operating (around 560 MW are operating worldwide). Gemasolar will benefit from Real Decreto (RD) 661/2007 (or the new RD, which will replace the current one) with a tariff guaranteed for 25 years, which secures the financial viability of the project.

A standard project finance security package (pledging of shares of the borrower, pledging of bank accounts, pledging of rights under the project contracts) and strong guarantees provided by the EPC Contractor and the promoters/shareholders are key drivers for the deployment of this technology.

The development of CSP technologies is one of the priorities of the European Strategic Energy Technology Plan. The project supports the development of a potentially important renewable energy technology and thus contributes to the EU's renewable energy objectives. The development and improvement of CSP technology, the scaling up of individual plant MW capacity, competitive pressures, thermal storage, new heat transfer fluids and improved operation and maintenance are expected to reduce the future cost of CSP-generated electricity so that it soon becomes competitive with thermal generation from mid-sized gas plants. ■

EIB lends wings

to Berlin-Brandenburg Airport expansion

The Bank has signed off one of the biggest infrastructure loans in Europe to help expand the German capital's international hub. Some 20 years after the fall of the Berlin wall, this "German unity project" is set to contribute to the expansion of trans-European networks.

The EIB has approved a EUR 1bn loan with a further EUR 1.4bn being provided by a number of local banks (including KfW IPEX-Bank, Investitionsbank Berlin IBB, Investitionsbank des Landes Brandenburg ILB, Landesbank Berlin Nord LB, DZ Bank and Berliner Volksbank) making this one of the biggest infrastructure financing operations in Europe. The loan will make it possible to expand and upgrade the existing Berlin Schönefeld airport into a major transport hub.

"The new Berlin-Brandenburg International Airport (BBI) is a key German unity project financed by the EIB. As the airport of Germany's capital and the greater Berlin-Brandenburg region, and as part of the trans-European networks, the EIB has accorded BBI particular priority," EIB Vice-President Matthias Kollatz-Ahnen commented on the occasion of the second loan agreement's signature on 1 July 2009. A first part of the loan agreement covering EUR 400m had already been signed in December 2008 - the second loan was for the remaining EUR 600m.

The EIB's financing is set to equip BBI with the necessary capacity to meet the expected growth in air traffic that it will face due to the closure of two inner-city airports, Tegel and Tempelhof. As a consequence of the particular history of Berlin and its division during the cold war, the city developed an airport system consisting of two airports within the city (Tegel and Tempelhof) and one outside the city (Schönefeld). This project is set to create a single aviation hub that will cater for the entire needs of the Berlin and Brandenburg area.

At the same time, concentrating air traffic in a single location outside the city, will deliver significant environmental benefits as well as improve safety for the people of the Berlin and Brandenburg areas. The Bank anticipates a further positive impact on the economic development of other parts of eastern Germany. As EU convergence regions they receive particular attention from the EIB. Improved accessibility by air and direct as well as indirect job creation are among the immediate benefits for these regions gained through the project.

The project's economic viability is based on cautious traffic growth assumptions and especially takes into account the planned introduction of CO_2 emission trading for civil aircraft as an environmental measure, which will make air traffic more expensive. Even without allowing for the benefits of the significantly reduced number of inhabitants exposed to aircraft noise and to flight incidents, the project yields a sound economic internal rate of return. Its assessment follows the same strict criteria as the EIB's financing of other European airports. ■

EIB funding
for flood risk management projects

Floods are natural phenomena that cannot be fully prevented, but the risk of them can be mitigated. Within this decade, Europe has suffered more than 160 major floods, including the catastrophic floods along the Danube and Elbe rivers and in northern Caucasus in summer 2002, in the Alps in summer 2005, along the Danube in spring 2006, in the UK in 2007, and in the Czech Republic in summer 2009. These floods have killed more than 700 people, displaced half a million others and caused at least EUR 25bn in economic losses.

by Christoph Gleitsmann, Projects Directorate, Water and Environmental Protection Division

A growing frequency and scale of floods has been observed across Europe and beyond in recent years. Experts of the Intergovernmental Panel on Climate Change (IPCC) and the European Environmental Agency (EEA) concur that climate change tends to increase the intensity of rainfall, thus augmenting the risk of flash floods. Climate change may also so markedly alter the seasonal variation in river flow. Higher temperatures will push the snow limit upwards in northern Europe and in mountainous regions. This, in conjunction with less precipitation falling as snow, will result in a higher winter run-off in northern European and mountain-fed rivers, such as the Rhine, Rhône, Po and Danube. Moreover, earlier spring melts will lead to a shift in peak flow levels. As a result of the declining snow reservoir and decreasing glaciers, there will be less water to compensate for the low flow rates in summer. However, in the long term most climate change scenarios predict that northern and eastern Europe will see an increase in annual average river flow and water availability. In contrast, average run-off in southern European rivers is projected to decrease. In particular, some river basins in the Mediterranean region, which already face water stress, may see marked decreases of water availability.

Since most of Europe's river basins are shared by more than one country, concerted action at European level is required to improve flood risk management. The European Commission (EC) has in the last few years stepped up its efforts to place flood prevention more prominently on the agenda of EU water policy. In 2007 the Water Framework Directive was complemented by a Floods Directive that requests Member States to (i) carry out a flood risk assessment at river basin and coastal zone levels, (ii) draft flood risk maps, and (iii) prepare integrated flood risk management plans by the year 2015. They must also coordinate their flood risk management practices in shared river basins, including with third counties, and in solidarity not undertake measures that would increase the flood risk in neighbouring countries. Such efforts should not only lead to a better exchange of flood information and coordination of preventative efforts between the Member States, but also encourage public participation in the planning process and increase public awareness of flood risks. Further joint European action is expected on the basis of the EC White Paper on "Adapting to Climate Change – towards a European framework for action", which was published in April 2009.

The EIB's response to the increasing risk and occurrence of floods across Europe is threefold:

In line with the approved policy for post-disaster projects, and complementing EC grant instruments, offering rapid funding to countries that have been affected by disastrous floods – in recent years Poland, the Czech Republic, Germany, Austria, Romania, Italy and France. Such projects are often framework-type operations and mainly focus on the reconstruction of damaged infrastructure across several sectors. Financial value added has been provided by offering special loan conditions, including long tenors and 100% funding of eligible costs.

Developing and supporting flood risk management projects that aim to further mitigate flood risks and increase protection of major conurbations and key infrastructure. One priority project is currently being implemented in the Czech Republic, where the Bank has approved loan funding for a total investment of EUR 750m implementing the national flood prevention strategy to protect around 800 000 people in flood-prone areas by 2012. Such projects have the potential for large value added, and require longer preparation times. The procedures developed in the first implementation phase of the Czech project have been incorporated into the ministry's regulations for further projects, and this model has been promoted as a model for other interested governments, particularly among the new EU Member States.

Dissemination of best practice in flood risk management, inter alia by publishing the "Guide for preparation of flood risk management projects" on the EIB's homepage in 2008. The guide and the Bank's activities in this field have been the subject of presentations at several specialised conferences, for example the EU water directors and experts meeting in Brno in May 2009, with an emphasis on the implementation of the Floods Directive.

The EIB is proactively supporting the preparation and implementation of projects for flood relief and flood risk management. The latter is seen as key to the Bank's approach on supporting adaptation to climate change, in line with the EC White Paper and in the context of preparations for the UN Climate Change Conference in Copenhagen in December 2009. ■

Beyond a short-term mindset

It is neither the biggest, nor the longest, but the Baixo Alentejo Motorway – the tender for the construction of which was won by the Iridium/Dragados/Edifer consortium and for which a loan was signed in January 2009 – highlights the important role that the EIB has played in seeing projects through to completion in the current financial crisis.

by Manuel Neto Pinto, Department for Operations in Portugal

The Baixo Alentejo Motorway project entails the construction/upgrading and maintenance of approximately 344 km of highway in the south-east of Portugal, completing the triangle formed by the industrial complex of the Port of Sines, the new international airport of Beja and the Alqueva (the largest artificial lake in western Europe). Most of the project forms part of the TEN-Transport network. It is an important piece of infrastructure that will promote regional development, reduce the mortality rate on the roads being upgraded by over 15% and provide better access to a cross-border link. The project is also expected to generate about 7 900 person-years of employment during construction, an important consideration during a period of recession.

The project is structured as a 30-year Design, Build, Finance and Operate concession contract with Estradas de Portugal, the company responsible for managing the Portuguese highway network. As part of the latest wave of road concessions in Portugal, the Baixo Alentejo Motorway has a hybrid revenue structure, part availability-based, part shadow-toll and with some features of real-toll projects.

The absence of any significant level of commitment at the Best and Final Offers stage, continued uncertainty in the financial markets during the subsequent months of negotiation and an externally imposed timetable resulted in very challenging negotiating conditions for the sponsors.

The EIB was instrumental in keeping the overall financing within acceptable parameters for all parties concerned. While the Bank's willingness to provide 50% of the senior debt formed the bedrock of the financing, it was the targeted use of two special EIB financing instruments – the Loan Guarantee Instrument for Trans-European Transport Network Projects (LGTT) and the Structured Finance Facility (SFF) – and the experience of the multi-directorate project team that gave the EIB the authority to steer the overall financing beyond a short-term mindset.

The LGTT is an innovative financial instrument set up and developed jointly by the European Commission and the EIB which aims at facilitating a greater degree of private sector involvement in the financing of Trans-European Transport Network infrastructure. Baixo Alentejo Motorway was the second transaction to benefit from the LGTT, attesting to the pioneering spirit of the Portuguese market. The first LGTT transaction had also taken place in Portugal about eight months earlier ("IP4 Amarante Vila Real" road concession).

The EIB has established a Structured Finance Facility (SFF) designed to match the types of funding to the requirements of projects with a high-risk profile and to pursue its equity financing and guarantee operations in favour of large-scale infrastructure schemes. The aim of the SFF is to provide added value for priority projects by complementing the commercial banks and capital markets. These operations are undertaken chiefly in the countries of the European Union, but also in non-member countries.

The Bank made available a EUR 200m SFF tranche and a EUR 25m LGTT tranche (increased at the request of the co-financiers and sponsors from the EUR 15m initially approved).

With signs of recovery on the horizon, it is easy to downplay the difficulties sponsors and granting authorities were experiencing only a few months ago to get projects off the ground. It is to be hoped that the difficulties of those days will fade away just as quickly as they came. ■

OUTSIDE EU

EIB water expertise benefits Jordan

Jordan's image is intimately associated with water, the Mediterranean world, the Red Sea, the Dead Sea and the mythical River Jordan from which the country derives its name – so much so that it is hard to grasp that it is in fact one of the most arid countries on the planet alongside Tanzania, Sudan and Ethiopia. Yet more than 80% of this ancient land has been abandoned to the desert, even though in Jordan it takes on the magnificent forms of a land of ochre sand or a lost city hewn from the cliffs of pink sandstone bordered by a sea of salt.

by Marianne Roda, Internal Communication Division

In May 2009, the EIB granted Jordan a USD 100m loan to enable it to build a strategic aqueduct to carry water drawn from an immense aquifer beneath the desert. As well as providing financial engineering the EIB made its leading-edge water expertise available to Jordan, underpinning a long-term reform of the country's water policy.

The Hashemite Kingdom has launched several emergency plans in efforts to prevent complete desertification. One key element is a gigantic USD 1bn project to build the new aqueduct that will link Disi in the south of the country to Amman.

This will tap into an immense reserve of fresh water lying around 500 metres under the Disi desert that was formed drop by drop since the Pleistocene glaciations era. This reserve contains enough drinking water to supply Amman for some fifty years. At present, this precious resource is pumped mainly for irrigation purposes in the middle of the desert, sometimes for very water-intensive crops such as citrus fruit, bananas and tomatoes.

EIB support for a long-term recasting of Jordan's water policy

Accordingly the EIB has financially backed this project, which it has also helped to structure as a public/private partnership – the first of this type in Jordan's water sector. But the support provided by the European Union's bank is comprehensive and looks far ahead, going hand in hand with efforts to ensure that this aqueduct fits organically into a national water policy that is viable over the long term.

To this end an EIB water engineer, who is also a Jordan specialist, cooperated for several months with the Ministry of Water and Irrigation in jointly establishing measures for country-wide rebalancing of water demand between irrigation and domestic usage and for corresponding remodelling of water tariffs. These measures will also help to control excessive pumping of reserves close to the surface in the north of Jordan so as to allow them to replenish themselves, thereby lengthening the life of the country's natural reserves. All these measures have been incorporated into the ambitious Water for Life policy that Jordan plans to pursue up to 2022.

The Disi-Amman aqueduct has also been conceived in a long-term perspective. One carefully developed option would allow connection one day to a possible Red Sea desalination plant, which could in several decades' time constitute an ultimate source of drinking water for Jordan.

Finally, the EIB is currently looking at the possibility of making a second loan to Jordan to help it plug the numerous leaks in its water distribution network. The European Union's bank will therefore be shoulder to shoulder with the Hashemite Kingdom for many years to come.

On average, Jordanians cosume 145 cubic metres of water per person per year, which is what Europeans get through in ten days or so. Amman is supplied with water once a week for several hours. Global warming and population growth are increasing the urgency of the situation. Water is Jordan's blue gold – the key to its service economy and a condition for its survival.

The EIB in the Mediterranean

The EIB has a financial arm dedicated to its activities in the Mediterranean, namely the Facility for EuroMediterranean Investment and Partnership (FEMIP), which has been operational since October 2002. FEMIP's remit is to promote development in nine countries – Algeria, Egypt, Gaza-West Bank, Israel, Jordan, Lebanon, Morocco, Syria and Tunisia – as part of Europe's neighbourhood policy. Its two investment priorities are to support the private sector economy as the source of sustainable growth, and to create an investment-friendly environment through efficient infrastructure and appropriate banking systems. ■

The EIB,

founder member of the Marseille Centre for Mediterranean Integration

On 9 October, the European Investment Bank, together with the World Bank and the governments of Egypt, France, Jordan, Lebanon, Morocco and Tunisia and the City of Marseille, launched the Marseille Centre for Mediterranean Integration (CMI).

by Henry Marty-Gauquié, Representative of the EIB Group in Paris

The CMI's founder members and partners following the Constitutive General Meeting. In the front row, World Bank MENA Vice-President Samshar Akhtar and EIB Vice-President Philippe de Fontaine Vive.

The Centre reflects the desire of international development players, and those in the northern and southern Mediterranean countries, to join forces to support public policy reform in priority development sectors in the Mediterranean partner countries.

The Centre's remit comprises some fifteen technical assistance programmes spanning five sectors covering:

- urban spatial development;
- sustainable development and the prevention of climate change;
- transport and logistics;
- human capital: skills, employment and mobility of workers, including the young;
- knowledge economy: support for innovation and SMEs.

An innovative tool, acting as a "network among networks"

The creation of the CMI, which was inaugurated in Marseille on 9 October, is innovative on more than one score: firstly, because it will unite the efforts of development players in the Mediterranean on these issues of prime importance; secondly, because it will widen the debate by bringing together highly diverse and complementary know-how: the providers of development finance in the Mediterranean – European, bilateral and multilateral – will discuss matters with the partner countries' public policy institutions, university networks specialising in development economics (such as FEMISE, the ETF and UniMed), the United Nations agencies (such as the Global Environment Fund, UNDP, UNEP WFP and UNIDO) and civil society, including organisations representing business and local government.

In total, some twenty partners, acting as a "network among networks", will contribute to the implementation of the Centre's research and technical assistance programmes.

Lastly, and undoubtedly most importantly, the partner countries who so wish (five at present, and potentially others) will be fully involved in not only identifying but also implementing the actions, so adding a new dimension to the partnership embodied by the Centre and ensuring a more balanced and fruitful partnership in the Mediterranean.

EIB involved in six activities

A founder member of the Centre, the EIB is directly involved in the implementation of six of the fifteen programmes on the Centre's agenda. It is leading three of these:

- the renovation of urban heritage (under its "Medinas 2030" initiative, see pages 19-20),
- the organisation of the transport logistics system in the Mediterranean (under its "Logismed" initiative),

- the financing of innovation and support for science parks development policies (building on the experience gained in the Tunisian Technology Parks project).

At the same time, the Bank is actively contributing to three other programmes: the planning and development of sustainable urban transport, led by Agence française de Développement (AfD); support for basic and vocational training policies, conducted by the FEMISE[1] network; sustainable water management policies, implemented by AfD.

Light-touch governance for a trial period of three years

A multi-partner technical assistance platform, the CMI has been set up for a trial period of three years (2009-2012), following which an independent assessment will inform the decisions of the founder members on the future form and content of the Centre's activities.

The Centre has been given a light-touch coordination and governance structure for its activities. Its top-level body is the Centre's Strategic Council composed of twelve eminent figures from civil society and the institutions of the southern and northern Mediterranean countries; the Council is co-chaired by Tunisia's Secretary of State for International Cooperation and Foreign Investment, Abdelhamid Triki, and EIB Vice-President Philippe de Fontaine Vive. ■

[1] In the framework of a strengthened partnership between the EIB and the network signed on 7 July 2009.

Medinas 2030 Seminar

Revitalising the Mediterranean's urban heritage

On 8 and 9 October in Marseille, the EIB held a seminar on the regeneration of historic city centres around the Mediterranean. More than 175 participants, including local elected representatives, government officials, operators and finance providers, attended the event, which was held as part of the Mediterranean Economic Week.

by Jihane Hakimi, Europe's Neighbourhood and Partner Countries Department

The situation now: historic city centres under threat

The old quarters of towns and cities are repositories of the cultural heritage, history and identity of the Mediterranean countries. They represent irreplaceable assets and harbour substantial economic potential. But the historic city centres (or medinas in the Maghreb countries) are undergoing

Vice-President de Fontaine Vive addressing the audience at the opening session.

Inauguration of the Medinas exhibition by the EIB Vice-President and Daniel Hermann, Deputy Mayor of Marseille.

multiple changes – especially demographic, as the urban fabric becomes more dense. At the same time, their buildings and infrastructure are deteriorating. And on the economic front, traditional crafts are disappearing, aggravating the impoverishment and marginalisation of the inhabitants of these historic districts.

A number of urban renewal initiatives have been carried out in the Mediterranean over the past twenty years, but not all have been successful. It is truly difficult to finance and manage large-scale renewal projects on a sustainable basis. The inhabitants of historic city centres are frequently low-income households, unable to afford maintenance and conservation costs. The lack of technical expertise in the regeneration field and the large number of stakeholders involved have also led to the failure of such initiatives.

On the strength of the urban renewal know-how built up by the Bank in the European Union, FEMIP[1] launched the Medinas 2030 initiative at an international conference on the fringes of the Venice Architecture Biennale in October 2008. Financed by the FEMIP Trust Fund, this initiative advocates a new urban regeneration philosophy based on the need to adopt a medium to long-term approach to these operations by undertaking patient investment. One year after the Venice conference, the Marseille seminar was designed to take stock of the Medinas 2030 initiative and identify the expectations of the main urban regeneration players more clearly.

Improving the local people's quality of life: the prime objective of urban regeneration

The FEMIP seminar was divided into four sessions. The first was devoted to the mayors, which described the problems that they face when carrying out an urban renewal operation. The second session focused on the relationship and interactions between national and local government. The third gave the floor to operators, which set out the lessons to be learned from the successes and failures of previous regeneration experiences. And in the final session, finance providers looked at the question of appropriate financing mechanisms and examined the role of the private sector.

At this meeting in Marseille, policymakers from around the Mediterranean agreed on the usefulness of the Medinas 2030 research and exchange programme. The participants stressed the need to involve the local people more closely in the urban regeneration process, for the reason that – over and above heritage conservation – the principal challenge of regeneration operations consists of developing the local economy and above all meeting the needs of residents. They also advocated carrying out a consultation process aimed at creating a financial framework tailored to historic city centre regeneration schemes.

Raising public awareness

On the fringes of the seminar, the Bank held an exhibition on the topic of the regeneration of historic urban districts. Housed in the Alcazar regional library in Marseille, this public exhibition aims to bring this complex set of problems to a wider audience. Its inauguration on 8 October was accompanied by a press conference and attended by public figures from the worlds of culture and the media as well as participants in the Medinas 2030 seminar. This travelling exhibition will subsequently be staged in a number of cities around the Mediterranean. ■

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

The West African Power Pool

In West Africa, the coastal countries are naturally better endowed with energy resources than the landlocked countries of the Sahel. The former, which have access to hydropower, cheaper fuels or gas, are net power exporters, whereas the latter, which face high fuel costs for thermal electricity generation due to transportation costs, experience power deficits.

by Eve Walter, Department for Operations in Africa, Caribbean, Pacific, Investment Facility

The West African Power Pool (WAPP) was created in 1999 to connect these countries with one another so as to allow power exchanges for the benefit of all and address the issue of power shortages in the West African region. Its members are the countries that belong to ECOWAS (Economic Community of West African States[1]). The purpose of WAPP is to establish a regional electricity market in West Africa through the development and implementation of infrastructure projects that promote power exchanges among its member states and permit access to affordable energy resources for all.

Since the power sector is the cornerstone of economic development, the Bank, through its West Africa Division, is a long-standing partner of WAPP. WAPP holds regular coordination meetings with donors at which its activities are reviewed and in particular priority power projects are presented in order to obtain the necessary funding. In May 2004 the Bank hosted such a WAPP donors' coordination meeting on its premises in Kirchberg. More recently, the Bank participated in the 16th donors' coordination meeting held on 29 September this year in Cotonou.

Over the years, thanks to its strong leadership WAPP has made substantial progress towards regional cooperation and integration in the power sector in West Africa. Nevertheless, the requirements are considerable and increasing due to a very low level of access to electricity (17% on average), combined with high population growth.

The Bank is actively involved in financing a number of ongoing WAPP priority projects (the interconnection between Aboadze and Tema in Ghana, the Côte d'Ivoire-Burkina Faso interconnection, the West African Gas Pipeline to supply Ghana, Togo and Benin with gas from Nigeria, the Manantali and Felou hydropower plants). In addition the Bank has financed a number of pre-investment studies for WAPP priority interconnection projects, either with its own funds or through the ACP-EU Infrastructure Partnership (Ghana-Burkina Faso-Mali, Côte d'Ivoire-Liberia-Sierra Leone-Guinea, Côte d'Ivoire-Ghana). Once the results of the studies are available and provided that the projects are eligible, the Bank will endeavour to participate in financing them. A number of other WAPP priority projects under preparation are also being closely followed by the Bank, such as the OMVG (Gambia River Basin Development Organisation) project combining hydropower generation and transmission between Senegal, Gambia and Guinea, and the Gouina hydropower plant promoted by the OMVS[2] (Senegal River Basin Development Organisation).

By participating in the financing of these priority projects, the Bank has joined forces with WAPP and other donors to provide the ECOWAS States with access to affordable energy resources through additional power generation and exchanges. By supporting WAPP's activities, the Bank is ultimately helping to create a sound power sector in the ECOWAS region, which in turn should facilitate economic growth and poverty reduction. ■

[1] Benin, Burkina Faso, Cape Verde, Côte d'Ivoire, Gambia, Ghana, Guinea, Guinea-Bissau, Liberia, Mali, Niger, Nigeria, Senegal, Sierra Leone and Togo.

[2] The members of the OMVS are Guinea, Mali, Mauritania and Senegal.

EIB supports VW Group's strategic presence in Asia and Latin America

The Bank's traditional support for EU corporates goes beyond policy lending within the EU: it can also involve products – particularly under the ALA mandate – to underpin the strategic investments and reinforce the competitiveness of EU companies in key markets in Asia and Latin America. A clear example of this are the two loans recently signed for VW Group subsidiaries in India and Argentina, extended under the lending mandate for Asia and Latin America (ALA IV), which enables the Bank to support the EU presence in those regions through foreign direct investment and the transfer of technology and know-how.

by Sunita Lukkhoo and Fernando Torija, Department for Operations in Asia and Latin America

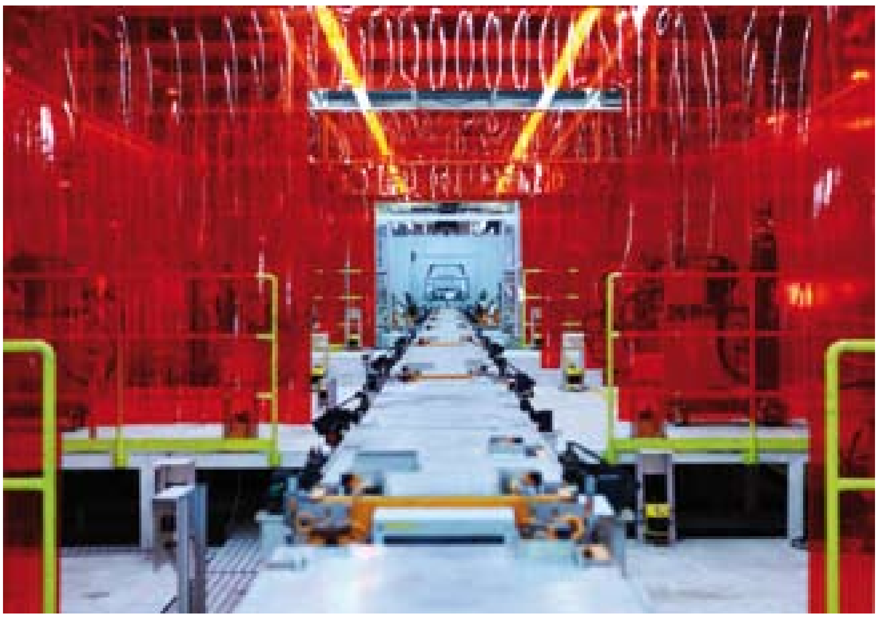
In Argentina the Bank has lent EUR 170m, co-financed with KfW, in support of global production at the existing manufacturing facility outside Buenos Aires of a light commercial vehicle designed for the mixed transport of goods and passengers and specially adapted for the road conditions of developing countries. The new vehicle will feature VW's most advanced safety standards and the latest advanced power train technology, with resulting lower fuel consumption and lower carbon dioxide emissions, setting a new benchmark in its class.

In India, the EIB has granted a loan of EUR 100m, in co-financing with IFC and KfW, to part-finance a new car manufacturing facility in the state of Maharashtra, where the company will produce three small car models. VW is already present in India, where it operates an assembly plant in Aurangabad. The project will enable VW to increase its current market share, which is still small, through local production of its smaller mass-market models specifically adapted to an emerging market environment and reflecting customer preferences and the need for very low unit costs. The new models will be equipped with modern engines, providing the most efficient low-emission technology compatible with local fuel quality. The project will enable VW to manufacture in India vehicles that comply with tighter regulations on emissions of greenhouse gases that will be introduced by India from April 2010 onwards.

In both cases, particular attention has been paid to the social and environmental standards of the production process as well as the emissions efficiency of the end product. Both projects introduce state-of-the-art manufacturing technology into these emerging nations and will result in products that improve efficiency and emission standards in their respective product segments.

As in all ALA lending, the EIB financing for these projects also provides a contribution to the economic development of India and Argentina against the backdrop of global economic difficulties.

These loans to VW's subsidiaries in Argentina and India, in addition to having been structured in challenging times in emerging markets, also represent important milestones for the Bank's activity in both countries. The loan in India is the EIB's first private sector corporate loan in India since the framework agreement with India was signed in 1993, while the loan in Argentina marks the resumption of EIB activity in that country since it was hit by the 2001 economic crisis. ■



Cooperative Floating Rate Notes:

the EIB teams up with cooperative banks against the crisis

The continued development of new funding sources is a key feature of the EIB's refinancing strategy and its value particularly stands out in times of financial turmoil. Most recently, this approach has taken the form of three so-called Cooperative Floating Rate Notes (CFRNs), variable rate issues launched and re-opened between July and October 2009 for a total of EUR 4.25bn, an exceptionally large size for this product segment.

by Aldo M. Romani, Capital Markets Department

For the first time, the syndicate assembled for the distribution of the notes was entirely composed of European banks from the cooperative and popular sectors and, in the case of one re-opening, the savings sector (10 and 9 banks, respectively, from 6 different countries). This structure allowed effective access to both the treasury liquidity and the capillary distribution of smaller regional banks, achieving benchmark size (EUR 1bn) at launch for each of the issues despite unprecedentedly long maturities (5.5, 7.5 and 10.5 years). In the absence of other benchmarks, the CFRNs provided a transparent secondary market reference, facilitating the monitoring of investor flows and the subsequent increase of the notes at tailor-made pricing. This, together with the avoidance of swap charges (floating coupons do not need to be hedged against changes in the level of interest rates), led to a substantially lower cost of funds compared with fixed-rate bonds.

A valued contribution to the 2009 funding programme – the EIB's largest ever, the CFRNs are also important on two further counts, which highlight the EIB's special role as a pillar of EU public policy and help its recognition as an instrument of "oikonomia" (in Aristotle's definition, the art of providing the means required by the good health of society), as opposed to "chrematistics" (the widespread practice of speculating purely for one's own account).

On the one hand, the EIB has fostered the transfer of financial resources to the real economy at a moment in which the direct on-lending of abundant central bank liquidity via commercial banks is hampered, in medium to longer maturities, by substantial risk premia, high real interest rates and excess production capacity. CFRNs offer appealing features (the EIB's creditworthiness, 0% risk-weighting, limited price volatility, above-average marketability, eligibility as collateral for monetary operations with the Eurosystem) and are an ideal investment for bank treasuries when the remuneration of excess liquidity in the money market is minimal (3M Euribor at 0.74%). At the same time, the non-profit nature of the capital-strong EIB and its official role in the context of the EU Economic Recovery Plan make sure that the proceeds flow to the appropriate sectors in the form of the medium and long-term projects that are most needed to counter the crisis.

On the other hand, the CFRNs extend an approach inaugurated in Italy last year with the "Popular Bond", a retail-targeted issue sold exclusively via Popular Banks. These initiatives reflect the EIB's timely recognition of the synergies and capital market ambitions developed by leading cooperative banks (Banca Popolare di Milano, Crédit Agricole and DZ Bank) via the merger/networking of their operations as well as the EIB's effort to deepen its teamwork with them in support of SME lending. As a result, this brings the collection of funds and their redeployment to local economies via intermediaries closer to smaller local investors and borrowers. As G. W. Raiffeisen put it in 1866, the money required for local financial support can only be procured via credit partnerships. 140 years later, the CFRNs add pan-European substance to this principle, proving what Heinrich Heine called "die Macht der Ideen". ■

A face-to-face approach for research collaboration

The EIB channels most of its institutional relations with universities through three dedicated Research Action Programmes. One of these programmes is called STAREBEI and involves face-to-face research collaboration between an EIB staff member and a PhD student or postdoctoral fellow at an EU-based university.

by Thomas Ribarits, Financial Risk Department

STAREBEI stands for "Stage de Recherche à la BEI", under which the EIB finances a young researcher to work on a joint EIB-university project. Successful applicants are given the opportunity to undertake a research internship on the Bank's premises. The main characteristics of STAREBEI are as follows:

• the internships are on a fairly small scale and not bureaucratic: one researcher, one university tutor and one EIB tutor are involved;

• they are for a limited period: 6 months to a year;

• they involve regular visits by the researcher to the EIB: more than 10% of the project period must be spent at the EIB. The university tutor is of course also given the opportunity to visit the Bank;

• they entail fairly intense personal collaboration: the EIB tutor is genuinely "involved". The research initiative itself must originate from within the Bank (i.e. from the prospective EIB tutor) and visible progress must be made with the project-related work.

As an example, the EIB recently completed a one-year project in the field of interest-rate modelling, in which two different types of model were closely investigated: the Heath-Jarrow-Morton models, which are arbitrage-free and often used for pricing interest rate derivatives; and the Nelson-Siegel models, which are not arbitrage-free but offer other advantages. The project revealed that these two models are in fact, surprisingly, quite close to each other. Two rather different views on interest rates were therefore brought together to produce a to some extent "consolidated" view. Following presentations within and outside the EIB, a research paper was submitted to the International Journal of Theoretical and Applied Finance[1].

"I think the STAREBEI project has turned into a win-win situation for all participants", says the EIB tutor who led the project with enthusiasm: "But first and foremost the Irish researcher, who obtained access to funding at a difficult time, was able to try the new model using real-world data and compare it to real-world peer models employed by the Bank in its day-to-day business", adding that "... having worked in academia in the past, I know that this is usually very valuable for universities."

For more details on STAREBEI as well as the other programmes offered by the EIB-Universities Research Action, please refer to the EIB's website http://www.eib.org/about/partners/universities/index.htm. ■

[1] Conference presentations and the paper are available upon request.

EIB Senior Management Cadre appointments

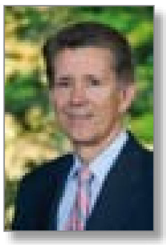
As of 1 November 2009, the two Departments of the Legal Service have been reorganised. One is now the Legal Department, Corporate; the other is the Legal Department, Operations. In the context of the reorganisation of the Legal Service two new appointments have been made.

Nicola Barr has been appointed Head of the Legal Department, Corporate with effect from 1 November 2009. The Legal Department, Corporate deals with legal issues relating to capital markets, treasury operations and related financial instruments, EIB institutional matters, staff questions and litigation together with operational programmes with the Commission.

Ms Barr joined the European Investment Bank in 1994, working initially on loan documentation in the Legal Affairs Directorate. Since 1996, she has been advising and working on legal documentation relating to capital markets, treasury products and derivatives. She became Head of Division in 2001. In 2006 she was appointed Associate Director.

Prior to joining the EIB, Ms Barr worked for seven years at a senior level in the banking department of the solicitors A&L Goodbody.

Ms Barr has an MA in legal science from Trinity College, Dublin (1979), and qualified as a solicitor, being admitted to the Law Society of Ireland in 1983.



Gerhard Hütz has been awarded the title of Deputy General Counsel within the Legal Affairs Directorate, with effect from 1 November 2009.

With a banking apprenticeship, a German degree in law and a PhD in US and German banking law, Mr Hütz joined the Bank's Legal Affairs Directorate in 1992. During the first few years, he worked as a transactional lawyer on operations in Germany, Austria and Central and Eastern Europe, as well as in Russia, since 1999 as Head of Division. In 2005, he was appointed Director of the Department of Legal Support for Lending Operations in Europe.

As of 1 November 2009, Mr Hütz is responsible for all legal matters concerning the EIB's lending operations worldwide.

Prior to joining the EIB, he worked as Assistant University Professor and in the Legal Department of Deutsche Bank. Mr Hütz has published works on a variety of legal issues such as US and German banking law, and the EIB's legal framework and Statute.

Other appointments

Maria-Teresa Calvete has been appointed Head of the JASPERS Bucharest Regional Office, within the JASPERS Department, Projects Directorate (PJ).

Alfredo Abad will replace David White as Head of the Regional Representation in the Tshwane/Pretoria Office, Southern Africa and Indian Ocean Division, Africa, Caribbean, Pacific – Investment Facility Department.

Guido Prud'homme is replacing René Perez as Head of the EIB's Rabat office, in the FEMIP Maghreb Division, Europe's Neighbour and Partner Countries Department.

Robert Feige is replacing Diederick Zambon as Head of the Tunis office, also in the FEMIP Maghreb Division of the Europe's Neighbour and Partner Countries Department.

The GRAD programme

Even in the best of times it can be difficult to find a job when you have relatively little or no professional experience. In the present economic crisis the outlook for recent graduates is even dimmer. This is why the European Investment Bank has put in place a Graduate Recruitment and Development (GRAD) programme for recent graduates looking to gain professional hands-on experience in a leading European institution and major international financial player.

As of 1 September 2009 openings exist for junior roles, allowing graduates to gain first-hand experience working alongside expert professionals in a dynamic multicultural environment. The appointments will be mainly at the EIB's Luxembourg headquarters but may also involve assignments in the Bank's external offices.

The GRAD programme offers fixed-term contracts of a minimum of one year and maximum of two years. During this time, the graduates will have the opportunity to develop from a personal and professional point of view by attending a tailor-made development programme. On completion of their assignment at the EIB they will receive a performance and development report. The Bank offers an excellent starting salary and secondary benefits.

More information on the GRAD programme can be found on the Bank's website. Only on-line applications will be considered.

The information magazine of the European Investment Bank Group

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

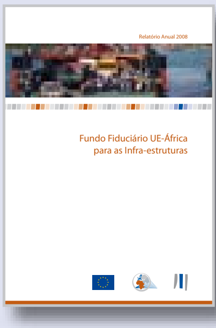
QH-AA-09-136-EN-C

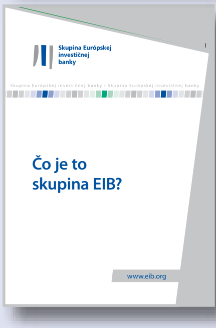
Dates for the Diary...

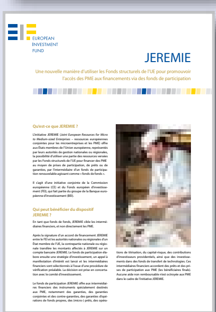
- **7-18 December 2009** – United Nations Climate Change Conference. Copenhagen – Denmark
- **25 February 2010** – EIB Annual News Conference. Brussels – Belgium
  – Briefing to Civil Society Organisations. Brussels – Belgium
- **29 April 2010** – Regional forum on "Energy and Transport". Warsaw – Poland
- **8 June 2010** – Board of Governors Annual General Meeting 2010. Luxembourg
- **22 October 2010** – Regional forum on "From anti-crisis financing to sustainable growth and innovation". Istanbul – Turkey

Details and registration at www.eib.org/events

New EIB publications







June 2009

- Audit Committee Annual Reports for the year 2008
- EU-Africa Infrastructure Trust Fund - Annual Report 2008

July 2009

- Guide for procurement of services, supplies and works by the EIB for its own account
- Inspectorate General - Fraud Investigations: Annual Report 2008

August 2009

- EIB interim revised policy towards Offshore Financial Centres
- Unaudited Condensed Semi-Annual Financial Statements as at 30 June 2009

September 2009

- What is the EIB Group?
- Evaluation of activities under the European Financing Partners (EFP) Agreement
- Evaluation of lending in new Member States prior to accession
- EU-Africa Infrastructure Trust Fund – Flyer
- Evaluation of EIB Financing of Water and Sanitation Projects outside the European Union
- JASPERS Annual Report 2008
- EIF Venture Capital Operations: ETF and RCM Mandates

October 2009

- Operations Evaluation (EV) Terms of Reference
- JEREMIE: A new way of using EU Structural Funds to promote SME access to finance via Holding Funds

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