Annual Press Conference 2008

Briefing Note No 01

The Bank promoting European objectives

Luxembourg, 28 February 2008

Promoting convergence – economic and social cohesion

In 2007, the Bank revised its definition of regional development lending, in line with the renewed cohesion policy for 2007-2013. More than half of EIB lending within the European Union supported regional development objectives with an aggregate amount of EUR 22.2bn, of which 62% (EUR 13.8bn) was on convergence lending per se in the EU's designated convergence regions, newly defined under the renewed cohesion policy.

The EIB, though, in this transition year also financed projects under the previous cohesion criteria, mainly in the former objective 1 and objective 2 regional development areas.

Therefore, the 2007 nominal figures are lower than the relevant 2006 figures, as designated regional development zones encompassed a much wider area and population up until 2006.

Alignment with the convergence objective

For the 2007-2013 programming period of the Structural and Cohesion Funds, three objectives have been distinguished at EU level:

- Convergence: stimulate growth to achieve convergence of the poorest regions of the Union.
- Regional competitiveness and employment: outside the convergence regions, anticipate economic changes by strengthening competitiveness and support for the creation of more and better jobs.
- European territorial cooperation: cross-border, transnational and interregional cooperation to further develop integration of the EU.

Under this renewed cohesion policy, convergence receives the strongest support from the Structural and Cohesion Funds, while the regional competitiveness and employment objective is largely based on the Lisbon Agenda.

To reflect the new EU framework, the Bank replaced its traditional "social and economic cohesion" objective (previously referred to as "regional development") with the "convergence" objective in 2007. Outside the convergence regions, the EU's policy objectives backed by the EIB remained: support for innovation; environmental protection; trans-European networks; sustainable, competitive and secure energy; and support for SMEs.

The EIB's convergence lending covers the designated convergence regions, as well as phasing-out and phasing-in regions – in total 113 regions in the EU-27 with a population of 190 million. Over the seven-year period, EUR 308bn in grants from the Structural Funds will be allocated to EU convergence and regional competitiveness policy objectives. Additional support will be provided by the EIB, with an estimated 40% of total annual lending in the years to come. The convergence objective will remain, therefore, a core target for the Bank.

In addition to convergence lending, the Bank, in close cooperation with the Commission, provides advisory services as Joint Assistance to Support Projects in European Regions (JASPERS), for projects located in the new Member States and financial engineering, as part of the initiative for Joint European Support for Sustainable Investment in City Areas (JESSICA). JEREMIE, which is managed by the European Investment Fund, uses European Regional Development Fund money provided, on a voluntary basis, by recipient countries to transform it into new financial products, such as regional venture capital funds, guarantees for SME loan portfolios or global loans for micro-finance institutions with the objective of improving SMEs' access to finance, within EU cohesion policy.

Highlights

By constantly focusing on and prioritising projects benefiting assisted areas, the 2007 objectives were able to be achieved.

In particular, activity in the 12 new Member States continued to grow and reached a total of EUR 7.2bn (compared to EUR 5.7bn in 2006). Bulgaria (EUR 1.1bn), the Czech Republic (EUR 1.6bn) and Slovenia (EUR 0.6bn) experienced the highest percentage increase in their lending volumes compared with 2006.

Key projects in the five largest beneficiary countries under economic and social cohesion and the convergence objectives (Spain 24%, UK 11%, Germany 11%, Italy 11%, Poland 8%):

Spain: The construction of a motorway linking the towns of Eibar and Vitoria in the Basque Country received EUR 300m. EUR 250m went on the upgrading of primary, secondary and vocational educational facilities in the Valencia region. EUR 100m was for cultural, healthcare, i2i infrastructure and social facilities in Castilla-la Mancha.

Italy: Treno Alta Velocita (TAV) received finance totalling EUR 1bn, for completion of the Milan-Naples high-speed railway line, including connections to the existing conventional rail network. Lines of credit with specific quotas for convergence areas went to Dexia Crediop Environment and Banca Agrileasing for a total of EUR 500m.

United Kingdom: Two loans totalling EUR 227m were provided for modernising hospital services in Stoke on Trent/North Staffordshire. The upgrading of the national gas transmission network in South Wales and North-East England received EUR 558m. The improvement and upkeep of the motorway and trunk road network in Northern Ireland was supported with EUR 169m.

Germany: EUR 500m went on research and development activities concerning fixed, mobile and broadband services. Co-financing of national and EU programmes promoting productivity and SMEs in the Federal State of Brandenburg received EUR 340m, while co-financing of urban renewal schemes in the Federal State of Saxony was supported with EUR 300m.

Poland: EUR 160m went on the construction of an urban expressway in the Katowice region, public scientific and academic research activities received EUR 475m, while EUR 116m, through Millennium Leasing Sp.z o.o., was for financing small-scale investments as well as micro-enterprises with less than ten employees.

Convergence showcase examples:

Bulgaria: EUR 700m to co-finance Bulgaria’s national contribution to the implementation of investment priorities/measures with EU Cohesion and Structural Funds, over the period 2007-2013. The co-financing facility will initially be used for **transport** and **environment** sector investments but may be extended to the other EU Funds programmes for **regional development**, **economic competitiveness, human resources development and agriculture**, if requested by the Bulgarian Government. Total EU Cohesion and Structural Fund allocations to Bulgaria for this period amount to some EUR 6.8bn, and the EIB loan will provide funding to cover the Bulgarian share of the co-financing requested. The EIB finance will be provided in the form of a Structural Programme Loan. As well as bigger projects, the loan can also finance a large number of relatively small sub-projects which, due to their size, would not qualify for direct EIB financing. EIB activities in Bulgaria are focused on the following objectives:

- improving and upgrading the country's basic infrastructure in areas such as transport, the environment and energy, in combination where applicable with EU grants and other funding sources. This includes financing at national but also regional and municipal levels;
- promoting and strengthening economic growth and development in combination with EU grants and government and private funds;
- supporting private sector investment, including long-term foreign investment activity;

- closely cooperating in the implementation of projects financed by the Bank; providing technical support and expertise for selected EU Cohesion and Structural Fund projects defined in the JASPERS National Action Plan;
- assisting the government in the implementation of a national PPP programme.

Czech Republic: A loan of CZK 14bn (approx. EUR 530m) – as part of a lending authorisation totalling CZK 34bn (approx. EUR 1.3bn), the largest-ever approved by the EIB for transport in a Member State which joined the Union after 2004 – was for rail and road projects located on the European priority transport routes (TEN-T network).

Some 45% of the Operational Programme for Transport will target railways, including substantial modernisation and upgrading of the network, as well as the rehabilitation of certain sections. Railway projects in Czech corridors III and IV, radiating from Prague in the direction of Linz and Nuremberg, are expected to be supported from the Bank's loan. They essentially constitute a continuation of similar line upgrading and modernisation work started with Bank co-financing in Czech corridors I and II (Berlin-Prague-Brno-Vienna and Warsaw-Katowice-Ostrava-Vienna).

In the road sector the new construction work on the motorway and expressway networks includes mainly certain sections of the R1 (Prague Ring Road), the R6 and R7 expressways, as well as the D1, D5, D11 and other motorways. Some sections of these highways have already been financed by the Bank. The upgrading of several sections of Class I roads throughout the country is also expected to be undertaken.

The upgraded transport infrastructure will help the Czech Republic to cope with the increasing traffic levels since EU accession and promote integration with the EU single market.

Special attention paid to the 12 new Member States

JASPERS (Joint Assistance to Support Projects in European Regions) is an important tool for implementing the priorities of the European Union's regional policies in the area of economic convergence and social cohesion. It is a technical assistance/advisory facility for the 12 new Member States, to help them better prepare investment projects proposed for EU grant aid under the Structural and Cohesion Funds.

Through this initiative the European Commission, the EIB and the EBRD share their professional experience with the beneficiary Member States to help them use investment funds provided by the Union more rapidly and more effectively.

2007 was an important year for assembling JASPERS resources. Further progress was made with recruitment. Currently, JASPERS has a team at its disposal of some 55 staff (16 at the beginning of 2007) from or financed by the EU Commission the EIB and the EBRD, all managed by the European Investment Bank in Luxembourg.

Last year JASPERS established three regional offices (in Bucharest, Vienna and Warsaw), bringing JASPERS services closer to its clients in Central and Eastern Europe. The Bucharest Office provides assistance for project preparation in Bulgaria and Romania. The Vienna office is the base for JASPERS activities in the Central European countries (the Czech Republic, Hungary, Slovakia and Slovenia). And the Warsaw Office provides JASPERS services to Poland, Estonia, Latvia and Lithuania.

JASPERS identified 261 projects and horizontal tasks in the twelve beneficiary countries under the 2007 Action Plan. The majority of projects are in the transport and environmental/energy sectors. The portfolio remains balanced between the individual sectors, with 33% transport projects, 46% environmental and energy projects and 8% municipal development projects. Horizontal tasks dealt with by JASPERS involve providing expertise on public-private partnerships (PPPs), the financial analysis of projects and state aid issues.

It is expected that JASPERS will help to mobilise over EUR 32bn in grants over the next few years under the Cohesion and ERDF Structural Funds for the Member States that acceded to the Union in 2004 and 2007, as well as to create a pipeline of sound cohesion investments which, if so desired, can be co-financed by the EIB and EBRD partners in due course.

Special attention paid to cities as important components of the social and economic life of all EU regions

JESSICA (Joint European Support for Sustainable Investment in City Areas) is a joint Commission/EIB initiative, supported by the Council of Europe Development Bank. It is designed to help the authorities in all EU Member States to exploit financial engineering mechanisms to support more effectively investment in sustainable urban development, in all EU areas, including cohesion and increased competitiveness regions. Other international financial institutions, as well as the European banking and private sector, can contribute to this initiative.

Although not specifically designed for cohesion regions, it is meant to improve the economic and social conditions of some 80% of the EU population – or some 300 million citizens – who live and work in cities or in the densely urbanised areas surrounding them. While cities are often engines of innovation and economic growth, they are also sometimes the areas where serious problems – economic decline, unemployment, physical decay, social exclusion – may become concentrated. Pockets of deprivation may threaten the economic performance and challenge the social cohesion of even the richer cities.

JESSICA is a response to the request from several Member States and the European Parliament to give special attention to the need for renewal and/or regeneration of certain urban areas and is based on a perceived market failure in the urban sector or, more specifically, on the lack of investment funds to finance integrated urban renewal and regeneration projects in pursuit of more sustainable urban communities.

The Leipzig Informal Ministerial Meeting of 23-24 May 2007 reiterated the importance of the urban dimension as one of the key pillars of the European policy agenda. The Ministers responsible for urban development agreed on common principles and strategies (the “Leipzig Charter”). This Charter recognises the need for a multi-dimensional approach to ensure sustainable urban development that covers physical, socioeconomic and environmental aspects but also governance and financial issues. The Bank is determined to respond proactively to the evolution of Community policy and to the specific recommendations of the Charter in pursuit of more “Sustainable Cities and Communities” by establishing a coherent action plan for cities.

The Bank’s action will take into account the emerging features of growth and decline, as well as associated problems, in the European city system. Urban Development Funds (UDFs) dedicated to investing in sustainable urban transformation should be used as catalysts to promote an integrated approach to tackling urban issues and accelerate its implementation through adequate financing, including funding from private sources. This catalytic approach of UDFs is supported by JESSICA funds, in this case the Managing Authorities of Structural Funds.

The Bank recently completed a preliminary evaluation of JESSICA, undertaken on behalf of the European Commission (DG Regio). The aim of the study was to:

- review urban renewal and development schemes in a sample of Member States and to identify the existing financial vehicles for urban investment, also in non-convergence regions;
- analyse how financial engineering instruments can address any perceived deficiencies; and
- establish the interest in using UDFs to deliver these actions and products.

The key findings of the study are that a flexible approach is needed to adapt JESSICA to the diverse needs and institutional frameworks of the different Member States. In order to be successful, this tailored approach needs to redress the fragmentation which has too often blocked the timely implementation and effective funding of sustainable urban regeneration and development ventures. Further action required to complete the launch of JESSICA must therefore be adapted to country circumstances and appropriately phased, taking into account the proposals of the authorities concerned. A clear sense of “ownership” of the JESSICA tool needs to be established by Managing Authorities, and the Bank has launched implementation studies to launch pilot JESSICA operations in several Member States, including the United Kingdom, Germany, Italy, France, Greece and Bulgaria, with others expected to follow soon.

For further information on the EIB, visit its website www.eib.org.

Press contacts: Press Office, press@eib.org; Tel: (+352) 43 79 - 21000; Fax: (+352) 43 79 - 61000
General questions: EIB Infodesk, info@eib.org; Tel: (+352) 43 79 - 22000; Fax: (+352) 43 79 - 62000