

Promoting jobs and growth across borders



The importance of
microfinance

The Western Balkans
rise again

INFO

152

■ ■ ■ ■ ■ The EIB – The EU bank

December 2013

Editorial

The EIB may be the EU bank, but its history of external action goes back half a century. We are active mainly in the EU pre-accession countries, like Croatia before it became a Member State in July, and in the Eastern and Southern Neighbourhoods.

We are also active in Asia – where we recently signed our first loan with Nepal – and Latin America. 2013 also marked the 50th anniversary of our involvement in the African, Caribbean and Pacific regions, in addition to the Bank's own 55th anniversary. Since 1963's first loan in the region, we have supported over 1 300 projects in 92 countries, territories or regional groupings. The total lending value is over EUR 16bn.

This shows that the EIB has a vital role to play in EU external policy, showcasing Europe's expertise and know-how as much as financial support. Our loans – be they under mandates or from our own resources and at our own risk – have a multiplying effect, attracting more finance to projects and initiatives in sectors prioritised by the EU. And they have a real impact on improving people's lives. Speaking in July, President Werner Hoyer underlined the importance of agreeing on the external lending mandate within the multiannual financial framework for 2014-2020. From the Bank's perspective, the new mandate must be in place by mid-2014 to avoid disruption to operations. The ceiling under the previous mandate should also at least be matched.

All of our external actions seek to develop social and economic infrastructure, local private sectors and climate action and we have developed tools to assess their results. The EIB helps build sustainable futures within and outside the European Union. From mid-2014 onwards, we will continue to do just that.



The EIB is a natural partner to support EU policy objectives outside the Union.

Contents

EIB IN FOCUS

- 03 Promoting jobs and growth across borders
- 06 "If we are not careful, there may be another Spring"
- 08 Lending for clear results
- 09 News in brief

EIB IN ACTION

- 10 EIB's Results Measurement framework in figures
- 12 Microfinance for sustainable development
- 14 More than finance... EIB technical assistance around the world
- 16 The Western Balkans rise again
- 18 Agricultural SMEs get a much-needed boost in Palestine
- 19 Working together on access to water in Malawi
- 20 Nepal powers ahead on the path to sustainable development
- 21 Sustainable transport thanks to Quito's first metro line

NEW@EIB

- 22 Healing Europe's investment crisis: the 2013 EIB Economics Conference
- 23 New@EIB



Promoting jobs and growth across borders

It may be the EU bank, but approximately 10% of EIB lending goes to projects outside the 28 Member States. The EIB is a natural partner to support EU policy objectives outside the Union. It is vital that the Bank continues to operate in these markets.

External lending has been part of the fabric of the European Investment Bank for all but a few years of its 55-year history. Founded to fund investments in the then six-country European Economic Community, the EIB signed agreements with Greece in 1961 and Turkey in 1963. In the same year, the first Yaoundé Convention was signed with 18 African and Malagasy states.

First loans were also rolled out in Greece in 1963, while operations began in Turkey, Cameroon and Côte d'Ivoire two years later. From these beginnings, the Bank is now the world's largest supranational borrower and lender, and is active in some 160 countries and territories across the globe, supporting EU external policies and acting under a variety of mandates and initiatives.

External lending is part of the fabric of the EIB.

In 2012, the EIB approved 90 operations outside the EU, for a total value of EUR 8.1bn, making a genuine difference to people's lives (see pages 10 and 11).



Different regions, different instruments

The Bank's external operations fall mainly into three separate categories depending on where they are being carried out. The Cotonou Agreement is a multiannual arrangement, currently running from 2000 until 2020, involving funds or guarantees from EU Member States, used in Sub-Saharan African, Caribbean and Pacific countries and overseas countries and territories.

Operations in the pre-accession countries, Southern and Eastern Neighbours and partnership countries in Asia and Latin America, as well as the Republic of South Africa, are based on an external mandate agreed by the EU Member States and are implemented under guarantee. The current External Lending Mandate runs from 2007 until the end of 2013, and is currently up for being maintained and almost certainly renewed.

In addition to these, the Bank also has dedicated facilities for lending at its own risk across these regions, as well as op-

erating in the highly developed and affluent European Free Trade Association countries.

Keeping current levels

The pre-accession countries and Eastern and Southern Neighbourhood regions come together under the External Lending Mandate (ELM) to form the EIB's largest external market by volume. The ceiling of the 2007-2013 ELM was EUR 29bn. Discussions are on-going for the EU's ELM for the period 2014-2020. Herein lies the challenge: the European budget for the coming years will be reduced for the first time in history. If there is to be a squeeze on the budget for external action, it is highly likely that there will be an effect on how the EU is perceived on a global level, not to mention the implications for the role of the EIB.

The Bank itself is unwavering in its commitment to work with the other EU institutions, the Commission and the European External Action Service (EEAS), headed up by Catherine Ashton. This intertwines the EIB into EU external strategy, but any

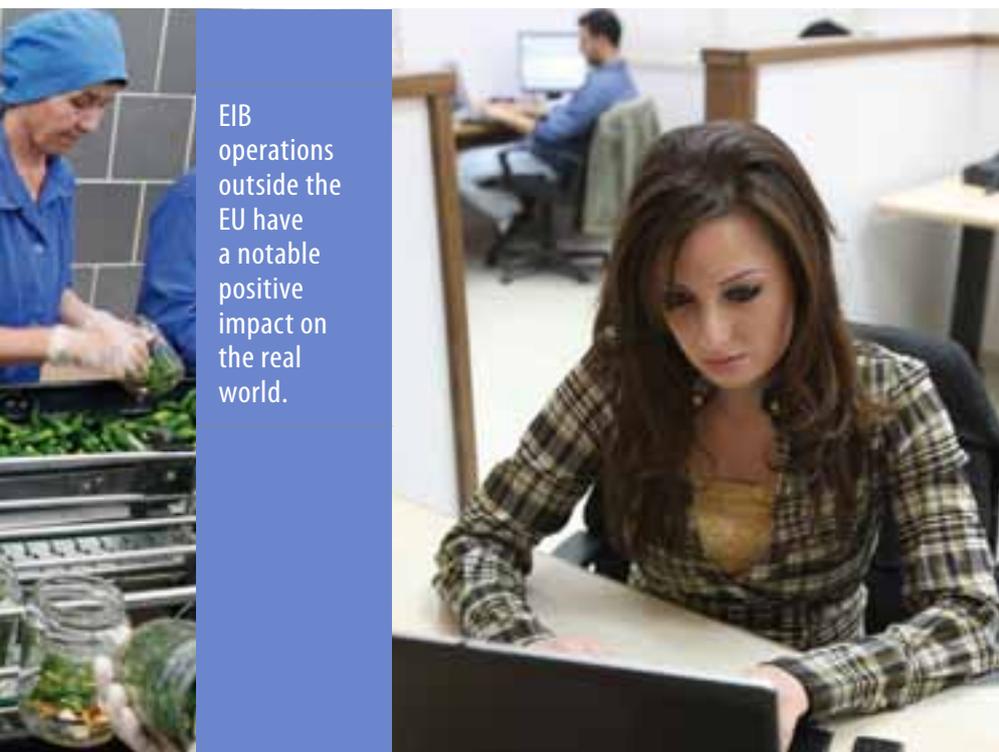
cuts to the ELM will reduce its effectiveness in carrying out lending priorities outside of the EU neighbourhood. These are the development of economic and social infrastructure, projects in climate change adaptation and mitigation and support for SMEs.

Substantial returns

On a policy level, it is clear that the ELM upholds the values and interests of the EU: democracy, transparency, sustainability and inclusiveness. However, its effectiveness on the ground is a salient feature, and one that should not be compromised. EIB financing offers a multiplying effect of 25-30 times, meaning that relatively small amounts are needed to maintain current levels of investment outside the EU, and maintaining those levels means there is no reduction in EU visibility or the reach of external action.

Increasing EIB lending by EUR 2bn would give total volumes of EUR 50-60bn in support of projects meeting EU standards. The guarantee fund, which covers the risk of

EIB operations outside the EU have a notable positive impact on the real world.



defaults on loans outside the Union from the EIB and other European financial institutions, would need an additional EUR 55m from the EU budget to support this. To say the least, this is a modest share.

Operational evolution

Since the previous ELM was agreed for the period of 2007-2013, the EIB has not simply kept external lending ticking over, but has been actively seeking to improve the quality of its offers. The new Results Measurement Framework (see page 10) strengthens reporting and assessment of project results and impacts within the Bank. Close cooperation and active integration with the EEAS, meanwhile, has given the EIB a further EU platform on which to operate.

External development is also about collaboration. The Bank has a network of trusted partners in the private sector, among public authorities and non-governmental organisations. In the Eastern Neighbours and other countries such as Turkey, the EIB and the European Bank for Reconstruc-

tion and Development (EBRD) regularly work together on projects to provide combined financial support. This cooperation is being extended to the Southern Neighbourhood. The EIB has also joined forces with long-time partners AFD (the French Agence Française de Développement) and KfW (Kreditanstalt für Wiederaufbau – Germany's Development Bank) to create the Mutual Reliance Initiative (MRI).

Taking the lead

The operational guidelines that make up the MRI were formally signed on 21 January 2013 following a successful three-year pilot phase taking in an initial 14 projects. These were co-financed by the three partners – who have collaborated with each other for a long time – and were located in North and Sub-Saharan Africa, as well as the Middle East, although MRI projects are not limited to these regions.

Under the MRI umbrella, one of the IFIs takes the role of lead financier in a project, meaning better organisation and improved efficiency across the project life

cycle for both lenders and borrowers. The lead financier takes on most of the tasks required, from appraisal to preparing lending decisions to implementation, and can take that role for a number of reasons, not least geographical or sectoral experience.

The projects have to meet the standards set out by the other financiers, not just those of the lead, and close cooperation is thus necessary. As each of the three IFIs is governed by different regulations, statutes and legal and governance structures, those of the lead financier become the de facto operational ones.

Active and observant

All three partners do not have to take an active role in each MRI project. They are not all active in the same regions. There is not a specific ceiling set out, but the MRI promotes EU goals for development outside the Union. For example, KfW (as lead financier) and the EIB are involved in financing the Keyal Khwar hydropower plant in Northern Pakistan, but a Sea Water Air Conditioning project for French Polynesia's main hospital (see EIB Info 151) sees AFD and the EIB working together. Likewise, AFD and KfW are both active in development in Afghanistan, where the EIB is not present.

All projects supported under the scheme are with public sector promoters at present as by nature the MRI is designed to back public sector projects in infrastructure: energy, transport and water.

Our value

EIB operations outside the EU have a notable positive impact on the real world. It is essential that the Bank retains a position to keep on doing what it can for good social, economic and environmental projects and practices.

The impact of reducing the ELM is spelled out in bare numbers. It is only natural that the EU becomes a smaller player on the world stage, but there is much expertise to share and no little development know-how. For these, the EIB is a potent and influential organisation. ■



Manana Kochladze

Manana Kochladze is Regional Coordinator for the South Caucasus at CEE Bankwatch Network.

She spoke to EIB Info at the Eastern Partnership Summit in Vilnius, Lithuania, in late November about the Bank's activities in her region, and where its strengths and weaknesses lie.

! The steering committee of wise persons was set up at the request of the European Parliament and the Council of the EU to supervise the independent evaluation of the EIB's financing activities outside the Union. It was chaired by former IMF Managing Director Michel Camdessus.



“If we are not careful, there may be another Spring”



You were part of the wise persons' group established to supervise the EIB's financing activities outside the EU in 2010. What conclusions from then remain key today?

"The EIB is a powerful tool for the EU's external architecture and contributes to its development policy. The Bank has good technical expertise to help ensure it only finances projects that are sound, particularly from a design and technology point of view. It is also the only bank that is fully EU, meaning that it should implement EU policies and standards also outside of the EU. This is a valuable and unique feature of the EIB, and one that is not always sufficiently recognised by our politicians and legislators.

As the Bank has a role in promoting European values and interests, it has an indirect development mandate that accounts for several billions for numerous countries outside of the EU. It could do this more effectively if it had more human resources both at its headquarters and on the ground in those countries in which it operates, in my opinion. This would further facilitate compliance of the project standards with EU standards and foster a better understanding of the context in which the projects contribute to a country's economic and sustainable development. It would also result in less controversial projects that may have a potential reputational risk for the EIB."

Where do you think the Bank has made progress over the past few years?

"I have always been concerned that development is understood as a by-product of EIB financing; improving living standards for local people should be the objective of EIB financing, rather than GDP growth. I recognise that you only invest in sound business projects, and I am encouraged by the steps taken to better measure the results of your projects. There were a number of significant improvements in recent years in external lending, including the Results Measurement Framework and the indicators, that should be used to provide very useful insights on project outcomes for people locally. The role of the Bank's evaluation group is really crucial, as they give recommendations on how societal and environmental consequences of projects can be better managed."

Where do you see room for improvement?

"On its private sector lending, and more particularly lending through financial intermediaries to

SMEs, I remain sceptical, however. Why do you not use more local credible banks and ensure that financing goes to local projects that benefit local people? We would welcome more transparency. Not a full list of final beneficiaries, but better information on where the money goes and how it is being used, to see the final development impacts: number of jobs created, reduction of poverty, etc."

Going forward then, where should the Bank set its ambitions in your opinion?

"The Bank is making a major contribution on climate action, but I feel you can do more. We would like to see a more ambitious target on climate action than the current 25%, and we would appreciate the Bank investing more in renewable energies, for example supporting the European Energy Community Treaty implementation by Ukraine, Moldova and Georgia.

We would also like the Bank to finance only large hydro rehabilitation, and not get involved in large new dams. In some cases there is urgent work to do on rehabilitation, and the people living near to these dams are at serious flood risk if that work is not carried out. As new large dams usually require resettlement of a large number of people, that itself presents human rights challenges, to which the Bank should not be exposed.

Sharing the same offices with EU delegations on the ground would also support EIB financing and EU country strategies. It strengthens compliance and gives a strong signal to the local partner country that the EU and the EIB are fully joined up, and that EU joint programming starts on the ground."

In the context of the Eastern Partnership Summit, what message would you give regarding your region?

"I encourage the EIB to continue financing local SMEs to help the Eastern Partners build a middle class, the rule of law and better governance and transparency. The EU and the EIB should continue to engage strategically with the Eastern Partners, and maintain dialogue with civil society. There is too much at stake in countries like Ukraine, Moldova and Georgia, as well as Azerbaijan and Belarus. Poverty is increasing while economic welfare is going down. If we are not careful, there may be another Spring, but this time on the eastern borders of Europe." ■

Lending for **clear results**

In a global society driven by information technology, demand for accountability is growing. Transparency is a must to remain on the development agenda. That's why the EIB is becoming a member of the International Aid Transparency Initiative (IATI)

ment experts. Since its establishment in 2011, the IATI has attracted over 150 signatories. Together, these signatories account for an impressive 75% of all global public official development assistance.



a quarterly basis. The Bank already discloses certain data sets through its project lists on the EIB website and is currently working with the IATI Secretariat to set in place the necessary systems and procedures to implement the IATI reporting standard.

Supporting development policies

In 2012, the EIB was responsible for more than EUR 7bn of public and private sector investment outside the EU. In October of this year the EIB signed up to the IATI – proof of our efforts to ensure openness in our operations and of our continued commitment to support the aid effectiveness agenda.

Long-term benefits

Joining the IATI is a logical step in the Bank's road to building a robust Sustainability Framework which supports responsible business. It is one in a series of actions which we have undertaken in recent years to underscore our belief that sustainability and accountability is not only good for people and the planet, it also quite simply makes business sense. Our Transparency Policy commits us to the highest standards in our daily work and in 2014 we expect to launch a public register of EIB documents. And 2012 was the pilot year for the Results Measurement Framework (ReM) (see page 10), which implemented a strengthened approach to assessment of EIB projects outside the EU and maximisation of their related environmental, social, economic and financial results.

The Bank has joined a long list of its development peers as IATI members and synergies between signatories are expected to develop, bringing further value to the quality of our investments. The effect of the IATI on results will not be immediate. Development finance is not a sprint; it is a marathon whose end-results can be impressive in terms of impact and of which, as an institution, we can be truly proud. ■

The move was welcomed by European Commissioner for Development, Andris Piebalgs: "The EIB plays a key role in supporting Europe's development objectives and its lending contributes significantly to the EU's external cooperation and development policies" he said. "Striving for transparency to make aid and development finance more effective requires effort to implement; however, this determination will pay off in the long-run".

Unlike the majority of IATI signatories, the EIB does not provide grants; but outside the EU it plays a key role in supporting EU development policies and is the leading development financier in many regions of the world. Our investments support private sector growth, the shift towards a positive climate path and the development of strategic infrastructure, all of which contribute to poverty alleviation and economic revitalisation.

Signing up to the IATI means that the Bank agrees to report data according to the IATI standard on investments outside the EU on

Developing countries face huge challenges in accessing up-to-date information about aid – information that they need to plan and manage those resources effectively. Similarly, citizens in developing countries and in donor countries lack the information they need to hold their governments to account for the use of those resources.

To address this, the International Aid Transparency Initiative (IATI) is making information about aid spending easier to access, use and understand. It has developed a common standard for aid and development finance flows to increase effectiveness in tackling global poverty.

The initiative is voluntary and open to a wide range of stakeholders, including donor and developing countries, civil society organisations and aid and develop-

News in brief

Belgium's EVS is maiden GFI beneficiary

The Growth Finance Initiative (GFI) is a new pilot instrument established by the EIB and European Commission. It allows for loans of up to EUR 25m to midcap companies focused on research, development and innovation. The first loan (EUR 12m) under the scheme was signed with Belgian broadcast equipment specialists EVS in November.

EVS manufactures broadcast and media production systems mainly for broadcasters, production companies and film studios. It employs some 500 people, of which half work in R&D. The company's products enable the production of live and enriched video programming and span four markets: sports, entertainment, news and media.

The idea behind GFI is that it is fast and flexible. Set up under the Risk Sharing Finance Facility (RSFF), it allows for a wide range of solutions, from senior secured debt to mezzanine financing. The EIB can provide direct loans of between EUR 7.5m and EUR 25m to qualifying companies. The application and approval processes have been streamlined. The GFI brings the EIB closer to them.



Energising Bangladesh

The EIB is providing its first loan to the Government of Bangladesh, as part of a broad investment programme for the densely populated nation's energy sector.



The EUR 82m loan will finance two specific projects, principally the conversion of the gas-fired power plants in Baghabari and Shagibacar to combined cycle technology.

The conversions will improve efficiency by 75% and increase capacity by 50% for the same amount of fuel used. The resulting savings in CO₂ emissions are notable in a country so vulnerable to the capricious impacts of climate change.

EIB's largest ever SME loan

The EIB has agreed a EUR 1bn deal with Spain's Instituto de Crédito Oficial (ICO) to facilitate access to finance for SMEs (and midcaps to a certain extent), in what is the biggest loan ever granted by the Bank to a European financial institution.

ICO are matching the EIB contribution, meaning that a pot of EUR 2bn will be available to finance the medium and long-term investment projects and working capital needs of companies in the primary, industrial and service sectors, helping them to safeguard and create the jobs that are so badly needed in Spain.

A substantial portion of the EIB loan will be channelled by ICO through to mid-sized regional banks or institutions. This enables finance to reach businesses that may otherwise be out of range, geographically or by sector.

EIB invests in Jordan wind farm

The JWPC Tafila Wind Farm in Jordan supports the nation's renewable energy strategy, and will contribute to reducing a heavy energy import dependency.

The 38-turbine, 117 MW onshore wind farm will increase Jordan's national power capacity by 3%, and the EIB is contributing a quarter of the total project cost with a loan of USD 72.24m.

The project is the first of its kind in Jordan, a large-scale renewable energy facility to be installed by an independent power producer. Jordan's national renewable energy target for 2020 is 1 200 MW, and the JWPC Tafila wind farm will contribute almost 10% of this once it is fully operational.

How to pick a project...

Introducing the EIB's Results Measurement framework

How does the EIB decide which projects to support outside the EU? As the EU bank, we work to further the EU's external policy goals in our operations outside Europe.

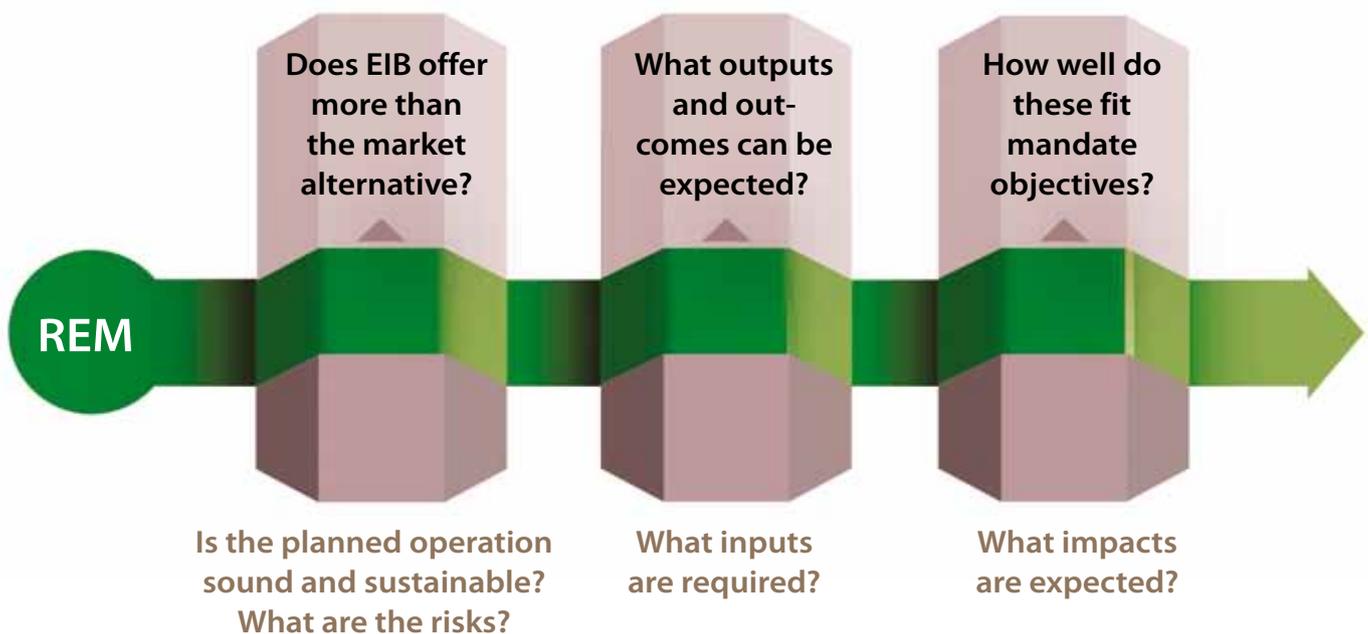
Our mandate for these operations sets out strategic objectives: local private sector development, development of social and economic infrastructure, climate change mitigation and adaptation, and regional integration.

Every application for EIB support is rigorously assessed to see whether it advances these EU-EIB objectives. We also ensure that each project has a sound investment plan and our involvement will really make a difference.

Since 2012, a Results Measurement (ReM) framework improves our assessment of expected results and further enhances the Bank's ability to monitor and report on actual results.

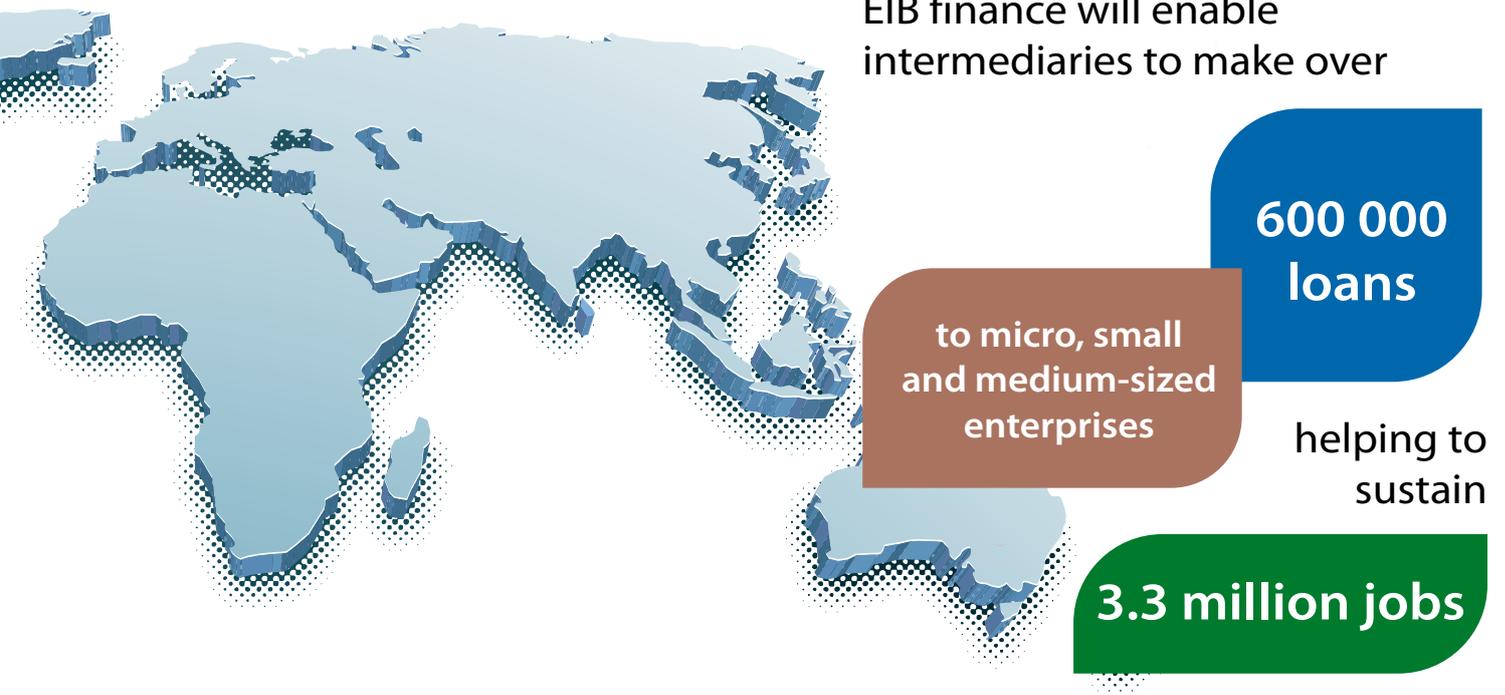


The Results Measurement framework



Great expectations

for EIB external operations approved in 2012



water



148 000
households
connected

electricity



308 000
households
connected

healthcare



740 500
more patients
treated

better urban transport



3.4 million
users

Microfinance for sustainable development

Some four billion people worldwide are estimated to live in poverty and lack access to basic financial services. Microfinance is a key tool for achieving financial inclusion, providing sustainable financial services to the world's poor. With over EUR 300m of finance committed to microfinance activities outside the EU by the end of 2012, the EIB is a major player in this growing global sector.



Thanks to the Grameen movement led by Professor Muhammed Yunus in the 1970s, microfinance has entered the development mainstream. By extending affordable credit to the poorest in society, it unlocks the potential for entrepreneurship that exists within these communities, helping them to help themselves and to improve their economic and social well-being.

In recent years, there has also been a growing focus on how microfinance can facilitate financial inclusion. Access to formal financial institutions and a range of financial services – enterprise credit but also transfer accounts, micro-savings, micro-insurance, and so on – can be critical to enabling full participation in the economic and social life of a community. The simple act of having a bank account allows people to save in order to reduce their vulnerability to economic stress, and to invest in their own future, building businesses, improving their living conditions and providing their children with access to improved health and education services.

Financial inclusion: a global challenge

The EIB continues to develop its involvement in the microfinance sector to create jobs and address gaps in the supply of financial services where they are most needed in the world. By the end of 2012 the Bank had committed more than EUR 300m to microfinance activities across 30 countries outside the EU, concentrating on the most vulnerable parts of sub-Saharan Africa, but also in the Caribbean and the Mediterranean region.

The financial services enabled by the Bank's microfinance investments outside the EU have reached 8 million people. In the African, Caribbean and Pacific regions alone we estimate that our funding has supported almost 3.4 million loans to final beneficiaries, amounting to some EUR 1.7bn.

Outside the EU, 70% of EIB microfinance funding has been channelled through a

series of microfinance investment intermediaries – funds and holdings – which the Bank has vetted to ensure that their activities promote the provision of responsible finance to the poor. Our investments are designed to help intermediaries leverage private funds and foster the funding of innovative concepts such as micro-insurance.

The remaining 30% of EIB microfinance has been lent directly to microfinance institutions and commercial banks for on-lending to micro and small enterprises, as well as self-employed micro-entrepreneurs.

Capacity-building for effective microfinance

In addition to direct and indirect funding operations for microfinance outside the EU, the EIB has concentrated efforts on building capacity to promote financial inclusion through technical assistance

Expanding Microfinance in Africa

In 2012 the EIB pioneered an investment facility spanning the region of eastern Africa – the East African Community Microfinance Facility (EAC I). The EUR 50m regional facility was fully allocated in 2013, and its success has led to the design of a second in 2013 to the value of EUR 75m, of which EUR 30m has been allocated. A third regional facility was established for Southern Africa in 2013. Together, these significantly boost the level of direct investment in the Bank's microfinance portfolio.

activities. The aim is to support the creation of financially sustainable microfinance institutions and to help them to broaden and deepen their provision of financial services to promote financial inclusion. On-going technical assistance includes the MicroMED project to help expand and diversify the microfinance sector in Tunisia, and institution-building as part of the Southern Africa Microfinance Facility.

Microfinance is also one of the focus areas for the EIB Institute, which complements the EIB Group's financing activities with its contribution to knowledge creation. Through its research grants and sponsorship of European initiatives, such as University Meets Microfinance (UMM), the EIB Institute fosters cooperation between university students in Europe and microfinance practitioners, with the goal of contributing to microfinance education, research, professional exchange and communication.

Changing the world, one micro enterprise at a time

Microfinance currently reaches only 10% of the world's poor. As such it is clear that the EIB's work in microfinance is an ongoing story. We are also focused on enhancing the positive impact that we can have through our microfinance business framework. An emerging area is social entrepreneurship – entrepreneurial activity that aims to achieve broader social and



Combining credit and know-how

Faulu Kenya is a microfinance institution that has received EIB support through the East African Community Microfinance Facility.

EIB finance was complemented by the funding of training for final beneficiaries in order to support them in preparing business plans and managing their operations. Faulu staff were also trained in subjects such as credit risk management. Combining finance with training has improved the creditworthiness of final beneficiaries and increased the number of qualifying projects.

The Bank's microfinance investments outside the EU have reached eight million people.

environmental goals. As Professor Yunus said when he visited the EIB last year: "The EIB is working in the right direction to solve social problems, but still within

the money-making cycle. [...] Yes, people want to make money (but they) also want to change the world. That part has to be revealed and unfolded. That is the opportunity we need to create within this institution."

The Bank is currently setting in place a number of social initiatives for microfinance – a strategy for the future? ■

Microfinance impacts in the Mediterranean

In the Mediterranean region, the EIB is the third largest microfinance lender, with small but effective investments made in local currencies via tailor-made financial instruments such as equity and quasi-equity.

By the end of 2012, the Bank had invested some EUR 22m in microfinance institutions and it is estimated that for every euro of EIB microfinance funds, 38 euros have been lent to micro-borrowers. Microfinance institutions backed by the EIB are estimated to have over 830 000 active micro-borrowers, of whom 53% are women, with an average loan of around EUR 600.



More than finance... **EIB technical assistance around the world**

Our work outside the EU is not just about lending. It's also about sharing knowledge on how to successfully invest for sustainable growth.

Our advisory services include substantial technical and financial expertise for projects in lesser developed regions or with a weaker institutional framework. We rely on the unique expertise developed by the EIB's staff in key areas such as infrastruc-

ture financing, climate change mitigation and adaptation, urban development or SME support. Our project-related advisory activities support promoters or financial intermediaries in preparing, structuring or implementing projects that the Bank may finance or has already financed. They encompass a wide range of activities from very specific technical support during project preparation or implementation to very large technical assistance

programmes usually in partnership with other institutions or benefiting from grants, notably from the European Commission budget. The impact of the advice the EIB can provide may even outlive that of the project itself. It helps ensure that our lending goes to projects and investment programmes that are both economically sound and socially and environmentally responsible. ■

Here are some examples of the EIB in action as an advisor beyond the EU's borders.

Sharing Europe's flood protection know-how in Moldova

The EIB is assisting the Moldovan Ministry of Environment in developing a master plan and investment programme for flood protection to respond to this growing environmental challenge.

Moldova was hit by major floods in 2010, forcing the evacuation of more than 3 100 people, destroying critical infrastructure and washing away crops and livestock.

With climate change, events like this are expected to become more frequent and devastating. There is a need for investment in adaptation measures and a high level of public preparedness. In Moldova flood protection measures had not been maintained since Soviet times, and this is why the bad weather proved so damaging.

The EIB support is provided through the Eastern Partnership Technical Assistance Trust Fund (EPTATF). It will help the Ministry of Environment to design, procure and implement the upgrading and operation of the national flood protection system. It will also support the implementation of the EU Flood Directive and the Water Framework Directive.





Building microfinance capacity in Tunisia

Tunisia has recently boosted the microfinance sector, making it much easier to set up new institutions and provide a greater diversity of services. This is critical for meeting growing demand, to enable entrepreneurial activity to flourish in even the poorest communities. There is a need for technical support and training to implement the reforms successfully and allow the microfinance sector to fulfil its role.

The three-year MicroMED programme brings together the EIB, the FEMIP Trust Fund, the Government of Luxembourg and the NGO Appui au Développement Autonome (ADA) to improve the ability of microfinance institutions to grow and respond to new opportunities. The programme is studying and piloting the establishment of different types of microfinance services in Tunisia – such as mobile finance, micro-insurance and micro-savings – to promote greater inclusion.

Training is being provided on subjects such as risk management and performance indicators. A Microfinance Investors Fair will be organised in Tunis to help microfinance institutions, investors and donors build new partnerships.

Pooling power in West Africa

Between them, Côte d'Ivoire, Liberia, Sierra Leone and Guinea have significant potential for renewable hydropower generation. But they also suffer from a high reliance on imported fossil fuels, and access to reliable electricity is a challenge, especially after years of civil war.

The CLSG Interconnection project, part-funded by the EIB, is creating a 1 300 km high-voltage electricity transmission backbone between these countries with a combined population of 40 million and connecting them to the West African Power Pool (WAPP). It will allow the export of low-cost renewable energy from Côte d'Ivoire and Guinea to Liberia and Sierra Leone, replacing expensive diesel generation and increasing access.

Technical assistance from the EIB and the EU-Africa Infrastructure Trust Fund has been vital for advancing the preparation of this complex regional project, be it for the feasibility study, the planning of the transmission routes or the environmental and social impact assessment.



The Western Balkans **rise again**

The EIB is the largest international financier in the Western Balkans where it has been active since 1977. We invested a total of EUR 7.3bn in the past decade in the Candidate and Potential Candidate Countries in the region, as well as new in Member State Croatia, but there is still much to be done.



It is impossible to consider the future of the Western Balkans without keeping in mind the region's tragic recent history. Emotional scars run deep across the population, matching a landscape still pockmarked by conflict, and yet ambition to progress remains amongst the region's approximately 22.5 million inhabitants.

Vital cooperation

Set against the backdrop of this situation, it is understandable that the EIB's focus has been on support for reconstruction and

upgrading of regional and municipal infrastructure – transport, energy and the environment – in the Western Balkans, comprising Candidate Countries Montenegro, Serbia and the Former Yugoslav Republic of Macedonia (FYROM) and Potential Candidate Countries Albania, Bosnia and Herzegovina and Kosovo*.

Major projects in the region are co-financed with other IFIs, especially the European Bank for Reconstruction and Development (EBRD), the World Bank and Council of Europe Development Bank (CEB), as well as bilateral donors. Such cooperation is needed to bring the Western

Balkan nations to a position where they can be properly integrated into Europe as a whole.

Multiple levels for multiple benefits

The Western Balkans Investment Framework (WBIF) is an example of how inter-institutional cooperation can bring benefits to the region. Formally set up in 2009, the WBIF brings together the European Commission, the EIB, EBRD and CEB as founding partners.

The WBIF provides joint grant and joint lending facilities for strategic investments in the region and simplifies access to credit by pooling and coordinating different sources of finance and technical assistance. As of June 2013, a total of 145 projects had been supported across the beneficiary countries of Albania, Bosnia and Herzegovina, Croatia, Kosovo, FYROM, Montenegro and Serbia. The total investment for all of these projects (for all stakeholders) comes to approximately EUR 13bn.

Reforming education in Albania



An EIB loan worth EUR 12.5m is supporting the Albanian government strategy to reform the education system over the period of 2004-2015. Learning conditions are being improved for secondary school students, increasing enrolment in education and improving infrastructure, with a view to a comprehensive reform of the sector.

* This designation is without prejudice to the positions expressed by the EU Member States on Kosovo's status and is in line with United Nations Security Council Resolution No. 1244/1999 and the International Court of Justice Opinion of 22 July 2010 on Kosovo's declaration of independence.

The idea is to support socio-economic development with a view to EU accession in the six countries by focusing on key sectors of their economies, notably transport, energy, energy efficiency, environmental investments and private sector development.

Improving social systems

In addition to this, assistance is provided to develop social policy. Reform of social systems is a necessity in a region still suffering the turmoil of the disintegration of the former Yugoslavia. To fall into step with the European Union's 2020 strategy, modernisation of education, health and pension systems is required. Poverty reduction and social inclusion measures must be put into place.

In some of these countries, a quarter of the population live in poverty. Clearly living standards have not improved across the board, and the fact remains that the Western Balkan nations also need physical social infrastructure. The WBIF supports measures to add to or modernise existing social housing stocks and health, education and judicial facilities.

A fair crack of the whip for SMEs

Like in many parts of the world, SMEs are the backbone of the Western Balkan economies, and an important driver of economic growth and job creation. And, as in many of those other parts of the world, access to finance can be tricky for Western Balkan SMEs. To address the funding gap for these companies, the WBIF partners and the European Investment Fund launched the Western Balkans Enterprise Develop-

Water upgrade in Former Yugoslav Republic of Macedonia

The EIB has been helping finance a programme to improve drinking water supply and quality and wastewater treatment in FYROM over the period 2009-2013. The Bank committed EUR 50m to the scheme, covering half of the total cost. The programme included 84 municipalities and improved quality of life and economic development in smaller towns and villages.

ment and Innovation Facility (WB EDIF) in December 2012.

The initial capital of the WB EDIF was EUR 145m, which will effectively translate into over EUR 300m of direct finance for high growth and innovative SMEs in the Western Balkans. These businesses are the ones that can write the future, yet they are also the ones most in need of finance. By placing these funds at their disposal, it is hoped that this facility can kick

start growth and boost regional venture capital markets, as well as promoting policy reforms to support SME access to finance through financial engineering instruments. ■

Road safety in Serbia



Serbia's road network requires significant upgrades. To assist with this, the EIB signed a loan worth EUR 100m with the country's Ministry of Finance in November to support efforts to rehabilitate 1 100km of major roads over the coming five years. The total cost of the project is estimated at EUR 390m.

Breaking ground in Kosovo

Having signed a framework agreement with Kosovo in June 2013, the EIB signed a credit line worth EUR 10m with the fledgling state in November. It is the Bank's first operation in Kosovo, and will support very small, small and medium sized enterprises in the form of long term loans, to be disbursed over a two year period.

Montenegro: a convincing candidate

In 2012, the Bank signed a loan worth EUR 49m with Montenegro. While EUR 25m is destined to support SMEs in the country, a further EUR 20m was allocated to repair work and flood damage prevention after exceptional rainfall and flooding in late 2010. Grants were also provided for the reconstruction of the water supply system in the historical city of Cetinje under the WBIF, and a wastewater treatment plant in Pljevlja.

Powering Bosnia and Herzegovina

In 2007, the EIB lent the Bosnian government EUR 103m to rehabilitate its creaking hydropower plants and electricity transmission networks. The programme modernised eight dams, and led to a better use of energy by improving reliability and efficiency. The Bank is now supporting wind power feasibility studies in the country.



Agricultural SMEs get a much-needed boost in Palestine

The Palestinian Territories have suffered from continued political conflict spanning decades, resulting in a heavily fragmented economy. Despite international plans to boost economic growth and job creation in Palestine, much of the 4.4 million population still depends on Food Aid for their daily existence. With foreign aid packages being reduced and economic growth shifting into reverse, the Palestinian Territories are in need of financial support packages that offer a sustainable outlook for development.



tural development and create jobs across the Palestinian Territories.

Empowering Palestine's female entrepreneurs

This is the first microfinance loan that we have made in Palestine and ACAD seems a worthy intermediary for the funds. ACAD has been registered as an agricultural non-governmental organisation since 1993 but in 2013 it made the transition to a financial institution, providing credit to farmers and other rural micro-entrepreneurs.

Agriculture holds the key to the fight against poverty and food security in Palestine. In September 2013 the EIB finalised a USD 1m microfinance equity investment in support of the Arab Center for Agriculture Development (ACAD). The Bank's finance, which represents 18% of ACAD's capital, will be complemented with funding from ACAD itself, Solidarité Internationale pour le Développement et l'Investissement (SI-DI), Grameen Crédit Agricole Microfinance Foundation and Triple Jump.

Together, the institutions are making an investment of USD 5.3m which will be used to finance sustainable development in rural areas. Small and micro-entrepreneurs will gain access to financing solutions, enabling them to invest in agricul-

Client numbers are set to treble over the coming years, with women accounting for 75% of them.

The financing package will have a significant impact on ACAD's micro-lending activities; client numbers which have been stable at around the 3 000 mark are set to triple over the coming five years. Women account for 75% of the ACAD client base.

More than a loan

To manage the shift to a financial company, ACAD will create additional jobs for financial specialists and supply training to provide existing staff with the capacity to manage the new responsibilities. The Bank is combining its investment with technical assistance to manage this process. We are providing advice and support to ACAD, ensuring that the new ACAD Finance adopts best industry practice as a microfinance institution with the highest possible levels of management, governance and compliance.

Financing both ends of the economic spectrum

The microfinance operation comes only two years after we invested in Palestine's first high-tech start-up venture capital fund – Sadara Ventures. The EIB's involvement in both high-tech and agriculture operations provides a strong signal for the future in terms of investment, trade and job creation. We are prepared to support a wide range of economic activities in Palestine, underpinning the EU goals of sustainable growth and development in the Mediterranean. ■

Nethmia Salameh, from Tulkarem City, received an ACAD loan of around EUR 1 520. This will allow her to buy additional sheep to increase her cheese production:

"I am 54 years old. I am breeding sheep and I have great experience in that field as my parents worked in this area as well. With this loan I would like to increase the number of sheep I have. Ideally, I would like to purchase five more sheep which would allow me to increase my income and would greatly help me with paying my son's university fees."

Working together on access to water in Malawi

How do you make sure that the benefits of new infrastructure reach those who need them most? An innovative EIB project in Malawi shows how important the know-how and commitment of communities and NGOs, combined with private sector expertise, can be to achieving inclusive outcomes.



This project has brought safe drinking water to over 700 000 people.

The public water boards of Lilongwe and Blantyre, the largest cities in the southern African nation, used to be in a really bad state. Treated water reached only about 70% of their nearly 1.5 million inhabitants. And with a high proportion of the water supplied going unpaid-for through leaks, illegal connections and payment arrears, the water boards were financially unsustainable.

The Malawi Peri-Urban Water and Sanitation project has been critical in helping to turn this situation around. Co-financed by a subsidised loan from the EIB and a grant from the EU Water Facility, this EUR 32 million project has reduced losses and brought safe drinking water to over 700 000 additional people in the cities and a 24-hour supply to 400 000 more people in Blantyre.

Access is about more than supply

But how do you make sure that the poorest neighbourhoods also benefit from a project like this? One major barrier to access to water is the up-front cost of establishing an individual metered connection

– unaffordable for most poor households. It's also hard for the cash-strapped water boards to invest in the informal settlements that make up much of Blantyre and Lilongwe. Billing is difficult, non-payment common and the risk of water pipes being tapped illegally is high.

This is why the project formed a partnership with two NGOs, Wateraid and Water for All, to scale up community-led solutions to improving water supply and sanitation. As part of the project, these NGOs have worked with grassroots organisations to set up community-run Water Users' Associations (WUAs). Each WUA may run dozens of water kiosks – secure water access points where people can collect water, close to their homes, for a small cash fee.

Community action makes inclusion possible

For the communities, their WUAs are a way of taking action, collectively, to ensure that they get access to safe water. They are accountable to members and foster a sense of shared responsibility, discouraging

unauthorised connections and encouraging the payment of arrears.

The sanitation component of the project also depends on community involvement. The construction of latrines and adoption of simple hygiene practices rely on the committed involvement of local leaders and activists who see this as a way in which they can do something to reduce the health risks they face. Speaking to a visiting reporter from the Guardian, mother of eight Lucy Kaombe, from the Ngona WUA in Lilongwe, said water-borne diseases had been much reduced in the district. The city had previously suffered outbreaks of cholera.

This project shows the importance of co-operation. Communities need low cost inputs for sanitation and a supply of water that is safe, affordable, and reliable. This is where EIB-EU support comes in. But without communities taking action to promote improved sanitation and create WUAs as a viable partner for the water boards, this support could not be effective and sustainable in reaching the people who need it most. ■

Nepal powers ahead on the path to sustainable development

For the EIB to implement its activities outside the EU it is required to sign a Framework Agreement with national governments. After signing one such agreement with the Government of Nepal in 2012, the EIB signed its first loan with the southern Asian state in support of the production of sustainable energy.

Nepal, with its mountainous geography, is particularly vulnerable to the impacts of climate change, making it a perfect candidate for mitigation and adaptation projects. In recent years, the government has been working to introduce initiatives and institutional reforms designed to build resilience into its climate-sensitive economy, which has suffered at the hands of rising temperatures and drought. The EIB is at hand to accompany these initiatives with much-needed finance.

Whilst Nepal's topography poses environmental challenges, it also offers opportunities. National access to electricity currently stands at only 40% of the 27 million population, but the country's perennial network of rivers offers significant opportunities for hydropower development. Maximising Nepal's hydro potential would not only increase access to sustainable energy, but would also have a positive impact on national living conditions and economic development.

In May 2013, the EIB signed a EUR 55m loan to the Republic of Nepal to finance the construction and operation of the Tanahu hydropower plant. The plant, with an installed capacity of a 140 MWe, will be built on the Upper Seti River, in the central part of Nepal.

At the signature in Kathmandu, EIB Vice-President Álvarez, responsible for operations in Asia, commented that our "first loan to Nepal will eventually provide clean power to the country, allowing households to enjoy electric light, children to read after dark, hospitals and schools to function and entrepreneurs to invest and create jobs." For Finance Secretary Krishna Hari Baskota "this venture will help Nepal to achieve sustainable and inclusive economic development."

The Tanahu hydropower plant will contribute to meeting peak electricity demand in Nepal during the dry winter season when shortages are more acute, with Kathmandu residents facing blackouts for up to 18 hours daily. For the rest of the year it will

operate as a base load power plant. In addition, demand for electricity has been growing at 10% annually, resulting in a marked supply gap which the population is meeting through the use of polluting and expensive diesel generators.

Tanahu will generate significant economic benefits by providing a clean and reliable supply of electricity and will help to reduce the adverse impacts of climate change by replacing more polluting energy sources.

Nepal's network of rivers offers significant opportunity for hydropower development.

The project also includes a programme of rural electrification to supply power to 17 villages in the vicinity of the plant. A community development programme will be implemented for people living in the area, addressing education, health, gender development, social inclusion, economic development and livelihood activities. ■

The EIB began lending in Asia and Latin America in 1993 under a mandate from the European Union to support EU development and cooperation programmes and instruments in these regions.

The Bank's activities in the region prioritise projects which contribute to climate change mitigation and adaptation, the development of social and economic infrastructure and the growth of the local private sector. All projects that the Bank backs must also have the potential to contribute to the country's economic development.



Sustainable transport thanks to Quito's first metro line



Municipal authorities in Quito (2.3 million inhabitants) have started construction of the city's first metro line. The project will boost air quality and alleviate congestion in the high-altitude Ecuadorian capital.

Located 2 800 metres above sea level and surrounded by the Andes mountains, Ecuador's capital city is experiencing major traffic congestion and the demand for public transportation is increasing. To tackle these challenges, the government of Ecuador and the municipality of Quito have decided to construct the city's first metro line. A EUR 200m EIB loan is supporting this ambitious project.

"The line will have a major impact on personal mobility, equitable urban development and environmental protection" says city mayor, Augusto Barrera. "In the history of Quito, there will be a before and after the metro".

The new line will start operating in 2017. It will initially carry up to 23 000 people an hour in each direction, easing traffic congestion in Quito and its suburbs. Fuel consumption and greenhouse gas emissions are expected to decline thanks to an expected shift from private vehicles to metro, with savings of 30 000 tonnes of CO₂ emissions that would otherwise be produced by motorised vehicles.

Quality of life

The city will encourage residents to leave their cars at home to maximise the pro-

ject's effectiveness. Public transport services will be reorganised to integrate the metro into the existing transport network. Six of the 15 planned stations will have integrated access to the Metrobus-Q network. According to studies by experts in the Community of Madrid, nine out of every ten inhabitants will have access to the integrated system within four blocks of their home or place of work.

The project's economic benefits are expected to outweigh the initial investment costs twofold. Savings will come principally from reduced travel times and vehicle operating costs. Quito Metro Line One will link the principal points of departure and arrival of transit passengers in Quito, and will service an area in which some 760 000 jobs are located. Some 400 000 passengers are expected to travel daily on the line, which will connect the north and south of Quito. Once operational, the project is estimated to create about 800 new jobs: drivers, operation and maintenance personnel, supervisors, administrative and technical employees, managers.

Safeguarding history

The project also includes the acquisition of 18 trains to operate on the line, and has an estimated cost of EUR 1.3bn. It is being

co-financed by the International Bank for Reconstruction and Development (IBRD), the Inter-American Development Bank (IDB), the Corporación Andina de Fomento (CAF) and the local government. This cooperation both maximises the financial potential and offers technical advantages.

Environmental and social considerations – integrated into all EIB projects and those of our financing partners – ensured that a thorough analysis was carried out during the planning of the metro project to safeguard the historic district of Quito, one of the best preserved in Latin America and a UNESCO World Heritage site. It will eventually be turned into a pedestrian zone.

Construction of the first two stations at La Magdalena and El Labrador has already started. Tendering is underway for the rest of the works: the remaining 13 stations, the construction of a depot and maintenance workshops, a depot access tunnel, 22 km of subway line tunnel, shafts and an end-of-line facility.

This is the EIB's first operation with the Government of Ecuador and its second in the country since a EUR 40m loan to Telefónica Ecuador in 2006. ■

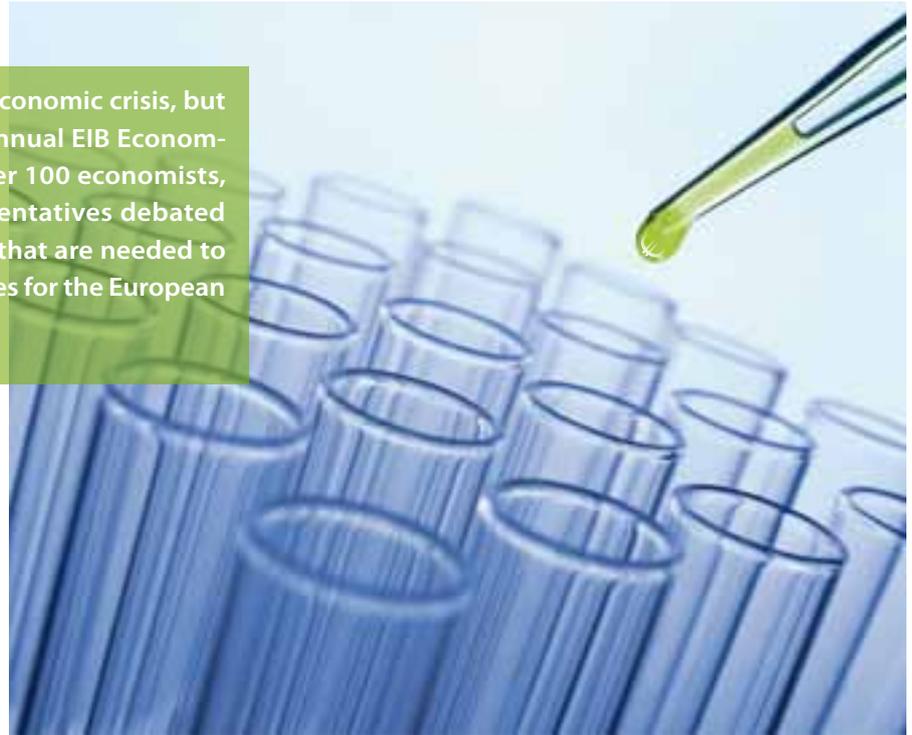
Healing Europe's investment crisis: the 2013 EIB Economics Conference

Europe faces not just an on-going economic crisis, but also a crisis of investment. At the annual EIB Economics Conference, in Luxembourg, over 100 economists, policy makers and industry representatives debated the well-targeted policy responses that are needed to avoid severe long-term consequences for the European economy.

// The crisis has caused an extraordinary decline in investment across the EU" declared Werner Hoyer, EIB President, in his opening statement. Indeed, investment levels in the EU are about 17% below their peak at the start of the crisis. EIB research shows that investment is still depressed. In some of the countries hardest hit by the crisis – like Greece, Ireland, Portugal and Spain – the decline is over 40% and continues apace.

Great uncertainty about Europe's future economic and policy environment was highlighted as the main driver of investment decline. But the supply of finance was also hotly debated as a critical problem, particularly for the most crisis-hit countries, and for small and medium-sized enterprises, young innovative firms, and infrastructure in those countries.

Participants agreed that well-targeted policy action is needed, addressing growth bottlenecks and clear financing gaps, as well as structural reforms to reallocate resources towards more productive uses. There was consensus on the need to reopen market opportunities. "We need to develop a more versatile financing system, with access to various kinds of financing instruments, to be able to support infrastructure, innovation and SMEs" remarked EIB Vice-President Mihai Tanasescu.



For OECD Chief Economist Pier Carlo Padoan, the EIB has a role to play in this process: "I think this could be extremely important when we consider the investment needs of SMEs and the difficulty they face in accessing credit, especially at times like these" he said. "EIB support of, say, collateral to facilitate credit flowing to SMEs would be an important element of a new upsurge of investment." The EIB Group's support for small and medium-sized businesses (SMEs) and mid-cap companies in the European Union has reached EUR 21.2bn in 2013 so far, including EUR 2.85bn from the European Investment Fund (EIF).

Yves Mersch of the European Central Bank (ECB) Executive Board used his speech to set out his vision of the response needed: "First, deepening our capital markets, and second, building a genuine banking union, would not only serve SMEs today,

but also make our economy more resilient to 'the next crisis'. Of course, both goals will take time to achieve, but it is imperative that we strive towards them as soon as possible."

Investment and investment finance in Europe: Putting Europe on a sustainable growth path was the theme of this year's conference, held at the EIB's headquarters in Luxembourg in November, and organised in collaboration with the Reinventing Bretton Woods Committee (RBWC) and the Euro50 Group.

The EIB's Economics Department presented a major research report addressing the conference theme.

More information can be found at <http://www.eib.org/infocentre/events/all/conference-in-economics-finance-2013.htm>.

EIB raises ratings and interest in Greater Gabbard

The Greater Gabbard offshore transmission link has become the first UK project to attract investors by way of the Project Bond Credit Enhancement (PBCE) initiative. Bonds worth GBP 305m have been issued to finance the connection of the 140-turbine, 504 MW wind farm off the Suffolk coast to the mainland. The EIB provided a GBP 45.8m guarantee, representing 15% of the overall value.

This allowed the project bond to achieve an AAA rating, attracting strong interest from institutional investors. This demonstrates the potential of the EIB PBCE, and shows just how crucial it can be to strengthening the case for investing in large-scale European infrastructure projects in the coming years. To date, nine eligible transport and energy projects have been approved by the EIB's Board.



Publications

• Investment and Investment Finance in Europe

This report assesses how the crisis has impacted investment across the non-financial sector. It explains why and where investment has declined, looking at the impact of structural imbalances, policy uncertainty, new capital requirements for banks and the fragmentation of Europe's financial markets. It warns against poorly targeted responses and supports, instead, key policy interventions at the European level. Available in English.



• Environmental and Social Handbook (Revised)

This is an operational translation of the policies and principles contained in the 2009 EIB Statement of Environmental and Social Principles and Standards. Adopted in 2010, the Handbook has been updated following a 12-month consultation process with internal and external stakeholders following an in-depth review to clarify its structure. It takes into account changes in practices and realities that influence environmental sustainability and human well-being. Effective as of 1 January 2014. Available in English.

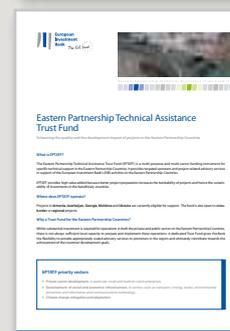
• A partner for the Eastern Neighbourhood and Central Asia

This leaflet explains how EIB investment supports EU partnership and neighbourhood policies in the Eastern Partnership countries, the Russian Federation and Central Asia, providing loans and advisory services for projects that contribute to economic development in these regions. Available in English and Russian.



• Eastern Partnership Technical Assistance Trust Fund

This leaflet presents the Eastern Partnership Technical Assistance Trust Fund (EPTATF). It contains information on where and how EPTATF operates, its main activities and priority sectors, as well as its guiding principles. Available in English and Russian.



• Declaration of the 2nd Eastern Partnership Business Forum

• The conclusions and recommendations of the Eastern Partnership Business Forum.

More @ www.eib.org/publications

Agenda

• 22-25/01/2014

World Economic Forum
Annual Meeting, Davos

• 13-14/02/2014

European Council, Brussels

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98 - 100, boulevard Konrad Adenauer
L-2950 Luxembourg
☎ (+352) 43 79 1 ☎ (+352) 43 77 04

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