

Special edition



Partnering with the world

The EIB is the bank of the European Union countries. It operates in the 27 EU Member States and in more than 130 other countries. Since 2007, the EIB has signed loans totalling EUR 21.1bn with countries outside the EU. It is the largest supranational borrower and lender in the world. This INFO special edition seeks to illustrate some of the EIB's activities in the different regions of the world.

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Foreword by Philippe Maystadt

EIB President

In 2010, the European Council and European Parliament will review the EIB's lending activities outside the EU and consider options for contributing to a more effective European external policy.

The EIB has been an important actor outside the EU since 1963, financing projects in more than 130 countries that have signed cooperation or association agreements with the EU or its Member States. Under these specific mandates, it works towards achieving the EU's goals in the different regions of the world. It does so by doing what it does best: providing finance and technical assistance to viable projects that help develop the economy, preserve the environment and promote sustainable development.

Many countries that the EIB works with outside the EU's borders face similar challenges. The provision of clean water and modern sanitation services is key to the health of the population. Domestic and international transport links are essential to fostering commerce between different regions. Providing diversified and sustainable sources of energy is crucial to releasing the full economic potential. Investing in education helps build the future of society. These are some of the important areas on which the Bank focuses its attention. Moreover, through the requirements that the EIB im-

poses on its projects, it encourages the development of sound governance and application of high social and environmental standards.

In addition to its financial expertise, the EIB can also draw on the knowledge of its economists, engineers, environmental and social experts, urban planners, climate change specialists and technical advisers. These experts represent a significant part of the EIB staff recruited in the last five years; they help to develop, assist and monitor the projects that the Bank finances.

The EIB does not do this alone – it works in close cooperation with the EU institutions, governments of EU and partner countries, and other international or bilateral financing institutions, and has developed long-standing relationships with the corporate sector throughout the world. Partnership therefore guides all aspects of the EIB's operations – it is only in partnership with others that we can tackle the global challenges.

The mid-term review of the EIB external lending mandate will be an important opportunity for further improving cooperation on external development financing. An independent evaluation of the work of the Bank was conducted by a committee of "wise persons" chaired by former Interna-

tional Monetary Fund Managing Director Michel Camdessus. Its report and recommendations were published on 24 February 2010.

The EIB highly appreciates the work done by the group of wise persons. We particularly welcome its short-term recommendations on operational guidelines for the implementation of EU objectives and the advocated authorisation to lend an additional EUR 2bn for climate change mitigation and adaptation.

However, we also share the concern of the wise persons that resources and mandate requirements must be better aligned. We fully agree with the need to seek synergies between the activities of the Commission, the EIB and other international financing institutions.

We look forward to engaging in the deliberations throughout the year on how the EIB can best contribute to the external policies of the Union. ■

Taking the **EIB's external activities** under review – reflections from the group of wise persons

For the past year an independent committee, which I had the honour of chairing, pondered the issue of how the EIB can contribute to making European cooperation and development policy more effective. Reflections about the EIB's lending operations outside the EU have been ongoing as part of a scheduled review. Since 2006, when the EIB's current mandate was negotiated, the global context has changed considerably.

The committee therefore decided to provide policymakers with "pistes de réflexion" to address future challenges in a more structured way: to enhance the impact, effectiveness, efficiency and visibility of EU financing activity outside the Union.

Whereas the financing of investment projects within the 27 Member States remains the EIB's core activity, its operations outside the EU have reached a substantial size over the years: with a business volume of nearly EUR 9bn in 2009, the EIB lent more than the European Bank for Reconstruction and Development, twice as much as the African Development Bank and half as much as the World Bank.

Our panel had a remit to review the performance of the EIB's current mandate – some EUR 25.8bn over the period 2007-13 – for lending in regions of the world covered by an EU budgetary guarantee.

The EIB is clearly a powerful tool. But we concluded that it could further enhance



by Michel Camdessus, chairman of the group of wise persons and former IMF Managing Director

its support for EU external action if it were provided with the means in terms of staff and access to concessional funds, which are clearly below the levels of other international financial institutions.

We also recommended focusing EIB financing activity on the delivery of global public goods, specifically for fighting climate change, including an extra EUR 2bn of lending, as well as on economic infrastructure, support for private sector development and regional cooperation.

In the short term, we recommended that the EIB and European Commission establish an "EU platform for cooperation and development" to blend grants and loans from various European financing sources. We also said that the EIB should prepare for potentially bigger changes by consolidating its existing external activity in a separate entity.

We then suggested two alternatives for further study: bringing EIB external lending and European Commission investment-related aid together in a "European agency for external financing"; or the creation of a "European Bank for Cooperation and Development", possibly also incorporating the portfolio of the EBRD, subject to negotiations with that institution's non-EU shareholders.

None of these would be new EU institutions, but would bring together the disparate sources of finance currently deployed outside the EU – more than EUR 100bn for 2007-13 alone – in line with the European Consensus on Development adopted in 2006.

It is now up to policymakers to make the right strategic choices for the EU in order to dispose of a single powerful "financial arm" to serve the EU's external ambitions and policies. ■

The group of wise persons

Following a decision by the European Council, a group of wise persons was set up in 2008 to take a close look at and evaluate the EIB's operations outside the Union since 2006 that are covered by an EU budget guarantee. Based on the expert group's report and recommendations, the European Commission will bring forward a proposal that will be subject to joint decision by the European Parliament and Council. The members of the group of wise persons are:

Michel Camdessus chairs the group of wise persons. A former Managing Director of the International Monetary Fund (IMF) from 1987-2000, he is an Honorary Governor of Banque de France. Previously, he was head of the French Treasury and Chairman of the European Monetary Committee and of the Paris Club. He is a member of the Africa Progress Panel, an independent authority that aims to focus world leaders' attention on delivering their commitments to the continent, and of the UN Secretary General's Advisory Board on Water and Sanitation. He has been the Chairman of the French Financing Corporation (SFEF), a member of the Commission for Africa, and Chairman of the World Panel on Financing Water Infrastructure.

Kemal Derviş is a former Minister of Economic Affairs of Turkey and was Executive Head of the United Nations Development Programme (UNDP) from 2005-09. Kemal Derviş currently holds the position of Vice-President and Director of Global Economy and Development at the Brookings Institution and is a member of the International Board of Overseers of Sabancı University. He chairs the International Advisory Board of Akbank and is an Adviser to the Director-General of the ILO. Prior to this, he also served as a member of the Turkish Parliament and Turkish Treasury and as a World Bank Vice-President.

Norbert Kloppenburg is a Member of the Board of Managing Directors of KfW Bankengruppe in charge of international financing activities. He has worked for KfW Bankengruppe since 1989 holding various posts. Previously, Norbert Kloppenburg gained experience abroad working in India and Burundi. He serves as First Deputy Chairman of the Supervisory Board at Deutsche Investitions- und Entwicklungsgesellschaft, a development finance institution.

Manana Kochladze is regional coordinator for the Caucasus area with the Central and Eastern European Bankwatch network, a non-governmental organisation, where she has been in charge of activities in Georgia since 1998. She has led various environmental NGO campaigns and is the founder of the Tbilisi-based environmental group 'Green Alternative'.

Richard Manning is a former Chair of the Organisation for Economic Co-operation and Development's (OECD) Development Assistance Committee (2003-07) and currently works as an independent consultant on international development. Previously, Richard Manning served as Director General for Policy at the UK Department for International Development (DFID) and its predecessor agencies, including periods spent serving in West Africa and South East Asia, and as Alternate Executive Director at the World Bank. He is currently Chair of the Board of the Institute of Development Studies.

Luis Martí Espluga is vice-chair of the group of wise persons. He is a former Executive Director with the World Bank (2004-06) and IMF (2003-04) and a former EIB Vice-President (1994-2000). Previously, he was chief executive officer of the Spanish Foreign Trade Institute and served for several years as director in the Spanish Export Credit Corporation. Prior to this, he was deputy director of the Spanish Exchange Control. Luis Martí currently lectures and publishes on world economic topics.

Sauli Niinistö is currently Speaker of the Finnish Parliament. From 2003-07 he was a Vice-President of the EIB and member of its Management Committee. Previously, he also served as Deputy Prime Minister, Finance Minister and Justice Minister of his country during the years 1995-2003. Sauli Niinistö is also an Honorary President of the European People's Party.

Ewa Osniecka-Tamecka has been Vice-Rector of the College of Europe campus in Poland since 2007. Previously, she served as Secretary of State for European Affairs and acted as Poland's Sherpa for the EU Constitution. Before that Ewa Osniecka-Tamecka was the Chef de Cabinet of the Minister for European Affairs, National Aid Coordinator, Director of the Programme Management Unit responsible for implementing EU aid programmes, and an Adviser to the Minister for European Affairs in the Prime Minister's Office. Ewa Osniecka-Tamecka is a Member of the Board of the Cooperation Fund.

Mario Sarcinelli is a former Deputy General Manager of the Bank of Italy, and also served as General Manager of the Italian Treasury and Foreign Trade Minister. From 1991 to 1994 he was also Vice-Chairman of the European Bank for Reconstruction and Development (EBRD). Until 2008, Mario Sarcinelli was a lecturer in monetary economics at 'La Sapienza' (Rome) University. Previously, he was appointed by the Inter-American Development Bank as an expert in the External Review Group for assessing the role of the IADB in the private sector.

Jean-Louis Biancarelli is the EIB's representative in the group of wise persons. He is a former EIB Director-General for operations outside the EU. He joined the EIB in 1977 as a loan officer for African countries and later held various posts dealing with lending operations in France, the African, Caribbean and Pacific countries (ACP) and the Mediterranean region. Previously, Jean-Louis Biancarelli held posts at the World Bank and the Tunisian Ministry of National Economy.

David McGlue is a representative of the European Commission in the group of wise persons. Until 2008, he was Director at the Commission responsible for financial market operations, management of investment financing programmes for small business and relations with the EIB Group. Between 1994-2000 he was full-time resident Executive Director of the European Investment Fund (EIF) after occupying various posts in the Commission in the fields of finance, energy and industrial policy. Previously, he worked in the UK diplomatic service. David McGlue is currently a member of the Board of Directors of the EIF.

EIB's independent evaluation takes a close look at external activities

In 2009, the EIB's independent Operations Evaluation provided an important contribution to the mid-term review of the EIB's external mandates by delivering a full review of the Bank's operations and strategies outside the EU.

by Alain Sève and Werner Schmidt, Operations Evaluation

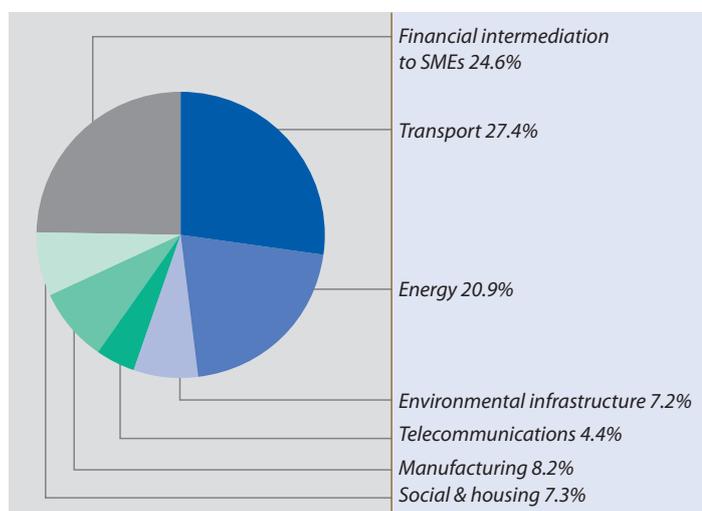
Operations Evaluation (EV) helps to provide transparency vis-à-vis the Bank's governing bodies as well as interested third parties by carrying out thematic, sector and regional/country evaluations of projects financed by the Bank, once they have been completed. In order to continuously improve the EIB's ac-

tivities, it assesses how the Bank conducts its operations, in the light of the relevant EU policies. EV also analyses related policies and strategies to identify aspects which may need to be reviewed and provides concrete recommendations according to its findings. Through its work covering all EIB activities, it reinforces accountability

and encourages the organisation to learn from experience. EV cooperates closely with evaluation teams from the European Commission and with other bi- and multi-lateral partners.

In 2009, EV provided an important contribution to the ongoing mid-term review of

Sectoral distribution of EIB external lending 2000 - 2009



the EIB's external mandates, and shared its analysis and findings with the group of wise persons, chaired by former IMF Managing Director Michel Camdessus. It provided a full review of the portfolio of the operations signed under external mandates and facilities for the period 2000-2008, together with a review of the corresponding EIB strategies and in-depth evaluation reports on a large number of selected individual operations in Candidate and Potential Candidate Countries, Neighbourhood and Partnership Countries as well as Asia and Latin America.

Supporting economic infrastructure and beyond

With regard to the sectoral distribution of EIB external lending, the Bank's primary mission is to support the development of economic infrastructure in general, which has always been the Bank's main task, both inside and outside the EU. The total corresponds to the sum of four sectors – transport, energy, environmental infrastructure and telecommunications – about 60% of all activities. Another key objective is support for SMEs, which the EIB channels through banks and other financial intermediaries. To foster the development of the private sector and, more specifically, EU foreign direct investment, the Bank is particularly active in the manufacturing sector. Furthermore, outside the

EU the Bank is also active in the social and housing sectors.

Evaluation highlights

The overall results of the evaluation considering a total number of 36 evaluated projects in the three regions are positive with more than 90% rated satisfactory or better. Only two infrastructure projects and one credit line were overall rated unsatisfactory. This suggests that the Bank has performed well outside the EU.

A firm contribution to policy objectives

Looking at the coherence of the Bank's operations financed with regard to the EU, EIB mandate and country objectives, all projects evaluated in depth are considered to have contributed to one or more of the Bank's lending priorities.

Cornerstones of project performance

Project performance, reflecting the inherent project quality, showed more varied results, even though 92% of all projects were rated positively. Project achievement often goes beyond the mere physical implementation to include the fulfilment of overarching project objectives, such as environmental

improvements, reducing losses or diversifying and securing energy supplies. Deficiencies were mostly linked to delays in multiple investment projects that had not been anticipated or a failure to tackle a lack of long-term maintenance. Where problems with the physical implementation occurred, they were largely the result of poor project structuring, planning and design. This was mostly the case in countries with poor institutional development.

It is difficult to come to a firm conclusion on the type of promoter, sector or project format that gave the best results. However, it is fair to say that multiple investment projects managed by less developed public sector promoters have a higher risk of running into problems. Private sector operations usually showed positive results.

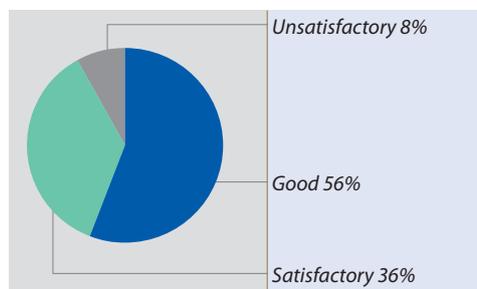
The impact of the financial crisis on the evaluated projects is considered to be relatively limited, although projects requiring regular support from the governmental budget could be indirectly affected. For most of the private sector projects, the economic downturn had an impact on demand, but most of the project promoters have an established market position, thereby benefiting from a certain competitive edge.

Another key finding relates to the projects' environmental and social performance. All projects evaluated, except for one, had a satisfactory or good performance under this criterion, which shows that the vast majority of them were in line with the relevant guidelines. In addition, most of the projects evaluated exceed the requirements to minimise, mitigate or compensate for negative impacts, and show positive environmental and social externalities such as noise reduction, energy savings, positive changes in commuter behaviour and improved education, to name just a few. In the light of increasing social requirements, the Bank regularly reviews its procedures for social assessments¹.

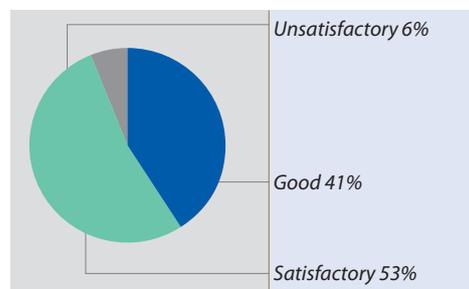
¹ For more information on the EIB's environmental principles and standards, visit the website: <http://www.eib.org/about/publications/environmental-and-social-principles-and-standards.htm>.

Project results – total and by region

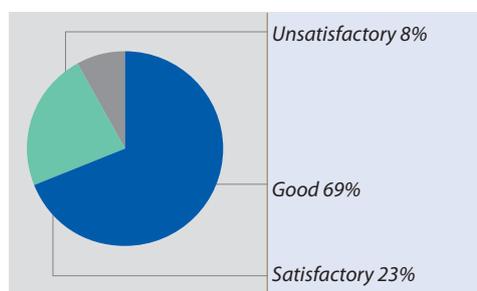
Overall



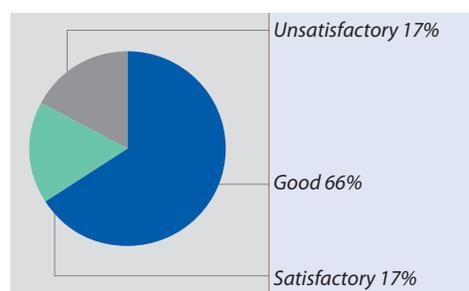
Candidate & Potential Candidate Countries



Neighbourhood & Partnership Countries



Asia & Latin America



A significant financial, institutional and technical contribution

The EIB's financial, institutional and technical contribution was significant or high in most cases. The Bank's financial contribution provides for longer maturities and grace periods combined with attractive interest rates. In general, EIB long-term loans were appreciated. In some regions, a number of highly innovative project features have been implemented. The range of the EIB's financial products on offer and the possibility of blending different financial sources have often proved to be a trigger for private sector development, especially in the Mediterranean countries. Local currency funding also helps to develop private sector activities.

Beyond the financial aspects

Through its experience and expertise, the Bank has at times provided important additional contributions beyond the purely financial aspects. In recent years, it has stepped up its provision of technical as-

sistance to promoters. In addition, the Bank has entered into more innovative schemes where important catalytic and signalling effects have been achieved. Cooperation and the coordination of EIB activities with those of other IFIs have yielded positive project results.

EV delivers a two-fold contribution

Operations Evaluation's contribution to the mid-term review of the external mandates had a two-fold impact. On the one hand, its evaluation provided an important input into the group of wise persons' work. On the other, it contributed to the continuous review and adaptation of the strategies and policies that the EIB applies in its operations outside the EU. A number of recommendations, for instance on sector development, financial products, project cycle management, environmental and social performance, monitoring etc. have been proposed and already taken up by the Bank's operational directorates. Their implementation and follow-up is closely monitored. The EIB's evaluation team will continue to take a crit-

ical look at the Bank's operations, policies and strategies, to ensure that its activities are systematically assessed and improved. ■

Working in partnership – thinking big and going local

Interview with Ziad Oueslati, Founding Partner at TunInvest-AfricInvest, a regional investment fund

What kind of companies do you typically fund?

We mainly finance local SMEs, which are the backbone of the economy on the African continent. We believe development should come through the financing of SMEs that will be there for the next 10-20 years, meaning companies that can keep up with competition and that are able to hire local people, train them and contribute to the local communities.

We provide finance to a wide range of SMEs, in the agribusiness, services, manufacturing, health and education sectors. One of the main benefits we pass on from the EIB cooperation is that we provide funding for a longer term, which allows us to accompany these firms and provide them with guidance and qualitative support until they have reached highly competitive levels.

For example, we have invested in a pharmaceutical company, supporting it from the start and assisting it up until it became one of the leading companies in Tunisia. We have been able to provide the same model in the Maghreb and several sub-Saharan countries, helping to bring cheap medicines to the local population of these countries. Our belief at TunInvest is that essential products, such as certain medicines and the main consumer goods, need to be produced locally to ensure access for the poorer population.

What was your experience working with the EIB?

We started working with the EIB back in 1998 on investments that were at first only geared to Tunisia, where we provided private equity funds. The EIB was one of the main investors of those funds. In 2000 we moved to a bigger scope covering the three countries of the Maghreb – Tunisia, Algeria and Morocco – and in 2004 we broadened our geographical reach even more and we now basically cover the whole African continent.

The contribution of the EIB is visible in many respects. First of all in terms of providing us with finance, but also in terms of working together with some of our investee companies to provide them with additional funding. One of the EIB's unique contributions is to make us more aware of all the qualitative aspects of investing. Being able to measure the social and environmen-



Ziad Oueslati,
Founding Partner at
TunInvest-AfricInvest

tal impact that we have on our customer companies in terms of respect for the environment, how many jobs have been created and also how many women have been employed is an important complement to measuring the financial side – turnover, exports and the contribution to the local government in terms of taxes. For instance, in the last five years we have been able to contribute to doubling the number of employees of our customer companies, reinforcing the employment of women within these companies, as well as growing their exports three-fold. Moreover, cooperating with the EIB has helped put in place high standards of governance and transparency.

How has the cooperation with the EIB developed over time?

Our partnership with the EIB has been developing over time since our first contact in the 1990s to become one of the best relationships that we have with our investors. I think this is because of the success that we have shared, but also due to the frank and transparent relationship that we have always had with the EIB. We share our problems and try to solve them together. I think that this has helped to build a relationship of mutual trust. We also appreciate the close contacts with the EIB offices on the ground in the Mediterranean and ACP countries.

One of the key objectives of the EIB is to open up and modernise economies in the countries in which it operates. Do you think this has been achieved?

The EIB works at the same time with the governments on large infrastructure projects and with private partners. This dual relationship that the EIB has with both governments and the private sector has in fact been working very well. Take the example of Tunisia: it is amazing to see the number of infrastructure projects that have been financed by the EIB; you witness the country being completely reshaped by these projects and at the same time people like us are working directly at the SME level to develop local industry. We see it as a real success.

Of course, there is more to do and we are already working on more ways to partner with the EIB in the Mediterranean region. Southern Europe is our main trading partner, so the future lies in closer cooperation with those countries – it's a perfect fit. ■





The EIB currently lends in Turkey on the basis of an EU budget guarantee and at own risk to its balance sheet, via its Pre-Accession Facility. The current mandate covering all pre-accession countries including Turkey has a volume of EUR 8.7bn over the period 2007-13. Total lending in the past five years amounted to EUR 10.3bn. Over the same period, roughly 40% of loans were made using the Pre-Accession Facility with own funds.



Building a milestone link between Europe and Asia

The Bosphorus tunnel connects people at the heart of Turkey's most vibrant metropolis

by Sabine Kayser, Communication Department

The EIB is taking part in one of the world's most ambitious urban transport schemes, known to the people of Istanbul as the Marmaray project: the development of a modern, high-capacity commuter rail system providing an effective transport solution for the citizens of Istanbul

via a tunnel under the Bosphorus, and connecting the Asian and European sides of Istanbul. This will also enable the passage of high-speed trains to bring both parts of the city and the two continents closer together. First signed by the Bank in 2004, the crucial relevance of this EIB-supported project as a transport network, as well as in terms of forging closer ties between Turkey and the EU, was already realised by all the actors involved from its inception. It is the largest and most important infrastructure project undertaken in Turkey.

Istanbul is the country's economic engine and serves as a commercial and financial

hub. Its metropolitan area is emerging as one of the largest in Europe, but its transport infrastructure struggles to keep up. The city's transport system is challenged by the accelerated pace of growth witnessed over the past few years. More than 12 million people live here and it attracts many more from outside who come to work in the city every day. The Bosphorus is the natural connection between the Mediterranean and the Black Sea, and between the European and Asian continents, but at the same time it is a natural barrier cutting the city in two. Each day, over a million trips are made across the Bosphorus by boat or using one of the two bridges over the

Marmaray

The name Marmaray comes from combining the name of the Sea of Marmara, which lies south of the Bosphorus tunnel project site, with “ray”, the Turkish word for rail. The Marmaray tunnel is a milestone project building an intercontinental rail link beneath the Bosphorus where it divides the European and Asian continents. The idea dates back to 1860, when engineers in the former Constantinople made plans for a rail tunnel connecting the two sides of the Bosphorus. However, the technology of the time would not allow the tunnel to be built under the seabed.



straits. At rush hour, crossing the city can take up to five hours. The Marmaray rail link will provide a long-sought mass transport system and help to overcome the city's natural divide. The benefits are clear: reducing air and noise pollution by enabling a major shift from road to rail and alleviating congestion on the road network. Once it is operational, the new transport link is likely to attract more than 1.5 million passengers using the tunnel per day. The Marmaray project is also expected to result in a reduction of 144 000 tonnes of air pollution and greenhouse gases annually.

Building an intercontinental link

The tunnel will link the two railway lines on the so-called Pan-European Transport Corridor on either side of the Bosphorus. With a total length of 76.5km, the project includes the construction of 13.6km of double track tunnel, of which more than 1.3km under the sea, and 62km of new tracks connecting the intercity and international railway networks. Taking the project to another level, the EIB is additionally supporting the setting-up of a transport link of strategic importance by helping to finance the building of Turkey's first high-speed connection between the two major metropolises of Istanbul and Ankara.



Marmaray project site

The Marmaray project is the first of its kind, with no precedent in terms of its size and sophistication. Never before has an immersed tunnel been built at a depth of 60 metres, with the marine construction equipment for dredging and immersion of the tunnel elements operating in the congested shipping lanes and heavy currents of the Bosphorus. Underground stations and tunnels are being built underneath historical buildings in the densely populated urban areas of Istanbul. Ground settlements from the tunnel excavations risk resulting in severe consequences for people and buildings above ground unless they are carefully controlled at each and every step. A modern railway – the commuter rail system – is being fitted into an existing, narrow railway corridor right through the city. “Marmaray is a huge, extremely complex and exciting project – I can't think of any challenge this project lacks,” says Jens Peter Henrichsen, Project

Manager from Avrasyaconsult, the joint venture preparing the project and overseeing the construction.

The Marmaray project is positioned in a very active seismic zone. Over the past few years, it has brought together seismic experts from Japan, the US and Turkey to build underground structures and a tunnel under the Bosphorus that will be safe even in the event of an earthquake. The immersed tunnel beneath the Bosphorus strait has now been completed along with many kilometres of tunnels on land.

Rewriting Istanbul's history

During the works on the Yenikapi station, which is to become one of the main hubs for traffic across the city, workers discovered that they had not been the first to start building at this site. What they found, bringing an ancient Theodosian harbour beneath the city to light, was a historical treasure from the Byzantine period. An armada of shipwrecks was lifted from the grounds of where one day the commuter rail and metro stations will be built. Archaeologists were able to secure 33 ships from the Theodosius port, a Byzantine church and thousands of artefacts from the historical site – enough to fill an entire museum. The findings forced historians to rewrite the books: whereas the beginnings of the city of Istanbul were previously believed to date back 2 700 years, the findings from the archaeological excavations revealed that the history of Istanbul stretches back some 8 500 years. Despite the delays that these findings have caused to the project, their cultural value is unique. “These archaeologi-

cal findings would have not been possible if it were not for the Marmaray project and its engineers,” Dr Ufuk Kocabaş from Istanbul University underlines.

“Marmaray was a typical project to receive support from the Bank, as it is an infrastructure undertaking with clear benefits to be gained, and which connects the people of Europe,” explains Hakan Lucius, the Bank's loan officer in charge at the time. The year 2004 became a turning point as regards Turkish-EIB relations when the Bank decided to sign up to what would be its largest contribution to a single project outside the EU. The EIB is cooperating in financing the project with the Japanese Bank for International Cooperation, the Council of Europe Development Bank and the Republic of Turkey. More specifically, the Bank helped to finance this milestone transport link through the Bosphorus tunnel providing an urban commuter rail link, as well as a rail connection between Europe and Asia for InterCity and freight trains. The EIB can now look back on more than 45 years of lending activity in Turkey, which to date remains the largest recipient country of financing outside the EU.

Next station: Marmaray express

The Marmaray project still has a way to go before it will become operational as the historical findings came as a stumbling block. But knowledge of the history of Istanbul has been changed forever by this project. “In Istanbul we live on archaeology and we live in history,” Huseyin Belkaya, Deputy Project Manager from Avrasyaconsult explains.

“This tunnel will be built. Of course it will be a little bit delayed, but we have waited for around 147 years to construct this tunnel – we can wait a couple of years more.” ■

View of Istanbul from the Bosphorus



“Turkey and the European Investment Bank's relations have a long history dating back to the mid-1960s. The EIB has always been a leading international partner of our country and supported our social and economic development by every means.”

*Ibrahim H. Canakci, Turkey's Undersecretary to the Treasury,
December 2009*



Wind farm in Osmaniye province

EIB gives boost to **renewable energy in Turkey**

Supporting the construction of the largest wind farm under development in Turkey, the EIB is helping to secure the electricity supply using renewable energy sources.

by Helen Kavvadia, Communication Department

One of the fastest growing globally, Turkey is already the sixth largest electricity market in Europe. The provision of electricity and the strengthening of Turkey's renewable energy potential are set to spur economic development in the country. The project will help to meet rapidly growing electricity demand using sources that are both economically viable and environmentally sustainable.

An award-winning financing agreement

The project recently won the prize for 'European Onshore Wind Deal of the Year 2009', awarded by Euromoney's Project Finance Magazine. The EIB's EUR 30m loan to the project is part of a joint facility implemented in cooperation with the International Fi-

nance Corporation (IFC) and the European Bank for Reconstruction and Development (EBRD), with support from DenizBank and HSBC. The EUR 130m deal was a first in terms of multilateral cooperation, as well as in terms of commercial lenders taking Turkish wind risk in the midst of the credit crunch. Given the market environment, the EIB's funding, together with close cooperation between the different IFIs and commercial banks, was crucial for the realisation of the project.

The 135MW wind farm in Osmaniye province in south-eastern Turkey consists of 54 turbines, each with a name plate capacity of 2.5MW. It is expected to provide annual electricity generation of 363GWh. The wind farm is owned and operated by Rotor Elektrik Uretim, a limited liability company ultimately owned by Zorlu Holding – one of the largest conglomerates in Turkey.



Working towards the EU's climate goals

Scheduled for completion in mid-2010, the project is expected to create more than 302 675 tonnes of CO2 emission savings annually. As such, it underscores the EU's climate change policy objectives, but also illustrates the EIB's continued support in Turkey. The EIB has been involved in lending operations in Turkey since the mid-1960s, with a mission to support the country's economic development and assist its pre-accession process. During more than 40 years of experience in the country, the Bank has invested in all key sectors – both public and private – of the Turkish economy. ■



The EIB has been active in the Western Balkans since 1977 and is today the largest international financier in the region. Over the past ten years, the Bank has financed projects totalling EUR 6.1bn in the area. The Bank's focus in the region has been on the implementation of transport, energy, health and education projects, support for small and medium-sized enterprises and local authorities, industry and services, water and sanitation.



From post-war rebuilding to opening up new energy sources

The EIB has a track record of helping to rebuild the electricity sector in post-war Bosnia and Herzegovina. Recent projects are aimed at assisting the country to tap its renewable energy potential and establish itself as a stable and sustainable power producer in the Western Balkans region.

The small country of Bosnia and Herzegovina (BiH) has plenty of natural energy resources. But it certainly did not feel that way to its citizens when Yugoslavia fell victim to a violent conflict, brought to an end in 1995 by the Dayton Peace Agreement, which also created the state of Bosnia and Herzegovina. Its population is made up of different ethnic groups, previously embroiled in the conflict on opposing sides. As a result, BiH is saddled with an extremely complex administration, featuring a tripartite Presidency, several Parliaments in two entities (Republika Srpska, with a mainly Serb population, and the Federation of Bosnia and Herzegovina, inhab-

ited mainly by Croats and Bosniaks), which makes the organisation of even mundane services such as the supply of electricity a challenging task.

During the civil war the country's vital infrastructure was extensively damaged. In 1999, against a background of economic disruption and due to the poor state of the transmission and distribution system, electricity production had only recovered to 84% and domestic sales to 67% of their pre-war levels.

The Bank joined forces with the World Bank and the European Bank for Reconstruction and Development (EBRD) on the Electric Power Reconstruction project, which provided EUR 235m to the three electricity utilities (one for each ethnic group: Bosnians, Serbs and Croats), with the Bank contributing a loan of EUR 60m. The project was implemented between 2001 and 2005 by the three promoters, who were able to resurrect the damaged transmission network to almost full operation, enabling BiH to become a net energy exporter again and to carry out essential repairs to the distribution system. It should be noted that the Bank considered that the promoters did not require external technical assistance and, despite a challenging procurement and implementation process, this proved to be correct. This too is capacity-building: recognising that a promoter is competent, even if operating under adverse circumstances, and building a relationship of trust.

While this first project was nearing completion, a follow-up project was already identified to continue the reconstruction of the electricity system, in particular the distribution network. However, this new focus also required more technically demanding components, such as the complex overhaul of the dams of the hydropower plants, including a dam safety audit. This second project, at a total cost of EUR 213m, EUR 103m of which was provided through an EIB loan, is now being implemented by the same experienced promoters.

Meanwhile, at the end of 2009 the Bank approved a further operation for the BiH energy sector involving the Croat electricity utility in BiH, which bases its power generation exclusively on renewable resources.



Helping BiH to tap its renewable energy potential

es. The project concerns three wind farms and two small hydropower stations in the area of Mostar. Supported by an EIB loan of EUR 170m, covering 62% of the costs, the project will increase the energy output of this small energy producer (some 830 MW installed capacity) by 16%. It will help address the increasing need for power generation in the Balkans region at a time when obsolete and inefficient capacity is being phased out and demand is expected to grow. The renewable energy resources available to the project are sound and offer power generation at a competitive cost. The technology is proven and widely used in the power sector, but it would be a first for BiH, making it one of the first countries in the region to use wind farms.

Much of the country's considerable renewable energy sources remains unused, and public and private investors are starting

to explore these opportunities. Despite a difficult business environment, the Bank is considering support for further investment projects in this sector.

BiH's position as a net exporter of energy, much of it based on renewable sources, is being strengthened, to the benefit of the country and the region as a whole. This development will certainly be a plus point for the country in its efforts to join the European Union. ■

Gateway to the east, door to the west

Belgrade's strategic position creates challenges in urban transport

Located at the junction of two major European waterways, the Danube and the Sava rivers, on the Corridor X road and rail routes, Belgrade has always experienced dense international traffic. Since the days of the Austro-Hungarian and the Ottoman empires, the road from Vienna to Istanbul, from Europe to Asia, has led through Belgrade. Because the planned bypass around the city is still under construction, transit traffic flows through Belgrade city centre – turning international traffic into an urban issue.

by Annabelle Assémat, Western Balkans Division

In addition to transit traffic, daily commuters between the fast-developing New Belgrade district, west of the river, and the old city centre, east of the river, are worsening the congestion of this central road traffic hub. Finally, over the last 15 years, the city has become home to hundreds of thousands of refugees from Croatia, Bosnia-Herzegovina and Kosovo, raising the estimated population of the city to 1.6 million people. There are 3 million trips made daily inside Belgrade city. Due to projected increased mobility from income growth, this is expected to grow to 4 million daily trips by 2021. Many of these new trips will be made by private car, as car ownership rates increase.

One of the constraints to the city's growth is the increasing level of traffic congestion in the centre of Belgrade. With the growth of the New Belgrade area west of the Sava River, with only two bridges supporting all road traffic crossing the Sava and Danube rivers, the peak periods are now already severely congested. Travel delays over the bridges can last from 30 to 50 minutes each way, a factor that has a significant economic cost to the city and its residents.

As the capital of Serbia, the city of Belgrade occupies a central place in the economic, political and social fabric of the country. The transport situation is seriously affecting Belgrade's ambitions as a regional hub, its further economic growth and the quality of life of its inhabitants.



Sava bridge construction site and model

To address this pressing issue, the EIB and the European Bank for Reconstruction and Development (EBRD) are together supporting the construction of a new bridge on the river Sava and its access roads north and south of the river. The new road sections will also form part of a future inner city semi-ring road. The bridge will constitute an architectural feature of the city on account of its cable-stayed construction, with a single pylon being built on the tip of Ada Ciganlija Island. It will be about 965m long, and have an average cross section of about 45m, a 6-lane dual carriageway, a central section for a double rail track for a future light rail line and two paths for pedestrians and cyclists. Access roads will consist of 5.2km of new six-lane dual carriageway, 400m of new elevated four-lane single carriageway, 1.3km of partially new two-lane single carriageway, 4km of new double track light rail line for the planned new light rail and 4.1km of new ramps.

This major project will enhance the transport network of the city, helping to alleviate its growing traffic and reduce congestion, pollution and noise in the inner city. It will address the exhausted capacities of bridges crossing the Sava river, relieve traffic over Gazela bridge by 28-30% and generate significant travel time savings for passengers. In addition, by improving the transport network, the project will ameliorate conditions for economic growth in Belgrade and Serbia as well as enhancing the urban environment. The upgrading of municipal infrastructure is a pre-condition for the city's and the State's continuing social and economic development, and a pre-requisite for improving Belgrade's attractiveness to investors and quality of life.

The project, managed by Louis Berger Consulting, is being conducted in close cooperation with the City of Belgrade but also with the EBRD. This inter-institutional co-

operation is taking place in the context of the Western Balkans Investment Framework (WBIF), established by the European Commission, the EIB, the EBRD, and the Council of Europe Development Bank, with the endorsement of the EU Member States, to provide joint grant and lending facilities to finance priority projects in the Western Balkans. Thanks to this Framework, the EIB approved a EUR 160m loan to the City of Belgrade in November 2009 in record time, and the first tranche of EUR 70m was signed as soon as December 2009.

The loan constitutes the EIB's first direct exposure to the City of Belgrade but also to any sub-sovereign entity in the Western Balkans. The project is expected to pave the way for further municipal financing both with the City of Belgrade and with other cities in Serbia and in the Western Balkans. ■



The Sava bridge is set to alleviate traffic in the city of Belgrade



The EIB has been active in the Mediterranean for more than 30 years. Its principal financial instrument today is the Facility for Euro-Mediterranean Investment and Partnership (FEMIP), which brings together the whole toolkit of EIB services and financial instruments for the Mediterranean partner countries: Algeria, Egypt, Gaza/West Bank, Israel, Jordan, Lebanon, Morocco, Syria and Tunisia. Launched in October 2002, FEMIP is the key player in the financial partnership between Europe and the Mediterranean, providing EUR 10bn to investment projects in the region between October 2002 and December 2009.



Mediterranean neighbours

Water: one of the hallmarks of EIB support in the Mediterranean region

Access to clean water resources is a major challenge for the Mediterranean partner countries. The EIB's support for initiatives to help clean up the Mediterranean as well as projects to ensure drinking water distribution reflect the importance the Bank attaches to this key sector in the region.

The region is home to more than 400 million people spread across 22 countries, of which 143 million live on the coast, and about another 175 million visit the area each year. Moreover, the southern countries account for 32% of the region's population today, but by 2025 this proportion is expected to reach 60%. These impressive figures once again demonstrate the pressure on the Mediterranean environment. The well-being of all its inhabitants depends on the health of the environment of the Mediterranean Sea.

by Virginia Calin, Europe's Neighbour and Partner Countries Department

Rapid urbanisation, coupled with the increasing and unsustainable development of tourism on the Mediterranean coast, has contributed to significant environmental and health problems. Pollution from industry, shipping and households, the loss of open areas, and the destruction of coastal ecosystems for construction projects have also taken their toll.

Helping to tackle environmental issues in the region

Under the EU's so-called Horizon 2020 initiative, in 2006 the Mediterranean partner countries endorsed a timetable to clean up the Mediterranean by 2020. The initiative aims to tackle the major sources of pollution in the region by focusing on the priority problems, mainly involving industrial emissions, municipal water and urban wastewater.

Tackling the water challenge



USD 100m FEMIP loan supports a long-term overhaul of Jordan's water policy

The EIB has put its shoulder to the wheel to develop Jordan's water distribution systems. In 2009, the Bank gave its financial backing to the construction of a water pipeline, which will bring 100 million m³ of water a year from the Disi aquifer in the south of the country to the capital Amman.

Jordan is one of the most arid countries in the world alongside Tanzania, Sudan and Ethiopia. In order to prevent complete desertification, the Hashemite Kingdom has already launched several emergency plans. A key element of this is a USD 1bn project to build the new water distribution link.

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

The EIB is supporting the initiative with a USD 100m loan to finance part of this gigantic project, which will help address water scarcity in Jordan. The Bank's assistance goes hand-in-hand with efforts to ensure that the aqueduct fits into a national water policy that is viable in the long term.

Besides providing financial engineering the EIB has made its leading-edge water expertise available to underpin the country's long-term reform of water policy. An EIB water engineer, a specialist on Jordan, has been cooperating with the local Ministry of Water and Irrigation for several months to jointly establish measures for the country-wide rebalancing of water demand between irrigation and domestic usage and the corresponding remodelling of water tariffs. These measures will also help to control the 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.

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

On average, Jordanians consume some 145 cubic metres of water per person per year, which is what Europeans get through in roughly ten days. 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.

Finally, the EIB is looking into a possible second loan to help repair the numerous leaks in Jordan's water distribution network. The Bank will therefore stand shoulder to shoulder with the Hashemite Kingdom of Jordan for many years to come.

In 2008, the EIB's FEMIP Support Fund helped to carry out a study to identify, on the one hand, a pipeline of priority hot spot investment projects having the largest impact on Mediterranean pollution levels, and on the other, the need for a Mediterranean Hot Spot investment programme. The study's conclusions pointed to the necessity of taking immediate action to prevent further deterioration of the Mediterranean environment.

The Hot Spot investment programme supports the Mediterranean partner countries in the implementation of priority pollution reduction projects to the standards required by international financing institutions. Following a successful first phase, the EIB estab-

lished a shortlist of ten investment projects involving financing worth EUR 500m, which the Bank is examining and will eventually finance under the second phase launched in February 2010. The Hot Spot investment programme will also foster closer collaboration between the European Investment Bank and other donors active in the region, namely the Agence Française de Développement, KfW Bankengruppe, the African Development Bank Group and the European Commission.

Water management as a key priority in the Mediterranean

Water management is one of the EIB's top priorities in the Mediterranean countries

and the Bank is already playing a considerable pro-active role. Since its launch in 2002, the EIB's facility for the Mediterranean region has provided over EUR 1bn to support sustainable water management and sanitation-related projects giving access to water services and setting up efficient water management systems. ■

FEMIP rises to the energy challenge

The considerable energy squeeze threatening the Mediterranean partner countries over the next few decades poses a major challenge in economic and strategic, as well as environmental terms. In fact, according to the Blue Plan study on climate change and energy in the Mediterranean¹, the countries on the southern and eastern shores of the Mediterranean may well be faced with energy demand growth rates by 2025 four times as high as those in European countries – particularly in the electricity sector. This pressure results from a combination of many factors, such as high population growth in the countries in question, the development of the industrial sector, improved access to electricity and the increase in living standards.

That said, the Mediterranean partner countries are endowed with many assets for addressing this challenge. First, the region's renewable energy potential is one of the largest in the world thanks to its abundant sunshine and the many locations that have windy conditions on a regular basis, providing it with considerable solar and wind power resources. In addition, there is substantial scope for progress in energy efficiency: some estimates indicate that energy savings of around 40% are possible. However, although policymakers and entrepreneurs are becoming increasingly conscious of the need for action, the chal-

¹ <http://www.eib.org/projects/publications/climate-change-and-energy-in-the-mediterranean.htm> : "Climate change and energy in the Mediterranean", a study coordinated by the Blue Plan, July 2008.



Abdelkhalek Torres wind farm
in Morocco

Tangier wind farm: FEMIP's pioneering contribution

Even before the guidelines of the Union for the Mediterranean highlighted the need for sustainable development and the search for alternative forms of energy as the key to Euro-Mediterranean integration, FEMIP had already taken these issues into account in its investment projects. For example, the EUR 80m loan advanced to Morocco's Office National de l'Electricité (ONE) for its Tangier wind farm project demonstrated, as early as 2004, FEMIP's commitment to tapping the region's renewable energy potential. This loan for financing a wind farm between Tangier and Tétouan has enabled electricity to be generated for the public grid and to meet the increased demand for electricity with an environmentally friendly energy source. FEMIP was therefore already combining energy diversification, environmental protection and the creation of priority electricity infrastructure. In the future, it will step up its pursuit of these objectives in line with the priorities of the Union for the Mediterranean.

challenge remains to build on the experience already gained, ensuring that it is applied on a massive scale, and to create a Mediterranean market for renewable energy and the rational use of energy.

A crucial driver of Euro-Mediterranean integration

In view of the above and in keeping with the broad lines of the European Union's Neighbourhood Policy, FEMIP is supporting the Mediterranean partner countries in their efforts to meet this challenge. It recognises the pivotal impact of energy on the Euro-Mediterranean economic partnership, both for the sustainable development of the region and for the competitiveness of the energy industry and security of en-

ergy supplies. And it has acted accordingly, devoting over EUR 3.6bn to the energy sector since October 2002 – more than a third of its aggregate financing over the period in question.

FEMIP is focusing on three areas. First, it finances the construction and upgrading of national and regional energy infrastructure. At the same time, it promotes the harmonisation and integration of the Euro-Mediterranean energy markets by supporting projects to connect energy networks and develop new energy routes. Finally, it encourages more sustainable energy development to take off by fostering energy efficiency and stimulating investment in projects that come under the Clean Development Mechanism (CDM), as defined in the Kyoto

Protocol, particularly those that involve renewable energy. In order to accomplish all these tasks, FEMIP uses both traditional loans and private equity operations, including in 2008 the financing of the region's first CDM-based fund. It also finances feasibility studies and provides support in the form of technical assistance for the preparation, management and monitoring of projects through its Technical Assistance Fund.

Mediterranean Solar Plan: FEMIP expands its role

In this area in particular FEMIP is stepping up its activity, especially as the task of coordinating the establishment of the Mediterranean Solar Plan (one of the six objectives of the Union for the Mediterranean approved at the July 2008 Summit of Heads of State or Government) was entrusted to the EIB – initially at the FEMIP Ministerial Meeting in October 2008 and then by the Euro-Mediterranean Industry Ministers in November of that year. The objective of the Mediterranean Solar Plan, for which the EIB is required to draw up an investment programme, is to create 20 GW of capacity by 2020.

The EIB's record of financing renewable energy and energy efficiency projects in the EU countries as well as FEMIP's position as the leading source of funds in the Mediterranean naturally provide the Bank with the necessary experience and expertise to attain this target. As part of this task, FEMIP is financing a study aimed at identifying technically innovative pilot projects in the energy sector that are considered to be viable. The EUR 50m loan granted to Egypt in 2009 for the construction of a 200 MW on-shore wind farm in Gabal el Zait on the Red Sea marks a first step in this direction. The results of the study will be presented at the 8th FEMIP Conference, which will take place in Valencia on 10 May 2010. ■

SMEs – drivers of growth and job creation in the Mediterranean region

Small and medium-sized enterprises (SMEs) are an essential engine of growth in the Mediterranean countries. In a globally changing landscape characterised by continuous structural changes and enhanced competitive pressures, the role of SMEs has become even more important as providers of employment opportunities and economic and social welfare.

by Guido Clary, Europe's Neighbour and Partner Countries Department

Between October 2002 and December 2009, FEMIP made available to SMEs around EUR 1.65bn through its active collaboration with more than 100 banks and 40 investment funds via two instruments: credit lines and private equity operations.

Credit lines are arranged in cooperation with local intermediary banks, which lend the funds to small businesses in sectors as diverse as industry, agri-food, construction, health, education, tourism, information technology and high-tech services. Through these credit lines FEMIP has provided EUR 1.4bn in long-term loan financing for more than 2 000 SME projects in the Mediterranean partner countries. For example, in Lebanon credit lines amounting to EUR 457m were advanced to local banks, such as Byblos Bank and Bank Audi to support SMEs' investments.

With regard to private equity, FEMIP operations comprise three types of financial instrument: direct investments (acquisition of equity or quasi-equity instruments in private companies); private equity funds (investments in dedicated financial vehicles, themselves taking equity stakes in private

companies); and co-investments with pre-selected local intermediaries. FEMIP also provides local currency loans for investments in microfinance institutions.

At the end of 2009, FEMIP pledged to make a EUR 5m "anchor" investment in the first venture capital fund to target investments in export-oriented IT companies being launched in the Palestinian territories. Once it is up and running, the fund is expected to make a key contribution to the development of private business and the local high-technology and financial sectors. The Middle East Venture Capital Fund will support the development of high-growth, export-oriented IT and communications companies through equity investment in early stage ventures. At present the expansion of this sector is held back by limited access to both venture finance and international markets.

Working together for continued support to SMEs

In March 2009, FEMIP held its fifth conference discussing "Mediterranean SMEs' needs along the business life cycle" in Rabat, Morocco. This event brought together policymakers, entrepreneurs, bankers and



Meptico juice factory, Lebanon

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.

In addition to its financing activities, the EIB contributes to the Mediterranean Business Development Initiative (MBDI). In this framework, it is financing a study under the

FEMIP Trust Fund, the results of which are expected by the end of this year. This will be based on an analysis of existing financial cooperation schemes and field visits to partner countries in order to identify market niches that need to be developed. The study will provide concrete recommendations for a business plan for the medium term (three years).

In cooperation with the European Commission and other partners, the EIB is also helping to evaluate the implementation of the Euro-Mediterranean Charter for Enterprise. Adopted by Industry Ministers in 2004, the Charter aims to ensure that the needs of small businesses are factored into national strategies and priorities to a greater extent. In this framework, the EIB has contributed

to the report on the implementation of the Charter through a chapter devoted to access to finance and is continuing to collaborate on the development of the programme. ■

Prioritising **human capital development** in the Mediterranean

by Myriam Benraad, Europe's Neighbour and Partner Countries Department

Education is one of FEMIP's priorities



Human capital development remains a crucial challenge for Mediterranean societies in their bid to promote long-lasting and sustainable growth. In 2010, the countries of the region

continue to suffer from the highest unemployment rates in the world, with several million new entrants into the labour market each year and growth rates that have been heavily affected by the global eco-

nomical downturn. In most Mediterranean countries, there is still a critical mismatch between education systems and the needs of economies that are seeking to diversify and attract foreign direct investment.

Education therefore remains key to the development and social welfare of the Mediterranean region, where it has the potential to reduce poverty and reinforce cohesion considerably. Investment in human capital improves overall productivity, raises labour market standards and provides the basis for modern and private sector-based economies. In addition to education, research & development and innovation are now equally acknowledged as fundamental elements for the emergence and consolidation of knowledge-oriented societies. While these sectors remain new in most Mediterranean countries, where they only represent 1% of national GDP, they have an extremely promising outlook.

For years now, FEMIP has identified education, vocational training, research & development and innovation among its priorities, in line with the region's as well as the EU's policy priorities and the broader objectives of the Union for the Mediterranean. FEMIP is continuously engaged in a dialogue with Mediterranean partners and has launched a series of initiatives intended to promote a more favourable environment for education, research & development and innovation as sources of economic growth and employment in the region.

Tackling the demographic challenge in the classroom

In the sector of education, where FEMIP loans amount to nearly EUR 270m, projects have put a specific emphasis on human capital. In Morocco for instance, FEMIP provided a EUR 30m loan to create vocational training centres that will provide adequately trained staff for businesses in the fields of tourism, textiles and technologies.

More recently, EUR 200m was dedicated to an even more ambitious programme for the modernisation of the country's education system. This strategic EUR 3.1bn plan, implemented by the Moroccan Government, aims to rectify the sector's deficiencies. It also includes a series of reforms designed to profoundly improve the education sector by strengthening the management of results, decentralising decision-making and human resources and changing teaching content and methods. The programme unites the efforts of the EIB, the African Development

Bank, the World Bank, the French development agency and the European Commission to help create universal access to high-quality education. In Jordan, FEMIP also provided up to EUR 100m to support the reform of elementary education and build, equip or renovate schools. In 2006, through its Trust Fund, FEMIP launched an Internship Programme for students from Mediterranean partner countries. This provides successful candidates with the opportunity to improve their skills and gain experience of working in an international and multicultural environment.

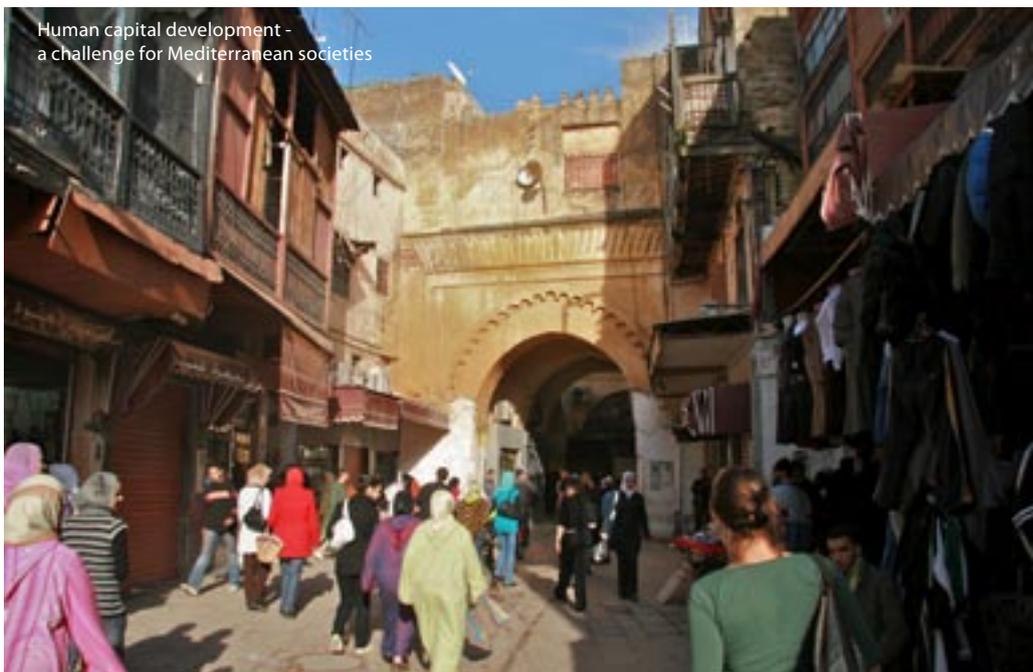
In support of research, development and innovation, FEMIP has provided a series of loans worth almost EUR 300m to the Mediterranean countries. In particular, EUR 80m was dedicated to the creation of five sectoral technoparks in Tunisia, aimed at setting up the first national network for scientific and technological research. The Trust Fund also helped establish the first "business angels" network in Tunisia to support new and innovative companies and find solutions to funding problems that these companies face. Finally, FEMIP supports the Morocco Incubation and Spin-off Network through its enhanced efforts to raise awareness of entrepreneurship and provide a vision of technology transfer, knowledge-sharing and vocational training within the global innovation incubation community.

FEMIP's network helps disseminate best practice

A recent FEMIP conference held in March 2010 and jointly organised by the EIB and the Republic of Tunisia discussed the issue of "Research, Development and Innovation, Keys for Sustainable Development in the Mediterranean". The conference addressed the necessary steps to create and consolidate a successful environment for research & development and innovation in the region.

Finally, the EIB has also become a major player in the Centre for Mediterranean Integration (CMI) in Marseille, where its experts pilot the programme "Knowledge Economy, Innovation and Technology", along with partner institutions like the World Bank and the French development agency. Besides generating a unique intellectual output, this programme will help strengthen entrepreneurship skills, support innovators and improve the financial mechanisms available in this area. A guidebook for policymakers and economic experts will be released in 2010 to facilitate both the planning and monitoring of technoparks in the Mediterranean region. ■

Human capital development - a challenge for Mediterranean societies





The EIB finances projects in Ukraine, Moldova, Armenia, Azerbaijan, Georgia and Russia on the basis of an EU mandate of EUR 3.7bn for the period 2007-2013. EIB activity focuses on projects of significant interest to the EU in transport, energy, telecommunications and environmental infrastructure. Outside Russia, the Bank can also finance projects benefiting small and medium-sized enterprises in all sectors.



**Eastern
neighbours**

EIB partners with other IFIs to deliver **cleaner water for the Baltic Sea Region**

The European Investment Bank last year signed a loan of EUR 17.5m to St. Petersburg's water company Vodokanal to finance the Neva Closure of Direct Discharges of Untreated Wastewater ("Neva Collector") project, aimed at reducing pollutant discharges into the Gulf of Finland.

This new commitment supports a priority project of the so-called Northern Dimension Environmental Partnership (NDEP), which aims to support regional cooperation in particular to address the most urgent environmental problems in the Northern Dimension Area covering the Baltic and Barents Seas region.

This loan represents a continuation of the successful cooperation between the EIB and St. Petersburg Vodokanal under the NDEP. The Bank has already provided two

by Dusan Ondrejicka, Communication Department

loans within this framework: EUR 25m for co-financing the completion of St. Petersburg's south-west wastewater treatment plant and EUR 20m for the rehabilitation and modernisation of the city's northern wastewater treatment plant.

As was the case in the two previous projects, the EIB's support for the Neva Collector project is being provided in close cooperation with the Nordic Investment Bank, the European Bank for Reconstruction and Development, the City of St. Petersburg and the Russian Federation. It is focused on the completion of the Northern Tunnel Collector, the main tunnel sewer on the right bank of the river Neva channeling wastewater to the northern wastewater treatment plant, along with the construction of a pumping station and the closing of sewers discharging untreated sewage directly into the river Neva, as well as the enhancement of nutrient removal at the large central and northern wastewater treatment plants.

This will help to deliver an environmentally sustainable solution for the whole sewerage system of St. Petersburg by substantially reducing discharges of untreated wastewater into the river Neva and enhancing wastewater treatment. The project will also enable Russia to fulfil its environmental commitments under the Helsinki Commission (HELCOM) convention, which seeks to protect the marine environment of the Baltic Sea from all sources of pollution, as well as live

up to EU standards in terms of efficiency of wastewater treatment.

The EIB finances projects in Russia and the Eastern Partnership countries on the basis of a joint EU Council/Parliament mandate of EUR 3.7bn for the period 2007-2013, with a particular focus on projects of significant interest to the EU in the transport, energy, telecommunications and environmental infrastructure sectors.

At the end of last year the EIB also established the Eastern Partners Facility (EPF) for lending in the same countries in an amount of up to EUR 1.5bn from its own resources and at its own risk, including a ceiling of EUR 500m for lending to projects in Russia. The EPF allows the EIB to extend loans and guarantees for EU investments, notably by European corporates, essentially under investment-grade structures in line with the EIB's usual criteria. Indirect equity investments in infrastructure funds of EU interest are also eligible under this facility. ■

"The European Investment Bank is a long-standing and reliable partner of St. Petersburg Vodokanal. We highly appreciate this cooperation. Together with the EIB and other partners, we have managed to implement major environmental projects. I would not want to measure the result of our cooperation by the tens of millions of euros provided by the EIB. The main positive impact of the EIB is that it has enabled us to make our common Baltic Sea cleaner and preserve it for future generations."

Felix Karmazinov, General Director of St. Petersburg Vodokanal



St. Petersburg wastewater plant



Providing clean water for the Neva river

Moldova transport infrastructure projects take off

Modernising Moldova's airport and road infrastructure is expected to boost the country's economic revival by facilitating regional and international trade links.

by Tomas Tamosauskas, Eastern Europe, Southern Caucasus and Russia Division



Rehabilitation of Moldova's roads

One of the poorest countries in Europe, Moldova became an EU neighbouring country with Romania's accession to the Union in 2007. Close historical and cultural ties unite Moldova and Romania, with frequent movement of people between these countries. Even the languages spoken in Romania and Moldova are very similar. At the same time, many Moldovans also speak Russian, and are therefore well placed to facilitate economic interactions between Romania and the countries further to the east, such as Ukraine and Russia.

Rehabilitating a European gateway to the east

Moldova's gateway position can only be fully exploited if there are good transport links with neighbouring countries in place, allowing for smooth travel connections for people and goods. Pan-European Transport Corridor IX (Moscow – Kiev – Bucharest) crosses Moldova from east to west, transiting its capital city, Chisinau. Only by ensuring good quality infrastructure along the corridor in its territory can Moldova take advantage of its position as a key gateway for regional trade and unlock its full economic potential. The rehabilitation of roads is therefore seen as a priority for the country.

Recognising such circumstances, the EIB is actively involved in assisting Moldova's attempt to bring its transport network up to standards. As a result, in joint efforts with other international financial institutions (IFIs), such as the World Bank and the European Bank for Reconstruction and Development (EBRD), the EIB is currently participating in financing two major transport projects, with new schemes in the region under appraisal.

Chisinau airport is the main gateway to Moldova



The EIB contributed with a EUR 30m loan to the Moldovan roads sector – a first in terms of the Bank's operations in Moldova. With the help of the finance provided, the rehabilitation of certain road sections of key importance to Moldova's international connectivity, as well as those with the most urgent need for repairs, started in 2009. The works are currently concentrating on improving the Chisinau – Hincesti road. Later works on Chisinau's Calarasi connection are also planned. Both roads connect Moldova's capital city with Romania. Improving road infrastructure is expected to boost the country's economic revival by reducing transport costs and improving road safety. It will likewise help to secure access to EU markets, as well as opening up new trade opportunities and encouraging foreign direct investment in the country.

As it is helping to strengthen the links between the enlarged EU and its neighbours, the project also found support from the Neighbourhood Investment Facility (NIF). For the EIB this was the first ever project financed in Moldova. The country became eligible for EIB lending following a European Commission decision. The cooperation between Moldova and the Bank was sealed with a framework agreement which came into force in 2007.

Modern transport hub to boost commercial ties

As well as good roads it is also important to have good air transport links. In 2008, the main airport of the Republic of Moldova attracted assistance from the NIF, as well as investments from two IFIs: the EIB and the EBRD agreed to support the renovation and upgrading of its infrastructure.

Chisinau Airport – the main gateway to the country – has experienced a significant increase in passenger traffic every year since 2000, with an average annual growth rate of 15%. In 2008 the passenger volume exceeded 800 000 and the airport already serves more than 20 international destinations. The increased passenger flows, accompanied by a greater number of aircraft movements, has put the existing airport infrastructure under severe strain, exposing its age and capacity limitations. The EUR 40m loan from the two banks, the EIB and EBRD, will be used to rehabilitate the main runway, taxiways and aprons, airport signalling and technical equipment, as well as supporting certain works on the passenger terminal.

This will also allow the airport to provide better safety and comfort to the ever growing number of passengers, as well as help

cater for an increased number of passengers in the future. As part of the project preparation, the airport has put an environmental action plan in place to ensure that the modernisation of the airport meets EU and other international safety and environmental standards.

A modernised airport is of key importance for the country's international cooperation and will contribute to the development and strengthening of Moldova's competitiveness. ■



The EIB has been an active development partner of the African, Caribbean and Pacific (ACP) countries and the Overseas Countries and Territories (OCTs) since 1963 and 1968 respectively. Since the inception of its successive mandates in these regions, the EIB has lent EUR 11.7bn in support of over 1 200 projects in 91 different countries. Financing is provided from the European Development Fund alongside EIB own resources.



African, Caribbean and Pacific Countries

Bringing clean and safe water to Malawi's poorest areas

At the end of 2008, the EIB signed a contract to lend 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 to the social well-being of its people.

by Petia Manolova, Southern Africa Division

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 currently benefits from

a 24-hour water supply. With the help of this EIB loan, which is financing projects by both water boards, a 24-hour water supply is being made available to 400 000 Blantyre inhabitants and both authorities are extending their services to low-income areas.

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. The Bank's most recent operation also aims to develop institutional capacity and improve the efficiency of the Lilongwe and Blantyre Water Boards. A private sector service contractor, Vitens-Evides International, was appointed and commissioned in 2009 to review the organisational

structure, help improve financial and commercial management, enhance operational performance and carry out the investments planned under this project.

Cooperating with NGOs and the European Commission

Another innovative feature is the close cooperation with local civil society organisations, which enabled 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 – was established. This is set up as a revolving fund and managed by the water boards with the objective of making individual connections more affordable for initially 35 000 low-income customers.

The positive development impact was further reinforced by means of a coordinated EU funding approach, with EIB concessional financing being blended with a EUR 14.9m EU Water Facility grant (covering 47% of the total project cost and amounting to EUR 32m). The Government of Malawi also contributed EUR 1m (3%) towards the

project costs. In addition, the EIB provided a EUR 400 000 technical assistance grant to support the procurement of the service contractor, the NGO for Blantyre, as well as to ensure capacity-building.

A project which educates

The latest EIB-funded water project in Malawi benefits from the presence of WaterAid and Water For People, two major international NGOs that are acting as project partners. Both are working alongside local NGOs to promote the adoption of safe hygiene behaviours, improved sanitation and equitable access to safe drinking water. They will also support the capacity-building of local institutions and small-scale private water point operators to ensure sustainable access for poor and currently unserved communities. With the help of the NGOs' sanitation marketing, communities are offered a range of sanitation technology options which they are 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. ■



Improving sanitation for Malawi's population

Beira Corridor:

unlocking an international trade gateway

The EIB and the EU-Africa Infrastructure Trust Fund are working together to help rebuild the Beira Corridor transport link in Mozambique and boost regional integration.

by Yves de Rosée and Isabel Costa, ACP Department

Mozambique's Beira Corridor constitutes the main transport access link between the port of Beira and the interior of the country as well as to neighbouring landlocked countries. As an important gateway for cargo transport in the region, the extensive refurbishment of the corridor infrastructure was undertaken in the 1980s and 1990s. However, the improvements have not been maintained, and the port and its access constitute a major bottleneck for regional transport and trade.

In April 2009, the EIB signed a EUR 65m loan to Mozambique for the rehabilitation of the Beira Corridor. The Bank's loan is complemented by a EUR 29m interest rate subsidy from the EU-Africa Infrastructure Trust Fund (ITF). The EIB and ITF financing was provided alongside funding from the World Bank and the Dutch and Danish development agencies. The EIB loan supports two parts of the planned improvements to the Beira Corridor: EUR 42m is dedicated to the rehabilitation of the 680km-long Sena railway line, which links Beira to both the coal mining town of Moatize and the Malawian border. The Sena line has been closed for over 20 years due to the civil war. The re-opening of the line is expected to unlock transport

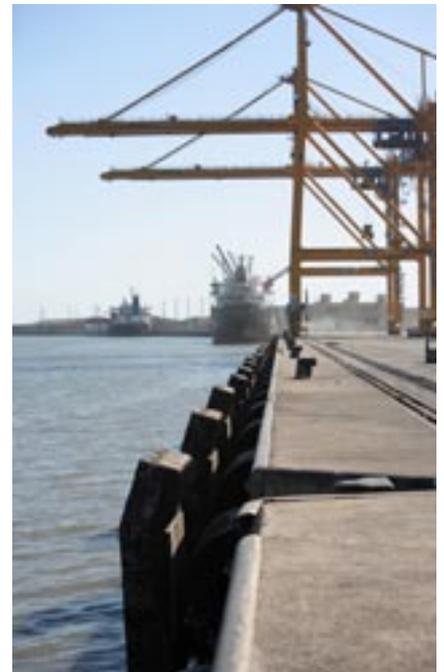
capacities of 5 million tonnes of freight and 2 million passengers per year. An additional EUR 23m will go to the Beira port, an international gateway not only for Mozambique, but also for the region's landlocked countries – Zimbabwe, Zambia, Malawi and potentially also the Democratic Republic of Congo. The EIB loan will help to restore the depth and width of the access channel to the Beira port in order to enable access for much larger cargo ships and improve safety conditions.

Due to the special rules that apply to heavily indebted poor countries, Mozambique had to comply with a concessionality level of 35% in all borrowing operations, so the interest rate subsidy from the ITF was critical for the materialisation of the investments. Moreover, the ITF subsidy granted to the project underscores its strategic importance and positive regional impact on the transport links across Southern Africa.

The Beira Corridor is a flagship project for Mozambique, restoring crucial trade routes to other countries in the region and thus facilitating international trade. By improving Mozambique's transport services by sea to international ports and by rail to the landlocked countries of southern Africa, the



The Beira port is a key transport link



project acts as a catalyst for local and regional economic growth and contributes to overall poverty alleviation. The EIB maintains close monitoring links with the Beira Corridor project to ensure that all aspects of the project are carried out to expected operating standards. To date there has been good progress achieved on the project and works are expected to finish by mid-2011. ■



Technical assistance for microfinance driving the growth of access to finance

EU-Africa Infrastructure Trust Fund: a vital component for project success

Established jointly by the EIB, the EU Member States and the European Commission, the Trust Fund's main aim is to foster investment in regional African infrastructure projects with a cross-border or regional impact in sub-Saharan Africa. The Trust Fund, managed by the EIB, blends grants from the European Commission and EU Member States with the lending and technical capacities of the EIB and other EU development financiers. The Trust Fund supports large-scale energy, transport, water and telecommunications projects through interest rate subsidies, technical assistance, grants for social or environmental components of projects and grants covering early-stage premiums on risk mitigation insurance.

Technical Assistance (TA) is a key instrument for the Bank to become more proactive in its operations, especially outside the EU. The provision of TA has become a mainstream EIB activity over the past few years and is designed to support the lending priorities in Europe and outside Europe.

by Stefan Kerpen, Technical Assistance Unit



Support for micro-businesses creates positive social and economic impacts

In regions such as the African, Caribbean and Pacific (ACP) countries and the Mediterranean partner countries, the need for TA, particularly to support project preparation and implementation, is stronger than in more advanced economies. For this reason, the EIB has been entrusted with significant funds to address these needs. In 2009, the EIB contracted more than EUR 30m to improve the preparation and implementation of lending operations in these regions, especially in the infrastructure and financial sectors with a particular emphasis on microfinance.

In the ACP region, the EIB has developed a high level of both investment activity in the microfinance sector and engagement with key industry stakeholders, such as the Consultative Group to Assist the Poor (CGAP), the European Microfinance Platform and the European Commission microfinance steering group. In order to address the limited availability of financial services to the poor and economically marginalised, the Bank supports an increasing number of microfinance investment vehicles that invest in and provide technical assistance to local microfinance institutions. Alongside the provision of debt and equity to selected microfinance institutions (MFIs), the EIB has more recently made TA funds available to these institutions to enable them to extend sustainable microfinance services and develop innovative products that, in turn, will generate positive social and economic impacts for small and micro-businesses.

Since 2007, more than EUR 15m has been made available from the TA envelope of the ACP-EU Cotonou Partnership Agreement for capacity-building measures in MFIs. Many MFIs have significant needs for capacity-building, and transfer of knowledge in order to succeed as self-sustaining institutions. In addition, more mature and well-established institutions still require TA for the development of new products, and the extension of operations into new geographical, in particular rural, areas. The ultimate objective of these efforts is to enable local staff to manage microfinance institutions in a sustainable way in order to become self-sufficient and independent from external aid. ■

Dominican Republic – Building capacities in the financial sector

For the past 12 years, the Bank has supported the development and growth of the microfinance sector in the Dominican Republic, playing an instrumental role in the development of Banco de Ahorro y Crédito Ademi (ADEMI) and Banco Adopem. With this objective in mind the EIB extended its support to other initiatives addressing the specific development needs of a wider spectrum of microfinance institutions in the country, from the smallest to the largest and regulated ones. Local entrepreneurs – notably in rural and poor areas – will benefit from improved long-term financing opportunities. Under this cooperation, a comprehensive TA programme is being provided by a specialised consultant. The TA operation comprises five elements: (i) Operational Risk Manual Application; (ii) Demand Study; (iii) Credit Technology Improvement; (iv) Corporate Governance Improvement; and (v) Agricultural Products.

Within the Operational Risk Management component for example, various materials and documents, such as manuals are elaborated. A number of training sessions and workshops are conducted to train up the relevant unit, the main heads of departments and related employees to allow them to recognise, analyse, reduce and handle operational risk. One principal objective of these training sessions is to enable the participating key personnel to train other staff ('train the trainer') and thereby to enhance the outreach to all levels of the institution.

Expanding financing operations to rural areas





Supporting local businesses

AccessBank Liberia – Improving access to financial services for SMEs and micro-enterprises

Teaming up with Access Microfinance Holding of Germany as well as the International Finance Corporation and the African Development Bank, the EIB has established AccessBank Liberia (ABL) as the country's first commercial bank specialising in micro and small business finance. After many years of devastating civil war, Liberia's economy has only very recently started to recover. Micro and small enterprises play a pivotal role in this process but have so far lacked any access to credit. Since opening its doors in 2009, ABL has extended more than 3 700 loans averaging some USD 1 100 to micro entrepreneurs. The outstanding portfolio amounts to around USD 2.5m and shows an excellent quality – as of January 2010 only one of the outstanding 2 886 loans was in arrears by more than 30 days. Operating from three branches across Monrovia, ABL has already trained more than 160 local staff and has quickly established itself as the bank of choice for Liberia's small entrepreneurs. This is underscored by the 14 000 savers who have opened accounts with ABL.

The EIB supports ABL with both equity and technical assistance funds. The equity is designed to strengthen the capabilities of local and regional financial institutions, as well as broaden the range of, and access to, financial services. The TA funds are mainly used to finance a team of international experts and capacity-building measures in specific areas. An annual training plan has been put in place to maximise the outcome of all different kinds of training (classroom, workshop, on the job, coaching). In addition, the EIB is expected to approve further financing in support of ABL's growth portfolio.

AccèsBanque Madagascar

In January 2008, the EIB signed a TA agreement with LFS, the manager of Access Microfinance Holding and a designated TA provider, to support the creation of four greenfield microfinance institutions (MFIs), one of which was located in Madagascar. The main objectives of the technical assistance it received from the EIB were (i) to ensure the successful creation of the MFI, (ii) to build capacity at local level and transfer knowledge to the local management and operational staff, (iii) to implement an efficient Management Information System, (iv) to support the growth and expansion of the MFI and (v) to ensure both financial sustainability and the quality of financial and operational data. Technical assistance is planned to be reduced over time so that the MFI can become self-sufficient and sustainable.

Within two years of operation, AccèsBanque Madagascar (ABM) has opened six branches in Antananarivo, the capital of Madagascar. "Given the rapid growth in clients we have experienced, we are now planning to extend our operations outside the capital," says Mamonjisoaniaina Albertine Hantanirina, Head of the Micro Credit Department at AccèsBanque. "When I joined ABM in 2006 as a loan officer, I did not have a lot of experience, but we went through a two-year period full of learning and training. With advice and support from our supervisors, we were able to develop professionally and, little by little, acquired self-confidence and were able to build good relationships with our clients. While before I was only involved in lending, I had the opportunity to deepen my knowledge in many fields, such as banking operations, administration, marketing and human resources. I was very proud of myself and my interest in the job grew, taking a larger place in my life and especially in my heart. In 2008, I was appointed head of the Micro Credit Portfolio. It is really a huge happiness for me and I feel a big enthusiasm. But I would not have achieved all this without the kind consideration and support from my supervisors and the precious advice from my colleagues and the consultants from LFS."



The EIB has been active in the Republic of South Africa since its transition to a democratic government in 1994. The EIB has been entrusted with four successive mandates for a total lending volume of EUR 2.4bn. The current mandate covers the period 2007–2013 for up to EUR 900m, of which almost 70% had been committed by end-2009 to support both public and private sector operations. Since 2002, the EIB co-manages the Risk Capital Facility in partnership with a South African development finance institution. This European Commission-funded programme aims at providing equity funding to small and medium-sized enterprises owned by persons previously disadvantaged under the apartheid regime.



South Africa

The Berg Water Project

The Berg Water Project, which was successfully completed in 2008, is the largest water supply scheme built in South Africa since the country's transition to democracy in 1994 and introduced best practice in the country for dealing with social and environmental aspects of dam projects.

The project is located on the upper reaches of the Berg River, about five kilometres west of Franschoek in the Western Cape. Its objective was to increase the reliability of the

water supply to the rapidly growing population of Cape Town, South Africa's second largest metropolitan area, and thereby to ensure the economic prosperity and social advancement of its population.

Water demand management programme: a condition for project approval

Cape Town's water resources had become increasingly stressed and persistent droughts were causing water restrictions and eco-

nomical disruption. There was an increasing awareness that the city required not only urgent investment in water supply infrastructure, but also the implementation of demand-side management measures, in parallel to the supply-side approach.

In 2001 Cape Town started to develop a water conservation/water demand management (WDM) strategy, based on the outcome of an integrated Water Resource Planning study. Some of the projects implemented under this strategy, such as pressure



View of the Berg river dam

by José Frade and Niraj Shah, Projects Directorate, and Angela Jenni, Directorate for Operations outside the EU

management in one of the city's townships, were very successful and received wide recognition. However, not all objectives of the programme were achieved and a revised WDM strategy has since been developed, based on the experience gained. This revised programme includes measures such as the adjustment of water tariffs, metering and credit control, leakage detection and repair, pressure management, elimination of autoflush urinals, use of water efficient fittings and user education. These and other demand-side measures, such as the imposition of water restrictions have succeeded in reducing the growth in consumption and therefore improved the balance between demand and supply.

The EIB made its funding conditional on the implementation of the WDM programme by the City of Cape Town.

Project implementation on time and below budget

The project involved the construction of a 63 metre high dam with a 130 million cubic metre reservoir in the Berg River and related infrastructure (diversion weir, balancing dam, pump station and pipeline). In line with initial estimates, construction work started in 2004 and was completed in 2008 as planned. At EUR 171m, the

out-turn investment cost was 97% of the amount estimated at appraisal, a remarkable achievement for a project of this scale. This success can be attributed largely to competitive international procurement, as required by the Bank, and effective supervision of the works with the support of external consultants.

Best practice in dealing with environmental and social aspects

Berg Water was the first project in South Africa to involve all stakeholders concerned – comprising more than a thousand people and organisations – in crucial decisions on water demand management and water supply options, in order to select the most cost-effective proposal. The evaluation of alternative options was a very comprehensive exercise, focusing on environmental and social issues. The stakeholders formed an Environmental Monitoring Committee, which first prepared and then monitored the Environmental Management Plan (EMP). An Environmental Control Officer was appointed to supervise implementation of the EMP, which was audited every six months over the period 2005 to 2007. This ensured that the environmental compliance of the project reached a rate of more than 99% at project completion.

The dam was the subject of numerous studies and a full Environmental Impact Assessment, before authorisation to build the project was granted in 1999. The project was planned and designed before the World Commission on Dams (WCD) issued its recommendations in November 2000. However, the Trans-Caledon Tunnel Authority (TCTA, the publicly owned implementation agency) undertook a review of the compliance of the project with the applicable WCD recommendations and, at the EIB's suggestion, a final comparative review of the options assessment. These reviews concluded that the project was largely compliant with the WCD's recommendations.

TCTA developed a policy to ensure that employment, procurement and training opportunities for local communities were maximised. This involved the creation of a skills register and the establishment of an employment desk which handled all recruitment, using the information in the register. A number of specific targets relating to procurement, employment and training were made compulsory for the contractors. As a result, the number of local people employed reached 93% of total staff (against a target of 75%) and the number of historically disadvantaged persons (a term designating all people discriminated against under the apartheid regime, be it on racial, gender or

disability grounds) was also 93% (against a target of 80%).

In terms of procurement for goods and services, contractors also had to comply with targets relating to the government's policy of Black Economic Empowerment, which aims to overcome the legacies of the apartheid regime, and the participation of local enterprises and small businesses, including cooperatives and NGOs. An interesting example of putting these policies into action were the contracts for the construction of La Motte village (originally housing for contractors but since handed over to Stellenbosch Municipality for the benefit of the local community), which were awarded to two SMEs headed by women.

EIB value added

The project is a good example of high added value provided by the Bank, both from a technical and financial point of view. As mentioned above, the promoter accepted the Bank's suggestion to carry out a final comparative review of the options assessment to confirm that the Berg dam project was indeed the most suitable choice in line with the WCD's recommendation. The EIB's requirement for international competitive bidding contributed to the project being implemented on time and within budget. The Bank's involvement in the project also gave comfort to other lenders. Finally, its funding contribution of up to 50% of project cost, made available in South African rand

and thus avoiding exposure to foreign exchange risk, on attractive terms and with a suitably long tenor, contributed to reducing the impact of the necessary tariff increase on end users. ■



The Berg water project was successfully completed in 2008



Berg water is one of the largest water supply schemes in South Africa



Latin America

The EIB has been authorised to lend in Latin America since 1993. The current mandate, covering the period 2007-13, sets a lending ceiling of EUR 2.8bn for Latin America. In addition to this mandate, investment-grade countries or projects in the region are eligible to receive loans under the EUR 3bn Energy Sustainability and Security of Supply Facility.

EIB joins forces with other IFIs to support **the Nicaraguan electricity sector**

This joint initiative of three IFIs in one of Latin America's poorest countries is set to help upgrade the country's power sector, provide much-needed improvements for energy grids and further develop Nicaragua's renewable energy sector.

by Susan Antz, Latin America Division

Three of the largest international financing institutions (IFIs) operating in Latin America – the Inter-American Development Bank (IADB), the EIB and the Central American Bank for Economic Integration (CABEI) – have joined forces to support the Government with a EUR 84m (USD 114m) loan to upgrade the electricity system in Nicaragua, with a par-

Helping to cater for increased electricity demand



Hydropower provides a boost for sustainable energy in Panama

In October 2009, the Bank decided to provide a loan for the construction and operation of a cascade of three run-of-river hydropower plants in western Panama under a special Facility that supports the development of sustainable energy sources. The EIB's investment is set to ensure the local population's security of supply while also limiting the impact of climate change.

The Panamanian electricity market is relatively small but demand is growing rapidly (at a rate of 7% per year) and there is therefore a great need to continue installing new generating capacity. With a total installed capacity of 117 MW, the Dos Mares hydropower plant is expected to increase the country's generating capacity by 10%.

The EIB's USD 211m loan will therefore help cater for increased electricity demand in Panama in an environmentally sustainable way by using available water resources, specifically those of the Chiriqui River. The power plant cascade will benefit from existing reservoirs situated upstream and will contribute to the daily regulation of the system by delivering a reliable energy supply. Water will be delivered to the turbines through open channels rather than tunnels, and the plant will thus avoid the problems usually associated with hydroelectric projects.

At a time of economic downturn, the EIB is pressing ahead with its financing operations in Latin America to ensure that viable eligible projects are not jeopardised. The project is the Bank's sixth operation in Panama, where it has now lent a total of EUR 733m. The projects have mainly benefited the development of the country's infrastructure.

Dos Mares is the first operation financed in Latin America under the Facility for Energy Sustainability and Security of Supply (ESF). First set up in 2007, this EUR 3bn Facility aims to support the development of sustainable energy sources, as well as measures that will help to mitigate and promote adaptation to climate change, in the EU's Neighbourhood Countries, the ACP countries, South Africa, Asia and Latin America until the end of 2013. The Facility operates outside the EU guarantee scheme when the Bank does not need the support of the cover to mitigate sovereign or political risk to protect its own credit standing. It therefore helps to optimise the use of the relatively scarce resources that benefit from the EU guarantee, while enhancing the profile of the EU action addressing climate change and security of supply. So far the Facility has been used for the China Climate Change Framework loan and a recently approved Brazil Climate Change mitigation Framework loan, but a strong pipeline of similar operations is already being created under the ESF.

ticular emphasis on improving the efficiency of energy networks and the use of renewable energy.

The EIB's contribution of a USD 20.4m loan is being provided under its current lending mandate for Asia and Latin America and is the EIB's first direct loan in Nicaragua. The project fits in with the mandate's priority objectives of promoting greater energy security and environmental sustainability.

Overdue support for a neglected sector

Despite having achieved sustained economic growth and declining inflation thanks to a sound macroeconomic policy and large reduction in public debt, Nicaragua still remains the poorest country in Latin America, and its per capita electricity consumption of around 366kWh is among the lowest in Latin America. Overall about 60% of the population has access to electricity, but in rural areas only 35-40% of the population are connected. Nicaragua's energy sector suffers from underinvestment, resulting in frequent blackouts and significant interruptions of supply – a major stumbling block for the country's economic development. Moreover, electricity generation has failed to keep pace with growing consumption. A further burden on the electricity sector is the high level of commercial losses and the fact that tariffs are below the level required for full cost recovery.

The Nicaraguan power sector has been partly privatised. However, the state remains the owner of the hydropower plants and the transmission network. An overhaul of the Nicaraguan power sector is therefore a top priority for the Government and IFIs alike.

Six Central American countries – Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua and Panama – are currently implementing a joint electrical interconnection project, the SIEPAC project (Sistema de Interconexión Eléctrica de Países de América Central), which involves the construction of a high-voltage transmission system aimed at developing a regional electricity market and providing mutual support, as well as promoting cost-effective power generation in the region. The SIEPAC project will provide the backbone 220 kV transmission

line. Nicaragua's government programme, supported by the three IFIs, seeks to build the necessary facilities to reinforce the national network.

The investment programme aims to stabilise the key areas of the state-owned parts of the electricity sector. It will help to finance the rehabilitation of two hydropower plants in north-eastern Nicaragua, as well as the extension and upgrading of the power distribution grid, including lines and substations in order to increase the grid's capacity and reliability. Another element is capacity-building for the ministry and regulation, as well as the preparation of studies for new investments in renewable energy. The IFI cooperation will contribute to the preservation of the country's renewable energy sources and bring much-needed improvements in transmission and loss reduction, with a view to securing the country's energy supply. The physical implementation of the project is being assigned to government-owned generation subsidiaries as well as to the Ministry of Energy for technical loss reduction and capacity-building.

A milestone in IFI cooperation

The joint action of the EIB, IADB and CABEL marks another milestone in the outstanding cooperation between the three IFIs and has paved the way for future collaboration. The specific requirements that Nicaragua needs to satisfy under IMF rules as a highly indebted country could only be met through the close cooperation and co-financing of the three institutions, which made it possible to offer the Nicaraguan Government a tailored financial package. ■

Bringing Nicaragua's energy sector up to speed





The EIB has been authorised to lend in Asia since 1993. The current mandate, covering the period 2007-13, sets a lending ceiling of EUR 1bn for Asia. In addition to this mandate, investment-grade countries or projects in the region are eligible to receive loans under the EIB's EUR 3bn Energy Sustainability and Security of Supply Facility.



Asia

Supporting China's fight against **climate change**

Creating unique and successful cooperation between the EIB and China, the China Climate Change Framework Loan (CCCFL) is supporting efforts to reduce greenhouse gas emissions and help mitigate climate change in a growing economy.

by Jean-Jacques Soulacroup, China Division

China's rapid economic growth has gone hand-in-hand with a perception of the country as a major global polluter, rather than an actor at the forefront of the fight against climate change. However, China is engaging in one of the most ambitious greenhouse gas (GHG) emission reduction programmes in the world despite the controversy triggered by its reluctance to make a formal commitment during the recent Copenhagen climate change summit.

There is growing awareness in China about environmental problems and the Chinese programme to mitigate climate change is

one of the most far-reaching initiatives in the EU partner countries, aimed in particular at halving the energy intensity of the Chinese economy by 2020. The effective implementation of China's programme is critical to the containment of global greenhouse gas emissions. The country has obliged its main industrial entities to conform and achieve stringent environmental targets by sector. Nevertheless, its implementation requires massive investment and entails large financing needs. In that context, the EIB has been the most active European partner to support this ambitious agenda, in particular with the implementation of the China Climate Change Framework Loan (CCCFL).

An ambitious multi-investment scheme

The so-called China Climate Change Framework Loan (CCCFL) is a multi-investment scheme designed to support energy and industrial investment projects in China that will help to reduce the emission of greenhouse gases. Signed in 2007 with a volume of EUR 500m, this is one of the largest loans ever granted by the EIB outside Europe and the first provided under the EUR 3bn Energy Sustainability and Security of Supply Facility (ESF). In two years, over 80% of this envelope has been allocated to 20 sub-projects in several provinces.

The ESF is designed to support the development of sustainable energy sources in countries outside the EU. It operates outside the EU guarantee provided under the mandate for the region. Lending in investment-grade China, the Bank did not need the support of the EU to mitigate sovereign or political risk to protect its own credit standing. The CCCFL loan is therefore provided at a commercial price. This helps to optimise the use of the relatively scarce resources that bene-

fit from the EU guarantee, while enhancing Europe's action on climate change.

Delivering support for the EU's policies

In less than three decades, China went from being one of poorest countries in the world to a major world exporter, as well as the country with the largest foreign reserves and the major engine of growth for the world economy. In the process, China has reached medium-income level status – income per capita at end-2009 is estimated to have reached USD 3 566 (or USD 6 546 in PPP terms, ranking China below countries like Albania, Peru or Tunisia and comparable to Ukraine) – and several hundred million people have moved out of absolute poverty. That said, more than 135 million Chinese still live on less than a dollar a day and outside the cities poverty is pervasive.

China is a crucial partner to the EU in international climate policies. The effective implementation of the CCCFL is critical as China is becoming one of the largest energy consumers in the world and the second

largest source of greenhouse gas emissions after the USA. This cooperation is a tangible example of the EIB's contribution to the EU policy on climate change, as well as the EU-China strategic partnership.

Under the CCCFL, a broad range of projects have been submitted by the Chinese authorities and approved by the Bank, including schemes using renewable energy sources, energy efficiency enhancement, carbon capture and afforestation projects. Priority has been given to projects that significantly reduce greenhouse gas emissions and have the potential to generate Clean Development Mechanism (CDM) carbon credits.

A tangible contribution to climate change mitigation

A broad range of projects is already benefiting from the facility, initiated by provincial government agencies, municipalities, public utilities and public-private joint ventures. Operations include forestation programmes, wind farms, small hydropower schemes, as well as energy efficiency and pollution reduction investments in the iron

Forestation projects in Inner Mongolia and Jiangxi

Situated in Inner Mongolia, the project will allow the establishment of 32 thousand hectares of permanent plantations producing wood, fodder and medicinal plants with an environmental focus contributing to erosion/desertification control (shelter forest) and carbon sequestration. The project offers significant demonstration potential because it will explore GHG reduction methodologies and monitoring approaches, and it is expected to establish new industry standards for carrying out multi-functional forestry in areas prone to desertification.

In Jiangxi province, the project will establish 29 thousand hectares of "bio-energy forest" through permanent tree plantation for edible oil (*Camellia Oleifera* fruit production, tea oil) and biodiesel production. In addition, the project will make possible a large-scale experimental plantation project for *Cornus Wilsoniana*, which could also provide raw material for biodiesel production.

Despite the pressure to deliver rapidly and efficiently its approvals and the proceeds of the loans, the Bank has demonstrated its ability to maintain its quality standards and requirements. In particular the technical and economical soundness of the projects as well as their compliance with the EIB's procurement rules and environmental and social safeguards has been given special attention, with an emphasis on resettlement and public consultation issues.



Afforestation projects help reduce emissions

and steel and chemical sectors. The projects deliver concrete results in terms of environmental impact, for instance by contributing to erosion/desertification control and carbon sequestration, increasing the share of renewable energy in the general power mix in China, reducing emissions of greenhouse gases and other pollutants, improving energy efficiency and finally contributing to the mitigation of climate change at a global level.

Unique cooperation between the EIB and China

In the process of appraising projects that are in line with the relevant national and EU environmental standards, the Bank has been able to positively improve some of the projects' designs and environmental impacts. Furthermore, the central government authorities have been eager to ensure the best standards and practices for the projects financed by the EIB through jointly approved comprehensive loan conditions, setting the high level of quality requirements for these projects and those to come.

The CCCFL operation entails close cooperation and follow-up with both the Chinese authorities and the project promoters themselves. This intensive collaboration is already producing favourable results in the 20 projects currently under implementation. Moreover, the proactive stance of the Chinese authorities to fulfil their objectives and meet their climate targets has helped

Energy efficient heating system in the city of Jinan

The project is helping to turn the district heating system of the city of Jinan (capital of Shandong Province) from steam to hot water supply, while improving the whole automation of the system. It is increasing the overall energy efficiency of the system, leading to a better use of energy resources, reducing both greenhouse gas emissions and water consumption. The project is expected to almost halve heat losses by 46% and electricity consumption for the system by 48%, and will reduce water usage by 16%. With the project and based on the guidance of the EIB, the combined heat and power plants will become fully compliant with the respective EU legislation. Furthermore, the project will seek CDM (Clean Development Mechanism) registration for carbon credit generation. The EIB is providing EUR 31 m to support this project.



to accelerate operations. In addition to its finance, the EIB also provides capacity-building support for the Chinese authorities.

Overall, the Bank estimates that around 2 million tonnes of CO2 emissions will be saved every year when all sub-projects are opera-

tional, ranking the CCCFL among the most efficient loans in GHG reduction in the Bank's portfolio of projects. Based on this considerable achievement, the Chinese authorities have already expressed their keen interest in renewing and expanding the cooperation with the EIB on climate change projects. ■

New EIB publications



February 2010

- Collection of factsheets on EIB financing under its external mandates

May-June 2010

- FEMIP Annual Report
- Investment Facility Report
- Activity and Corporate Responsibility Report

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