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**REPORT FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT
AND TO THE COUNCIL**

**On operations conducted under the External Lending Mandates of the EIB and
future outlook**

Analysis of EIB operations under the External Lending Mandate 2000-2006

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COMMISSION STAFF WORKING PAPER

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1. INTRODUCTION

This Commission Staff Working Paper is an annex to the Report from the Commission to the European Parliament and the Council which is submitted in accordance with Article 2 of Council Decision 2000/24/EC adopted on 22 December 1999, as amended (the "Decision").

The paper, which covers the period from the beginning of the mandate to 31 December 2005, includes: information on the loan operations and progress made on risk-sharing; an assessment of the operation of the scheme and of co-ordination between the financial institutions operating in the areas concerned; as well as an assessment of the contribution of the lending under the Decision to the fulfilment of the Community's relevant external policy objectives.

The guarantees granted by the Community under the Decision are backed by a Guarantee Fund for external actions established by Council Regulation 2728/94 of 31 October 1994.

This Staff Working Paper is presented in four sections: the first section lists the legal bases and describes the guarantee system as foreseen in the Decision, the second section provides an overview of the operations of the European Investment Bank ("EIB" or the "Bank") under the mandate as at 31 December 2005, the third section gives an evaluation of EIB activity and the fourth section addresses the outlook for the remainder of the mandate period. The paper is complemented by annexes, providing details and assessment of the Bank's operations by region (South-Eastern Neighbours, Mediterranean countries, Latin America and Asia, Republic of South Africa).

The evaluation of EIB activity covers on the one hand the operating environment in the different regions and its impact on the Bank's operation. On the other hand, it presents an evaluation of projects financed by the EIB, based on independent ex-post evaluations carried out by the EIB's Operations Evaluation Department.

This paper does not cover the EIB's activities under its separate Mandates for selected environmental projects in the Baltic Sea basin of Russia under the Northern Dimension (Council Decision 2001/777/EC) and for loans for certain types of projects in Russia, Ukraine, Moldova and Belarus (Council Decision 2005/48/EC). Operations under these Decisions are reported annually to the European Parliament and the Council in the context of the report on borrowing and lending. For the sake of completeness, a list of projects financed under these Mandates is attached in Annex 5.

2. LEGAL AND INSTITUTIONAL FRAMEWORK

2.1. Legislation in force

The legal and institutional framework of the mandate given to the EIB is laid down in:

- a) **Council Decision 2000/24/EC of 22 December 1999**¹ granting a Community guarantee to the European Investment Bank against losses under loans for projects outside the Community (Central and Eastern Europe, Mediterranean countries, Latin America and Asia and the Republic of South Africa);
- b) **Council Decision 1999/786/EC of 29 November 1999**² granting a Community guarantee to the European Investment Bank against losses under loans for projects for the reconstruction of the earthquake-stricken areas of Turkey;
- c) **Council Decision 2000/688/EC of 7 November 2000**³ amending Decision 2000/24/EC so as to extend the Community guarantee granted to the European Investment Bank to cover loans for projects in Croatia;
- d) **Council Decision 2000/788/EC of 4 December 2000**⁴ amending Decision 2000/24/EC so as to establish a European Investment Bank special action programme in support of the consolidation and intensification of the EC-Turkey customs union;
- e) **Council Decision 2001/778/EC of 6 November 2001**⁵ amending Decision 2000/24/EC so as to extend the Community guarantee granted to the European Investment Bank to cover loans for projects in the Federal Republic of Yugoslavia⁶;
- f) **Council Decision 2005/47/EC of 22 December 2004**⁷ amending Decision 2000/24/EC to take into account the enlargement of the European Union and the European Neighbourhood Policy;
- g) **Decision by the EIB Board of Governors of 28 March 2000** authorizing the Bank to lend on the basis of the Council Decision of 22 December 1999, and successive decisions, most recently on 14 April 2005;
- h) **Guarantee agreement (Contrat de Cautionnement) signed by the Commission and the EIB respectively on 19 July and 24 July 2000** and amended by exchanges of letters signed by the Commission and the EIB respectively on 13 September 2001 and 8 October 2001, on 12 April 2002 and 6 May 2002, and most recently by the Amended and Restated Guarantee Agreement signed by the Commission and the EIB on 30 August and 2 September 2005.

¹ OJ L 9, 13.1.2000, p.24.

² OJ L 308, 3.12.1999, p. 35

³ QJ L 285, 10.11.2000, p. 20.

⁴ OJ L 314, 14.12.2000, p. 27.

⁵ OJ L 292, 9.11.2001, p. 43.

⁶ The Council confirmed in its conclusions of 14 April 2003 that Kosovo is eligible for EIB operations under this extension of the mandate.

⁷ OJ L 21, 25.1.2005, p. 9.

2.2. Guarantee system

Based on the Decision, the current guarantee system has two components: a blanket guarantee and a risk-sharing scheme.

2.2.1. Blanket guarantee

The guarantee is restricted to 65% of the aggregate amount of the credits opened, plus all related sums⁸. Within this aggregate ceiling, defaults on individual loans are *de facto* covered up to 100%. The guarantee covers all credit risks unless the risk-sharing arrangements apply, in which case the Community Guarantee covers only specific political risks whereas non-political risks are borne and mitigated by the EIB (notably for loans to the private sector). The blanket guarantee refers to the total amount guaranteed without distinguishing between regions.

The overall ceiling of the credits opened is equivalent to EUR 20 060 million. Council Decision 2005/47/EC⁹ amended the regional breakdown of the ceiling to create a South Eastern Neighbours region and to include Turkey within this region (including signatures in Turkey from 1 February 2000 onwards). The regional breakdown is as follows:

| | | |
|--|-----|---------------|
| - South Eastern Neighbours (SEN) | EUR | 9 185 million |
| - Mediterranean countries (MED) | EUR | 6 520 million |
| - Latin America and Asia (ALA) | EUR | 2 480 million |
| - Republic of South Africa (RSA) | EUR | 825 million |
| - Turkey Earthquake Reconstruction and Rehabilitation Action (TERRA) | EUR | 600 million |
| - EC/Turkey Customs Union Special Action Programme (Turkey SAP) | EUR | 450 million |

The guarantee covers a period of seven years beginning on 1 February 2000 for South Eastern Neighbours, the Mediterranean countries, Latin America and Asia, on 1 July 2000 for the Republic of South Africa, ending for all regions on 31 January 2007 and subject to an automatic extension of six months if, on 31 January 2007, the loans granted by the Bank have not attained the ceilings referred to above. For TERRA, the guarantee covered loans signed during a period of three years from 29 November 1999, to be automatically extended by six months if, on expiry of those three years, the loans signed by the Bank had not attained the ceiling. The commitment period for TERRA terminated on 29 May 2003.

The Bank's operations within the framework of the Decision support "*the Community's relevant external policy objectives, for investment projects carried out in the South-eastern Neighbours, the Mediterranean countries, Latin America and Asia and the*

⁸ Interest, commissions, charges, expenses, as defined in the guarantee agreement.

⁹ This Decision established a revised ceiling of EUR 19460 million, to which the EUR 600 million TERRA mandate, already fully used, should be added.

Republic of South Africa." While EU development policy covers a large range of issues, the EIB's lending under the mandate focuses on key areas in support of policy goals. This is considered further in section 3.3. below.

2.2.2. Risk-sharing

The risk-sharing scheme separates the commercial and political risks in the Community guarantee. As stated in the Decision, the EIB should secure where possible adequate non-sovereign third-party guarantees or other security for commercial risks, with the budgetary guarantee in that case covering only specific political risk (currency non transfer, expropriation, war or civil disturbance, and denial of justice upon breach of contract¹⁰).

The Decision (Article 1.3) invites the Bank *"to aim to cover the commercial risk on 30% of its lending under this Decision from non-sovereign guarantees as far as possible on an individual mandate basis. This percentage shall be expanded upon whenever possible insofar as the market permits."* In a letter dated 31 May 2000 addressed to the President of the Council, the EIB President stated: *"The Bank will, of course, seek to reach an overall level of 30%. However, the Bank cannot commit itself to achieving targets for the use of non-sovereign guarantees on an individual mandate basis, although it will do its best in this respect."*

Section 3.2. below describes the risk-sharing situation as at 31 December 2005.

3. OVERVIEW OF THE BANK'S OPERATIONS OUTSIDE THE EU UNDER THE MANDATE

3.1. Summary of operations

This chapter gives a summary and general assessment of all loans signed as of 31 December 2005 pursuant to the Decision, together with a regional and sectoral breakdown of loans. The results are presented separately for SEN (including Turkey SAP and TERRA), MED, ALA and RSA in Annexes 1 to 4.

Table 1 below shows that loan signatures as of 31 December 2005 (i.e. with little more than one year of the duration of the lending mandates to run) have reached 89% of the overall lending ceiling of EUR 20 060 million. Until the end of the mandate period, the EIB expects to utilise all the mandates fully (see table 5).

¹⁰ The coverage of the risk of denial of justice upon breach of contract was added by Council Decision 2005/47/EC, and has been included in the guarantee agreement signed between the EIB and the Commission on 30 August and 2 September 2005.

Table 1: Loans signed as at 31 December 2005

| Mandate | | Signatures | | | |
|--------------|------------------|---------------------|-----------------|--------------------|-------------------------------|
| Region | Ceiling EUR m | Total EUR m | % of ceiling | Number of loans | Average loan size EUR m |
| SEN | 9 185 | 7 817 | 85 | 120 | 65 |
| MED | 6 520 | 6 272 ¹¹ | 96 | 89 | 70 |
| ALA | 2 480 | 1 942 | 78 | 43 | 45 |
| RSA | 825 | 757 | 92 | 14 | 54 |
| TERRA | 600 | 600 | 100 | 5 | 120 |
| Turkey SAP | 450 | 450 | 100 | 5 | 90 |
| Total | 20 060 | 17 838 | 89 | 276 | 65 |

The sectoral breakdown in Table 2 below shows that the Communications sector (Transport and Telecoms) accounted for 35% of total lending. Over half of the loans in this sector were granted in the SEN region, with Romania, Bulgaria and Turkey receiving the biggest amounts for the rehabilitation and upgrading of roads and railways, and the construction of motorways (see details in Tables 2 and 3 in Annex 1).

The Water and Miscellaneous sector (including areas such as urban rehabilitation) sector absorbed 20% of total lending, with lending distributed evenly between the SEN and Mediterranean regions. Details are given in Tables 2 and 3 in Annexes 1 and 2. Algeria, Morocco and Romania have been major beneficiaries of EIB lending in this sector.

The Energy sector accounted for 19% of loans granted during the period under review. A major part of this went to the following Mediterranean countries – Egypt, Morocco and Tunisia (see details in Tables 2 and 3 in Annex 2):

Table 2: Sectoral breakdown of loans signed at 31 December 2005

| Region | Energy | | Communi- cations | | Water & Miscell. | | Industry & Services | | Global loans | | Total | |
|--------------|--------------|-----------|---------------------|-----------|---------------------|-----------|------------------------|----------|--------------|-----------|---------------|------------|
| | EUR m | % | EUR m | % | EUR m | % | EUR m | % | EUR m | % | EUR m | % |
| SEN | 496 | 6 | 3 973 | 51 | 1 603 | 21 | 354 | 5 | 1 391 | 18 | 7 817 | 100 |
| MED | 2 149 | 34 | 1 669 | 27 | 1 250 | 20 | 394 | 6 | 810 | 13 | 6 272 | 100 |
| ALA | 547 | 28 | 340 | 18 | 20 | 1 | 686 | 35 | 349 | 18 | 1 942 | 100 |
| RSA | 52 | 7 | 100 | 13 | 245 | 32 | 0 | 0 | 360 | 48 | 757 | 100 |
| TERRA | 0 | 0 | 0 | 0 | 450 | 75 | 75 | 13 | 75 | 13 | 600 | 100 |
| Turkey SAP | 90 | 20 | 120 | 27 | 40 | 9 | 0 | 0 | 200 | 44 | 450 | 100 |
| TOTAL | 3 334 | 19 | 6 202 | 35 | 3 608 | 20 | 1 509 | 8 | 3 185 | 18 | 17 838 | 100 |

¹¹ The cancellation of all un-disbursed EIB public sector loans by the Algerian Government will free up EUR 407 million for new operations.

3.2. Progress towards the risk-sharing objective

3.2.1. Overview

As explained under point 2.2.2., the Community Guarantee covers all credit risks, unless the risk-sharing arrangements apply, in which case the Guarantee covers only specific political risks. Under risk-sharing, the EIB is expected to obtain third party guarantees or other security to cover the commercial risk with an aim of having 30% of the portfolio established under the current mandate secured this way. For these loans, only defined political risks (currency non-transfer, expropriation, war or civil disturbance, denial of justice upon breach of contract) are covered under the Community Guarantee. The risk-sharing scheme has helped to mobilise commercial bank guarantees for loans in emerging markets, especially in ALA countries. Table 3 under 3.2.2. shows that the Bank had achieved at the end of December 2005 16.7% in terms of risk-sharing loans as a proportion of total loans signed under the mandate overall. The proportions differ greatly between the various regional headings of the mandate. The target of 30% for mandate operations has already been substantially exceeded in ALA, but is unlikely to be attained individually in SEN, MED or RSA.

Most of the lending operations in the New Member States before accession, however, were carried out without EU guarantee under the Pre-Accession Facility, adopted by the Bank after the Decision came into force. In analysing fully the sharing of risk between the EU budget and the EIB in external lending operations this significant volume of non-guaranteed lending must also be considered. Table 3 below shows the effect of classifying Pre-Accession Facility lending together with risk-sharing lending under the mandate. The overall risk-sharing proportion of loans signed increases from 16.7% (mandate 2000-2007 only) to 52.1% (mandate 2000-2007 and Pre-Accession Facility combined).

The Bank has, in the meantime, also established its Mediterranean Partnership Facility, with a lending envelope of EUR 1 billion, for lending in the Mediterranean countries, again without EU guarantee. Under this Facility EUR 364 millions of loans were signed up to the end of December 2005. Finally, the Bank extended in September 2005 a EUR 500 million loan to support the Beijing Airport project, outside the ALA Mandate and without guarantee from the EC Budget. These amounts must also be included to complete the risk-sharing picture.

It should also be highlighted that, to date, no call on the EU guarantee has been made for political risk coverage under risk sharing.

3.2.2. Regional variations in risk-sharing within the framework of the mandate 2000-2007

The reasons for the variations in risk-sharing under the regional sub-mandates are as follows:

- Firstly, most projects under mandate in **SEN** are in the public sector and therefore outside the scope of risk-sharing. The projects in the private sector, i.e. many loans with commercial guarantees, were signed under the Pre-Accession Facility – under EIB's own risk - outside the framework of the mandate;

- Secondly, the current rather low level of risk-sharing in the **Mediterranean region** essentially reflects the difficulty for local promoters to gain access to external (including European) banks willing to provide a guarantee acceptable to the EIB under its risk guidelines. On the other hand, local commercial banks and industrial companies do not comply with the EIB’s criteria for risk-sharing. Accordingly most of the loans signed up until now have been signed with governments or public entities. However, as described in more details in Annex 2, the overall volume of direct¹² and indirect support to the private sector has significantly increased since the establishment of the Facility for Euro-Mediterranean Investment and Partnership (FEMIP)¹³. In addition, the introduction of new instruments such as the “Special FEMIP Envelope” (SFE), which allows FEMIP to undertake selected investments of a greater risk profile, will favour the further development of risk-sharing operations.
- Thirdly, in contrast, the **ALA** mandate supported mostly projects linked to European Foreign Direct Investment (FDI) in ALA or projects implying transfers of technology and know-how from Europe, with a high proportion of projects in the industrial and service sectors as well as utilities involving EU companies. As a result, most projects financed are carried out by strong and creditworthy private sector promoters making it possible to mobilize non-sovereign guarantees, mostly from European commercial banks; hence, the particularly high percentage of operations that availed themselves of the risk-sharing scheme;
- The EIB has made two risk-sharing operations in **South Africa** to date. Lending for public-sector projects has so far been supported either by State guarantees or by appropriate project-specific covenants. As for private-sector projects, representing 55% of total lending in South Africa to date under the current mandate, most of them are guaranteed by first-class local banks, whose international rating is at the same level as, and indeed constrained by, the sovereign rating of the Republic of South Africa.

¹² “Direct” private sector support operations include all operations in which the borrower or final beneficiary was private (i.e. including all global loans)

¹³ Facility launched in October 2002, which integrates all EIB operations in the Mediterranean region (see Annex 2, point 2.1).

Table 3: Risk-sharing achieved as at 31 December 2005

| Mandate | | Signatures | | | |
|------------------------------|---------------------------|-------------------------|--------------------------------|--|---|
| Region | Ceiling EUR million | Total EUR million | Risk Sharing EUR million | Risk Sharing % achieved on mandate alone | Risk Sharing % achieved on mandate and non-mandate |
| SEN | 9 185 | 7 817 | 830 | 10.6 | 65.3 |
| MED | 6 520 | 6 272 | 601 | 9.6 | 14.6 |
| ALA | 2 480 | 1 942 | 1 463 | 75.3 | 80.4 |
| RSA | 825 | 757 | 80 | 10.6 | 10.6 |
| TERRA | 600 | 600 | | | |
| Turkey SAP | 450 | 450 | | | |
| EU Mandate Total | 20 060 | 17 838 | 2 974 | 16.7 | 52.1 |
| Pre-Accession Facility II | 14 000 | 12 304 | 12 304 | | |
| Med Partnership Facility | 1 000 | 364 | 364 | | |
| Article 18 project* | | 500 | 500 | | |
| Outside Mandate Total | 15 000 | 13 168 | 13 168 | | |
| Overall Total | 35 060 | 31 006 | 16 142 | | |

* Beijing Airport Project

3.3. Support for EU policies

The Decision provides some guidance on specific EU policy goals to be addressed in the different regions through the mandate. Recital 18 makes clear that the principal focus of lending in the candidate countries should be support of the EU's pre-accession strategy and the facilitation of the enlargement process. The Decision also provides that lending in Latin America should be directed towards projects that serve the interest of both the EU and recipient countries. In the Mediterranean, the policy framework is established by the Euro-Mediterranean Partnership, the Barcelona process and the European Neighbourhood Policy, and implemented under FEMIP. These regionally-specific approaches are considered in more detail in chapter 4 below as well as in the annexes to this paper.

The following broader contributions to EU policy objectives, which are new or more important than in the past, are summarised below.

3.3.1. Support for SMEs

Significant levels of banking sector reform across a number of countries have allowed the EIB to undertake global loan operations to support and promote long-term lending to SMEs, and subsequent job creation, and this form of financing has grown over time. These global loans help to promote industrial investments and the financing of smaller scale urban infrastructure projects promoted by municipalities. They also contribute to

the financing of leasing activities and faster cooperation of local intermediaries with international banking groups.

Other initiatives where the EIB supported EU policies towards the SME sector are the Risk Capital Facilities for FEMIP and South Africa. They are considered in more detail in the annexes to this paper.

3.3.2. Sustainable development and environment

Sustainable development has become an important element in the implementation of the mandate, notably in financing investments that facilitate the efficient development and management of local natural resources. Examples include the construction of combined cycle thermal power plant in Albania in 2004 (EUR 40 million), the construction of two natural gas-fired combined-cycle power generation modules in Egypt in 2004 (EUR 160 million), the construction of a wind farm in Morocco in 2004 (EUR 80 million), the cleaning up of the polluted coastal area of Taparura, Tunisia in 2004 (EUR 34 million) and the planting of forests for producing pulpwood in Brazil in 2001 (EUR 33 million). The Bank's policy was aligned with EU sector priorities (water, energy, health, agriculture and biodiversity) at the Johannesburg World Summit on Sustainable Development of 2002 and the Bank has since been developing instruments to support the Community's climate change policies. More generally, environmental concerns have been systematically integrated into all projects throughout the project cycle based on EU principles and standards, encouraging promoters, including those from the European private sector, to apply international good practice. A first disbursement under any loan is made only when environmental conditions have been met, in cases where significant issues have been identified during appraisal.

3.3.3. Health and education

In some countries the Bank has recently extended its lending activities to operations in the health and education sectors. These sectors are important for social cohesion and economic development. Examples include the rehabilitation of around 1400 pre-university schools throughout Romania in 2003 (EUR 131 million), the modernisation and expansion of 30 Tunisian hospitals in 2003 (EUR 110 million), support for the educational component of Jordan's "Plan for Social and Economic Transformation" in 2003 (EUR 40 million), the supply of IT teaching technology for primary schools in Turkey in 2002 (EUR 50 million), the modernisation of regional hospitals in Serbia in 2003 (EUR 50 million) and the construction of eight pre-university schools along with the modernisation of a special school in Serbia and Montenegro in 2005 (EUR 25 million). These operations potentially make a direct contribution to poverty alleviation. Because of the impact debt finance has on public expenditure and macroeconomic development planning, co-ordination with other donors, local counterpart funding and complementary sources of finance are essential. Such projects make it necessary to look at the integration of social and economic policies in a country.

3.3.4. Regional cooperation

While a common feature inside the EU, regional cooperation through large investment projects outside the EU is more difficult to achieve but is nevertheless a key element of sustainable development in any of the EIB's geographical areas of intervention.

Increasingly, regional cooperation is being used by developing countries in order to improve integration into the world economy by addressing trans-boundary problems. Examples include a EUR 100 million loan in 2004 for the construction of a gas pipeline across Jordan to bring Egyptian natural gas to power plants, industry and consumers throughout Jordan and a EUR 36 million loan in 2003 for the financing of the regional power inter-connection of six countries in Central America.

3.3.5. Reconstruction

The Bank's activity in the Western Balkans supports the smooth transition from immediate rehabilitation in the aftermath of conflict to reconstruction and sustainable development. Lessons learnt from past exercises in this field emphasise the prime importance of systematic donor co-ordination, and the work of the Infrastructure Coordination Group in the Western Balkans demonstrates how this can be achieved in practice.

3.3.6. Disaster relief

Following the devastating earthquake of August 1999 in Turkey, the Bank, under the TERRA mandate, has addressed the rehabilitation or reconstruction of basic infrastructure in the region, has supported small businesses that had lost their assets and has helped to prevent the region from further sliding into economic depression during this period of rehabilitation. Particular attention was paid to improving the region's disaster preparedness by improving safety standards for new construction financed by EIB loans in this earthquake-prone region. Examples include a EUR 230 million loan (complemented by a EUR 2 million grant from the Technical Assistance Fund) in Algeria for the reconstruction of areas hit by the May 2003 earthquake, and an earlier EUR 45 million loan to finance the reconstruction of infrastructure in Algiers damaged by severe flooding in November 2001.

The Bank has also been active in 2005 in supporting projects assisting reconstruction after the Indian Ocean tsunamis of December 2004, against the background of the very large amounts of grants and concessional lending made available to the affected countries by the international community.

3.4. Cooperation with Community programmes and other financial institutions

Given the type of projects which the Bank supports, co-financing is a regular feature, and is usually a necessity, as EIB funding will not cover more than 50% of the project amount, which thus needs to be complemented by counterpart funding or by other donors and International Financial Institutions (IFIs). By these means, EIB financing helps to mobilise domestic resources and in many cases also serves to attract international sources of finance.

The Bank's interventions in the public sector can require substantial policy changes in order to make large investment projects economically profitable and financially viable. In this case, close co-ordination with other bilateral or multilateral agencies engaged in sector reform in the country is indispensable in order to ensure the desired impact of a joint approach. Capital investment and technical assistance therefore go hand in hand.

By these means the Bank can also draw on the expertise of institutions that are specialised in dealing with broader sectoral and policy issues. Joint action in many cases ensures the positive impact of a sectoral reform and increases the viability of investment projects that, once completed, are then likely to operate within an improved regulatory framework.

In order to foster economic development in the **new EU Member States** and accession preparation in the **EU Candidate and potential Candidate Countries** a Memorandum of Understanding was first signed in 2000, and amended in 2003 and 2005, between the European Commission, the EIB, the European Bank for Reconstruction and Development (EBRD), the International Bank for Reconstruction and Development (IBRD), the International Finance Corporation, the Nordic Investment Bank (NIB), the Nordic Environment Finance Corporation and the Council of Europe.

For the **Mediterranean countries**, a joint Memorandum of Understanding was signed in May 2004 between the European Commission, the EIB and the World Bank to enhance coordination of their activities. In the context of the existing Framework Agreement between the EIB and the European Development Finance Institutions (EDFIs) on Financial Cooperation, a letter of intent aimed at promoting joint financing of projects and programmes within private sector was signed in May 2005. In December 2005, the EIB, the Agence française de développement (AFD) and the KfW Entwicklungsbank (KfW) concluded an agreement designed to strengthen their cooperation in the Mediterranean countries and African, Caribbean and Pacific States in which they operate.

A Memorandum of Understanding between the European Commission, the EIB and the African Development Bank on an enhanced strategic partnership for cooperation in the **African countries**, including the Maghreb countries and Egypt, was finalised in August 2005.

In December 2004, the EIB entered into a Memorandum of Understanding with the Inter-American Development Bank with a view to improving coordination of their respective activities in **Latin America** and the **Caribbean**. Furthermore, in 2005 the Bank also entered into a global guarantee framework loan with COFIDES for co-financing in both Asia and Latin America, a pilot innovative financing structure, which would be replicated with other EDFIs.

In December 2005, a Memorandum of Understanding was concluded between the European Commission, the Black Sea Trade and Development Bank, the EBRD, the EIB, the IBRD, and the NIB on Cooperation for **Eastern Europe** and **Southern Caucasus, Russia** and **Central Asia**.

Table 4 below provides information on the projects financed under the mandate where several financial institutions, in addition to promoters, contribute together to the financing of the total cost of the project. On a total loan amount of EUR 17 838 million granted by the EIB, EUR 7 879 million went to co-financed projects. Details of the cooperation described in Table 4 are given for each of the geographical regions in the annexes.

Table 4: Cofinancings as at 31 December 2005

(EUR million)

| Region | Cost | EIB | PHARE/ ISPA | Multilateral Institutions | Bilateral and National Institutions | Balance¹⁴ |
|-------------------|---------------|--------------|------------------------|--------------------------------------|--|-----------------------------|
| SEN | 9 344 | 3 214 | 1 122 | 1 330 | 881 | 2 797 |
| MED | 9 041 | 2 787 | - | 1 292 | 1 182 | 3 780 |
| ALA | 12 423 | 1 338 | - | 718 | 2 398 | 7 969 |
| RSA ¹⁵ | 798 | 50 | - | - | 148 | 600 |
| TERRA | 1 286 | 450 | - | 308 | - | 528 |
| Turkey SAP | 96 | 40 | - | 51 | - | 5 |
| TOTAL | 32 988 | 7 879 | 1 122 | 3 699 | 4 609 | 15 679 |

3.4.1. South-Eastern Neighbours

In the countries that are candidates for EU membership, the Bank's activities are conducted within the framework of the EU programme to help them prepare for accession, in particular by financing investment aimed at integrating their infrastructure with that of the EU and by assisting SMEs. This paper, and the dedicated annex (Annex 1), largely concentrate on activities within the SEN for the current accession and candidate countries, together with the Western Balkans.

The co-ordination of the Bank's efforts and the Commission's Instrument for Structural policies for Pre-Accession (ISPA)¹⁶ has been particularly important in the past five years in achieving successful implementation of transport and environmental projects through the structuring of appropriate financing plans. Similarly, cooperation with the Commission's PHARE¹⁷ instrument has been strengthened, particularly in the areas of regional development and SME financing. In addition to PHARE assistance during the pre-investment phase to ensure that the necessary studies and technical assistance are implemented in support of EIB projects, the Bank also cooperates with PHARE in co-financing infrastructure projects, as may be seen from table 4 in Annex 1.

The Commission and the Bank are currently co-operating in the implementation of three co-financing schemes (the SME Finance Facility, the Municipal Infrastructure Facility and the Municipal Finance Facility). These schemes combine EIB lending and EU grants (PHARE) to encourage financial institutions active in the new Member States and

¹⁴ Funds of states, promoters and commercial banks.

¹⁵ Excluding EUR 130 million lines of credit directly to bilateral/regional institutions (European EDFs and South African development institutions).

¹⁶ This instrument helps the 10 former and present candidate countries of Central and Eastern Europe to improve their environmental situation and develop transport networks.

¹⁷ Assistance programme for Central Europe.

Accession countries to increase their lending activity for SMEs and municipal investment projects.

In the Western Balkans, close cooperation with IFIs has been key to the EIB's involvement. There is good co-ordination amongst EU institutions to ensure the best blend of grants and EIB loans, in the framework of the Community Assistance for Reconstruction, Development and Stabilisation Programme (CARDS) of the EU and of the European Agency for Reconstruction (EAR). Most EIB operations in the Western Balkans benefited from the support of the Commission and the EAR for the co-financing of investments – together with other IFIs – and in particular for the funding of the required technical assistance component which is essential to ensure the satisfactory design and implementation of the projects concerned, in view of the difficult institutional and economic context and the relative weaknesses of promoters. Cooperation with the Commission and EAR has been very effective and recent examples are the Apex Global Loans, the European road and Emergency Health project in Serbia and Montenegro (see Annex 1, para. 1.2). The EIB also cooperates closely with the World Bank and EBRD within the framework of the Stability Pact, as well as in identification, appraisal and co-financing of priority projects and sector studies. Within the framework of the Infrastructure Steering Group, a donor co-ordination body, the EIB has taken a lead role.

The combined efforts of the Commission, the Stability Pact and the Infrastructure Steering Group have achieved a high level of co-ordination, in particular as regards projects of regional interest, aimed at facilitating the integration of the countries of the region in a wider European context. In particular, the three main IFIs working in the region, the EIB, EBRD and World Bank, have combined their individual resources and expertise to reach common targets.

Over the past years several projects have been co-financed with World Bank, in different sectors of activity in particular energy (e.g. Electric Power Reconstruction project in Bosnia and Herzegovina) and urban infrastructure (e.g. Municipal Water Infrastructure, Albania). Of particular relevance was the cooperation in the human capital sector, crucial for the improvement of quality of life of the population in the region (e.g. Emergency Health and School upgrading projects in Serbia).

Cooperation with EBRD has been particularly successful over the past few years, not only in terms of volume of co-financing but also in view of the mutual support in monitoring activities. This close cooperation facilitated in several cases satisfactory project implementation, thereby mitigating difficulties deriving from promoters' weaknesses or uncertain political and economic contexts.

Box 1

Whilst EIB's bulk of lending has been clearly on infrastructure (transport and energy) and EBRD tended to focus on private sector, the two institutions have combined their expertise in favour of projects in several sectors. Key co-financed operations include:

*European Roads project, consisting in the improvement of sections of corridor X motorway between Belgrade and Novi Sad in **Serbia** and the motorway between Podgorica and Bar in **Montenegro**;*

*An energy project in **Albania**, consisting of the construction of a new thermal power station in the South (Vlore Thermal Power Station, co-financed also with World Bank);*

*The construction of a motorway in the South of **Albania** towards the Greek border (Fier-Tepelene Road project);*

*In **Serbia** and **Montenegro**, Air Traffic Control project aiming at upgrading and modernizing the air navigation system of the country.*

In the Balkans, the EIB has also contributed to supporting the overall planning process. In particular, the EIB was given responsibility for managing several projects and three regional studies, in close cooperation with the European Commission, namely: the Air Traffic Infrastructure Regional Study (ATIRS), the Transport Infrastructure Regional Study (TIRS) and the Adriatic Sea Environmental Master Plan (ASEMP).

3.4.2. Mediterranean

In the Mediterranean, and especially within the framework of FEMIP, the Bank has developed an approach which combines financing with contributions to institution building and policy dialogue to establish favourable conditions for private sector investment, through close co-ordination with other institutions (notably the Commission with programmes such as MEDA¹⁸, and the World Bank).

In order to improve cooperation, the EIB, the World Bank, the Commission and the International Monetary Fund set up the "Luxembourg process" in 2000 and hold bi-annual consultations on lending policies and strategies in the Mediterranean region. Moreover, meetings are organised jointly e.g. the forum on the investment climate in the MED region organised by the EIB, the European Commission and the World Bank in November 2005. In addition, international financial institutions (IFIs) and the European bilateral institutions operating in the Mediterranean are invited to FEMIP meetings.

Recently, the EIB has opened external offices in three Mediterranean Partner Countries (a regional office in Egypt, and local offices in Tunisia and Morocco) with a view to improving cooperation with the host countries as well as with other Multilateral Development Banks and bilateral agencies active in the region and to bring the EIB closer to the borrowers.

¹⁸ The MEDA programme is the principal financial instrument of the European Union for the implementation of the Euro-Mediterranean Partnership. The programme offers technical and financial support measures to accompany the reform of economic and social structures in the Mediterranean partner countries.

Box 2

Over the last few years, relations between the World Bank and the EIB in the Mediterranean region have evolved from ad-hoc cooperation towards a more structured partnership. Detailed work has started on two countries – Jordan and Tunisia - with regular coordination meetings and joint missions.

The following projects have been co-financed by the EIB and the World Bank:

Jordan Education project /Education Reform for the Knowledge Economy (ERfKE). *This comprehensive project aims to increase the educational quality and cost-efficiency, and align basic education to the Knowledge Economy by creating life-long learning possibilities. The project assists the educational reform at the levels of governance and administrative organisation, programme and curriculum development as well as education facilities. At facility level, the project comprises the rehabilitation of existing classrooms and the construction of 160 new basic education schools; the EIB loan is to finance 45 new schools throughout Jordan. The USD 380 million project cost is financed through the Jordanian budget, the World Bank, the EIB, the Arab Fund and several bilateral donors. To evaluate project progress and outcome, the EIB liaises on a regular basis with the World Bank and other donors.*

Construction of a section of the Amman ring road *The Amman Ring Road project /Amman Development Corridor consists in the construction of the first phase of the Amman Ring Road (41km linking the airport highway in the South of Amman to the northern industrial area of Zarqa). The project, which plays a central role in the national road system, will alleviate traffic congestion in downtown Amman and improve safety. The project will also allow for the development of a new area of greater Amman. The project is co-financed through the Jordanian budget, the World Bank, the EIB and the Arab Fund. The EIB and the World Bank project teams have regular contacts to exchange information on project implementation.*

In Tunisia, for a global loan in favour of local authorities, the EIB has required the satisfactory compliance with World Bank conditions in terms of performance and reporting fixed under a similar financing scheme with the same intermediary. The intermediary is a public institution, Caisse des Prêts et de Soutien aux Collectivités Locales (CPSCL), which provides long term funding to municipalities. In that context, CPSCL committed in the EIB finance contract to inform all the donors involved (WB, AFD and EIB) of the progress of the WB's project, in particular regarding the financial situation of the municipalities and of the progress in implementing the respective conditions of all the donors as well as to organise an annual joint evaluation meeting of the project.

3.4.3. Latin America and Asia

Projects in ALA are financed within the broad framework of cooperation agreements but are not linked to specific Community assistance programmes.

The Bank has actively promoted co-financing of projects in ALA, both as a means of mobilising additional private capital and as a way of achieving greater leverage from the use of its own resources. EIB's operations are structured, whenever possible, in partnership and in complementarity with IFIs, regional development banks and the banking sector with a view to optimising added value (see Table 5 in Annex 3).

3.4.4. Republic of South Africa

In South Africa the Bank works actively in cooperation with other banks and long-term financing institutions, by means of co-financing (notably with local banks) and lines of credit (notably with local banks and institutions such as the Development Bank of Southern Africa, the Industrial Development Corporation and the Infrastructure Finance Corporation). Close cooperation is maintained with the European Commission, in particular regarding the funding of Black Economic Empowerment (BEE)/SME sectors.

3.5. The EIB's instruments

The EIB's operations under the mandate have been conducted mainly using the following instruments:

Standard senior loan: this is the EIB's main product in all regions, with stringent guarantee requirements, as per its Statute. Of particular value are the long maturities of up to 25 years for the financing of infrastructure projects unavailable in local markets. The vast majority of EIB interventions in the Mediterranean Partner Countries (MPCs), the Western Balkans and ALA have been based on such loans.

Global loans: In addition to its standard senior loans and for smaller scale projects with an investment cost of less than EUR 25 million equivalent, the Bank channels long term loans (generally 6-8 years) to small and medium sized enterprises (SMEs), or to local authorities for infrastructure investments, through local intermediary banks and leasing institutions which assume the project risk.

Special FEMIP Envelope (SFE:) In order to support more effectively the private sector needs in the MPCs the SFE was established in 2003 to finance selected private sector operations with a higher risk-profile. In these cases, the Bank accepts on its books relatively higher commercial risks, not covered by a highly rated third party outside the MPCs. The SFE can be used for both standard senior loans and global loans, but so far EIB activity has taken only the form of global loans.

EIB activity under mandate has been complemented by EU budgetary resources, managed by the EIB:

Interest subsidies: In the context of its objectives relating to the environment in the Mediterranean Partner Countries, the European Commission subsidises FEMIP interest rates for environmental projects, thereby enhancing the economic and financial impact of projects. Such subsidies have provided an incentive to MPCs to take appropriate action towards the protection and rehabilitation of the environment, leading to a substantial increase in EIB lending levels in the region's environmental sector. Through project conditionality, they have further offered the leverage to encourage gradual policy reform.

Technical assistance: In the Mediterranean, loan operations for environmental projects have been supplemented by interest subsidies and limited grants for technical assistance under the Mediterranean Environmental Technical Assistance Programme (METAP)¹⁹. These activities have been boosted by the establishment of the Technical Assistance (TA) FEMIP Support Fund in 2003, funded by EU budgetary resources, to provide FEMIP with a strong instrument to improve the quality and development impact of its lending operations and by the establishment of the FEMIP Trust Fund in 2004, with commitments from EU Member States, including a contribution from the EU budget.

Risk capital: Provided in the form of equity and/or quasi-equity financing to strengthen private companies' capital structures and act as a catalyst for joint venture projects. The EIB can also participate in selected venture capital / private equity funds, support micro-

¹⁹ Under this programme launched jointly by the EIB and the World Bank in 1990, the EIB is providing funds for environmental preparatory studies, notably on sewerage and sewage disposal.

finance and help develop the local financial sector. In the Mediterranean, the EIB has also been able to use risk capital from the Community's budget to extend credit and capital investment lines to banks and also to directly invest in private equity funds. In South Africa, the Commission - in consultation with the South African authorities - asked the EIB in 2001 to manage part (EUR 50 million) of its grant-aid programme in the form of a risk-capital financing facility to assist emerging entrepreneurs from the historically-disadvantaged persons ("HDPs") communities, in particular through the provision of equity capital. The results of this scheme, channelled principally through the Industrial Development Corporation of South Africa, have been very encouraging.

In general, a particular effort has been made to develop EIB funding in local currencies, notably in Hungary, Poland, the Czech Republic and South Africa. The EIB's AAA credit rating, together with a relatively well-advanced local currency markets, have enabled the Bank to issue Euro-local currency bonds and to mobilise a corresponding treasury operation, thereby permitting it to denominate its loans to local borrowers in the local currency. This has proved to be particularly useful for projects serving the local market - typically utilities with local currency revenues - that borrow from the EIB for long maturities and are thus able to avoid any foreign exchange risk.

In view of increasing hedging exposure for transactions in several ALA countries, the EIB is also considering issuing bonds denominated in local currencies of the ALA countries. The EIB is also examining the possibility of issuing Euro-local currency bonds in certain Mediterranean countries.

4. EVALUATION OF EIB ACTIVITY

The operating environment of the Bank's operations in different regions presents characteristics which impact the development of its activities. The Bank is regularly assessing the economic and social environment of the various countries and regions concerned.

Furthermore, the EIB's Operations Evaluation Department (EV) conducts independent ex-post evaluations of EIB activities. Based on the evaluation of projects financed by the EIB, thematic reports or reports on EIB mandates are prepared. EIB operations are assessed using internationally accepted criteria: relevance, effectiveness, efficiency and sustainability²⁰. For each of these criteria, a set of indicators is defined.

EV reports, grouped under thematic heading or under a mandate heading, are presented to the Board of Directors for discussion and posted on the EIB website. This independent mechanism provides accountability, transparency and lessons learned to the public at large. For its activities, EV coordinates with the Evaluation Network of the Commission.

²⁰ **Relevance** is the extent to which the objectives of a project are consistent with the EU policies, the beneficiaries' requirements, country needs, global priorities and partners' policies.
Effectiveness (or efficacy) relates to the extent to which the objectives of the project have been achieved or are expected to be achieved, taking into account their relative importance.
Efficiency is the extent to which project benefits/outputs are commensurate with resources/inputs (funds, expertise, time, etc.)
Sustainability relates to the likelihood of continued long-term benefits and the resilience to risk over the intended useful projects life.

At this stage, it is too early to give a full evaluation of the loans approved under the current mandate as a large number of the underlying projects is currently being implemented or still to be implemented. This is also reflected in the progressive disbursement of the signed loans in line with the evolution of the projects. Nevertheless, in the last two years, EV has published reports on loans (individual loans and global loans) in the Mediterranean region as well as one report on activities under the ALA mandate. EV is currently drafting a report on EIB activities in the Rand area (mainly the Republic of South Africa), the results of which should be available by mid-2006.

The most important features regarding the operating environment as well as the key findings of the EV evaluations are summarized below for each of the regions.

4.1. South Eastern Neighbours

4.1.1 Operating environment and constraints

Four main factors are considered by the Bank to have affected its lending:

- Weaknesses in the institutional framework and administrative, institutional and organisational bottlenecks have limited the **absorption capacity** of the local markets. Nevertheless, these institutional and structural constraints are viewed as short to medium term problems and the EIB is seeking to support the local administrations so as to reduce their impact over time.
- **Budgetary restrictions** have led to a selective approach on the part of the authorities when assuming additional borrowings.
- This constraint was exacerbated by the **global economic downturn** in the 2000-2002 period which has impacted upon growth rates in some new Member States and accession countries, though this situation has improved in recent years.
- Finally, further difficulties have also arisen from the continuing shortage of **guarantees** for sub- sovereign segments in a context of untested legal/regulatory structures, and from the often protracted arrangements when loans are combined with grant resources.
- With the exception of Slovenia, EIB activities in the Balkan successor states to former Yugoslavia resumed in the late 1990s and early 2000s: in 1998 for the FYR of Macedonia, in 2000 for Bosnia and Herzegovina and in 2001 for the two major countries - Croatia and the Federation of Yugoslavia (Serbia and Montenegro). After an almost 10 year absence – EIB operations in former Yugoslavia were suspended in 1991 – the Bank's new operations under the SEN Mandate have continued to focus primarily on the reconstruction and rehabilitation of public sector infrastructure, as outlined in the context of the Stability Pact between beneficiary states and the so-called international donors' community (mainly composed of bilateral donors, other IFIs and the European Commission). This activity built a solid basis for enhanced EIB lending in the region in 2003 and 2004.

The investment climate in the Western Balkans remains very volatile with a number of unresolved issues at hand (notably a lack of the rule of law), which represent

considerable obstacles to investment. Local public sector institutions are still weak and projects have been difficult to initiate for this reason.

The Bank's ability to finance private sector operations has been constrained somewhat by the nature of its financing instruments (no risk capital, senior loans only) and the stringent guarantee requirements resulting from the Bank's Statute. As governments are not willing or able to back up private sector borrowing with sovereign guarantees, prospective private sector promoters are frequently unable to offer a guarantee that meets the Bank's standards. At the same time, due to the difficult economic situation and the difficulty in finding appropriate intermediaries in poorly functioning banking sectors of the countries in the region, the support of SMEs through global loans has been limited in the early years of the mandate.

Nevertheless in 2002, the Bank started its first risk sharing operation for an industrial sector project in Bosnia and Herzegovina and first SME credit facilities (global loans) in Croatia. A further global loan for SMEs (EUR 45 million) was signed in Serbia and Montenegro in 2004. Further risk-sharing loans have been made in 2005 in Bosnia and Herzegovina and in Serbia and Montenegro.

4.1.2 Evaluation of projects financed by the EIB

The lending activities in the Western Balkans are too recent (very few completed projects) for any in-depth evaluation to have taken place. As mentioned above, EIB activities in this region focused on projects in infrastructure sectors that are essential to stimulate economic activities and ensure the development of the Pan-European corridors crossing the region. Support to SMEs through global loans showed satisfactory results in terms of job creation and economic benefits.

Projects in Turkey have been included in the EV reports on the Mediterranean region.

4.2. Mediterranean Partner Countries

4.2.1 Operating environment and constraints

The objective underlying FEMIP, for which the Bank has reinforced its organisation and human resources in recent years, is to help the Mediterranean Partner Countries (MPC) meet the challenges of economic and social modernisation and enhanced regional integration, with a view to the planned creation of a free-trade area between Europe and the MPCs by 2010. FEMIP has focused primarily on developing the private sector and projects that help to create an environment that is conducive to private investment. FEMIP also continued to finance infrastructure projects that will encourage economic development and improve the quality of life, by extending its remit to cover the health and education sectors. Lastly, FEMIP has provided technical assistance for the design of projects and reforms in different economic sectors.

In most MPCs, a very substantial share of investment in infrastructure, natural resources and even industry remains in the hands of governments. There are a number of factors to be overcome to develop private sector lending: the weaknesses of local financial markets, the inadequate business environment, the threat of social and political unrest and the lack of guarantees meeting the EIB's requirements. In some cases, MPCs have preferred to

reserve EIB resources for public sector projects where risk-sharing is not possible, leaving private sector projects to be funded by the EIB totally outside the mandate or simply from other sources. Resources under the mandate are limited and it is hard to find funds of this magnitude with financial conditions as favourable as those of the EIB on the market. This has meant that private sector operations under mandate (the key objective under FEMIP) make up a smaller proportion of total operations than would be desired.

There are a number of areas or circumstances (financing of projects by local and/or small-scale promoters; local-currency operations; guarantees; lines of credit to private banks; ...) where risk capital, applied to a varied range of instruments, and grants for technical assistance and investment support are particularly useful in meeting the needs of the private sector and thus contribute significantly to broadening the range and further enhancing the added value of EIB operations in MPCs. This is achieved through the risk capital financing managed by the Bank using EU budget resources.

4.2.2 Evaluation of projects financed by the EIB

The following evaluation is based on two EV reports available on the EIB website:

- EIB financing with own resources through individual loans under Mediterranean mandates: http://www.eib.org/Attachments/ev/ev_individual_loans_med_en.pdf
- EIB financing with own resources through global loans under Mediterranean mandates: http://www.eib.org/Attachments/ev/ev_global_loans_med_en.pdf

The EV evaluation examined a sample of 22 individual loans for projects and 10 global loans to financial intermediaries, implemented between 1994 and 2002. The sample was selected ensuring a reasonable spread of the operations across sectors financed and the countries of the region. Due to recent introduction of FEMIP (in 2002), the evaluation could not take stock of the initiatives launched under this framework. A review of FEMIP activities is currently being prepared by the Commission in cooperation with the EIB.

The evaluation analysed the early operational results of the individual projects financed following the four main criteria mentioned above: relevance, effectiveness, efficiency and sustainability. The overall rating of four operations was “good”; 15 were rated “satisfactory”; three were rated “unsatisfactory” while none were rated “poor”. In a nutshell, the results were the following:

| | Good / Satisfactory | Unsatisfactory / Poor |
|----------------|---------------------|-----------------------|
| Relevance | 22 | - |
| Effectiveness | 18 | 4 |
| Efficiency | 21 | 1 |
| Sustainability | 16 | 6 |

The main evaluation criteria for **relevance** in the Mediterranean region were the extension and/or reinforcement of national or regional infrastructures as well as the development of the private sector. All the projects evaluated were considered relevant; the infrastructure projects have contributed to covering the basic needs of the population

or overcoming substantial bottlenecks for the economic development of the country. Industrial projects supported the development of the private sector in the region. In general, the projects financed have contributed to promoting economic growth and to employment creation.

Four projects were rated "unsatisfactory" regarding **effectiveness**: two water projects, one energy project and one industrial project. The reason for the unsatisfactory rating of the water projects was that some key project components were not carried out and thus the expected reductions of pollution were only partially met. This shows that the EIB needs to ensure that the key parts of the programme are carried out, even if they are not part of the works financed by the Bank.

For almost all of the projects, the **efficiency**, measured as the economic rate of return (ERR), was rated as "good" or "satisfactory", only one water project was considered to be "unsatisfactory". The ex-post ERR for most of the energy projects was estimated to be higher than the ex-ante due to the higher than initially expected oil prices, combined with the fact that gas or electricity demand has been similar or higher than expected.

The **sustainability** of the projects was a major concern in many of the water projects. This is reflected in the less than "satisfactory" rating in four out of the six projects evaluated. The major areas of concern were related to the financial sustainability (low tariffs) and weak managerial and institutional capacity. This shows that quality and impact of EIB activity could be improved by increased transfer of knowledge and experience to borrowers during project design and implementations, and undertaking early corrective action of projects encounter difficulties. This requires closer contacts between EIB and borrowers as well as increased staffing. The EIB already made a step in this direction, with the help of EU budget technical assistance.

Sustainability was rated "satisfactory" or "good" in practically all (except one) energy and transport projects evaluated, mainly due to competent promoters. One industrial project was rated as "poor" because of significantly lower proven reserves of a mine project than expected.

For the evaluation of the global loans, EV looked at their relevance, the performance of the Financial Intermediaries (FI) and at the performance of the global loans.

All global loans were consistent with the objectives of the EU mandates, as well as with national objectives and beneficiaries' requirements and thus rated "good" in terms of **relevance**. The six global loans targeting SMEs have supported the development of the private sector in the region. The other four global loans targeted small public infrastructures, environment, agricultural development and energy savings projects.

The **FI performance** was satisfactory in 6 cases out of 8 (while no rating was established for two apex operations signed with multiple FIs). The main problems facing the banking sector in the region is the high proportion of non-performing loans; with one exception, these represented between 22 and 45% of loan portfolios. Despite the challenges faced, all FIs react quickly and positively to economic changes. All except one FI were considered sustainable, the exception being a state-owned, mono-sectoral bank, with heavy, unsustainable, government-driven policies (this bank has now been completely restructured).

The **global loan performance** is uneven: only half of the operations were good or satisfactory. In two cases, the allocation period had to be significantly increased together with sector eligibility. One specialised global loan (financing environmental projects) was not utilised, the loan product being replaced by grants. In one case, the Bank stopped its disbursements when the FI's difficulties became too severe (see above).

Both evaluation reports make a number of recommendations in all areas analysed. A recent review of these recommendations showed that most of them had been implemented in the framework of the FEMIP and, more recently, with the effective launch of the reinforced FEMIP (e.g. increased cooperation with other IFIs and with the EC, technical assistance, new financial products, etc.).

4.3. Latin America and Asia

4.3.1 Operating environment and constraints

In spite of the aftermath of the Asian crisis in the early-2000s and the difficulties experienced in Argentina, the ALA mandate has been heavily committed (78% by the end of December 2005). This is a clear indication of a high level of demand for EIB loans, which, due to the limited amounts available under the Mandate, has forced the Bank to ration access to its financing in ALA and in many cases to keep loans substantially below the amount that was requested. The increasing cost of hedging exposure to foreign currencies in countries with medium-high political risk has led the Bank to consider issuing bonds denominated in the local currency in several ALA countries, to enhance the financial value added of its operations with private sector borrowers.

4.3.2 Evaluation of projects financed by the EIB

The following evaluation is based on the EV report available on the EIB website:

- Evaluation of projects financed by the EIB in ALA:
http://www.eib.org/Attachments/ev/ev_ala_en.pdf

In 2004, EV published an evaluation of 26 operations (including 24 projects and 2 global loans) financed under the ALA mandates since their start in 1993 until end of 2002. The scope of the mandate was from the outset to finance projects of "mutual interest". Although the term "mutual interest" was not defined precisely, it gave to the ALA Mandate the nature of an instrument of economic cooperation.

Given the nature of the Mandate EIB lending concentrated on countries where there was most Foreign Direct Investment from the EU (Brazil, Argentina, Indonesia and the Philippines). The largest part of the lending has gone to public private partnerships (PPPs), especially in energy and water, followed by industrial and telecom projects. This resulted in a very high proportion of risk-sharing loans.

To assess compliance of the Bank operations with the terms of reference of the Mandates, EV considered that to contribute to mutual interest projects should involve a reciprocal direct and measurable flow of benefits between the EU and one or more ALA Partner Countries.

Based on this interpretation, the EV report concluded that 21 operations out of the 26 reviewed had met the mutual interest criterion as they all involved European companies..

The remaining five operations (all of which in the public sector and signed before 1998), had limited **relevance** as regards the mutual interest criterion because the EU benefits appear remote and indirect. These five operations can be better classified as contributing to development cooperation rather than to economic cooperation. This reflects the Bank's broader interpretation of the objectives of the mandate that had prevailed in the initial stages of the implementation.

In terms of benefits to the EU, 18 projects out of 26 significantly fostered the development of new business opportunities for European companies and 15 resulted in a substantial transfer of technology and equipment to the partner countries. Concerning the benefits to the Partner Countries concerned, most of the projects contributed significantly to overcome a bottleneck for the economic development and to transfer of know-how and managerial skills (19 out of 26). In addition, about 50% of the projects contributed directly and substantially to greater competition and competitiveness to the improvement of the environment and/or the country living standards, particularly for the poor population.

The evaluation found significant differences in the extent to which projects were **effective** in achieving their specific objectives, in particular between projects in competitive markets and those in the public sector, including PPPs. Out of the 11 public sector projects, only three achieved or exceeded their initial objectives, while for projects in competitive markets, nine out of 13 achieved the objectives. Concerning the two global loans evaluated, only one achieved its main objectives in terms of financing projects of mutual interest.

As regards **efficiency** and **sustainability**, the analysis, based mainly on economic rate of return and on return on equity, shows that the ex-ante assessment was biased towards high returns. The ex-post figures are more evenly distributed, with 38% of projects evaluated rated less than satisfactory in terms of efficiency and four projects considered as non sustainable at the time of the evaluation.

Taking into account the four core evaluation criteria, seven operations were rates "good", ten "satisfactory", eight "unsatisfactory" and one "poor". While project implementation was in general satisfactory, the sustainability rating was quite low, driven mainly by macro-economic downturns in a few countries.

Looking at the EIB's contribution, the report highlighted that the EIB has significantly improved the financial terms of the operations evaluated, mainly thanks to the political risk cover offered by the Community Guarantee, as well as by offering long maturities, low all-in costs, quality stamp, and a non-bureaucratic approach. However, the limited size of the ALA mandates has allowed for covering of only a small part of the potential needs. The access to finance in the ALA countries has experienced significant changes in the period covered by this evaluation. The Bank has had difficulties to adapt its lending strategy to these changes particularly in the private sector, due mainly to product limitations (one important limitation has been recently removed with the extension of political risk cover to breach of contract cover)

4.4. Republic of South Africa

4.4.1 *Operating environment and constraints*

Since its first democratic election in 1994, South Africa has experienced a stable political environment and has made considerable progress in social and economic transformation. Average GDP growth has improved to 3.4% over the last five years, compared with 2.5% in 1995-99, and the strong domestic demand growth shown in the last few years suggests that the living standards of a larger share of the population are finally improving.

But South Africa's status as middle-income country (about 2800 USD GNI per capita in 2003) still hides huge disparities in wealth, revenues and access to basic infrastructure. These can only be overcome through stronger sustainable GDP growth of at least 6% p.a. and a continuation of the Government's Black Economic Empowerment policy. This will require important investments, notably in infrastructure, and the supply of adequate financial resources to finance them.

Despite a well functioning and large financial market, supply of long-term funding is still constrained by the short-term nature of local banks' domestic resources and the constraints they face in accessing international markets due to the risk rating of the country. In those circumstances, the ability of EIB to lend longer term, and in South African rand, explains the strong demand for the Bank's funding. In many instances the Bank's presence in the financing of a major project has not only given comfort to other more commercial sources of funding, but has also helped to lower the cost of the service provided to the final beneficiaries.

The high demand for the Risk Capital Facility, managed by the Bank on behalf of the Commission, suggests that there is a considerable potential for resources of this type to be used to support the development of small and medium sized enterprises, unable to provide the guarantees required for access to the Bank's own resources, but fully capable of servicing junior debt or quasi equity funding.

4.4.2 *Evaluation of projects financed by the EIB*

As mentioned before, an in-depth evaluation of the Bank's operations in South Africa is currently under way, and final results will be available in due course. The initial findings of the ongoing evaluation show both a positive contribution to the equitable economic development of South Africa, and value-added by the Bank, as summarized below.

Road infrastructure: In 1999, the EIB provided financing for the upgrading and extension of the N3 toll road between Johannesburg and Durban. The project has had a large development impact in boosting economic activity in communities adjacent and near to the highway; it also reduced journey times and improved road safety. The Bank provided a significant part of the funding, at a time when the project was having difficulty raising the necessary funds in the local market: the Bank provided a longer-term loan than available elsewhere, and at a lower cost.²¹ There was also some skills

²¹ Only the EIB was willing to provide 25-year financing to the project, other lenders typically providing 20-year financing. This was important to enable the Provider to keep tolls at sustainable levels.

transfer from the Bank's PPP experience in the road sector in Europe. The EIB presence also appears to have been helpful in creating some competition for local banks, and hence keeping their pricing under control. Last not least, the EIB presence helped to mitigate the political risk, *i.e.* of arbitrary action by the Government.

Global loans/credit lines: The three operations evaluated comprised two with a focus on small and medium scale infrastructure investments and one targeted at SMEs. Two global loans in the sample were to State-owned development banks and one to privately owned commercial banks. The development impact of credit lines was assessed at five levels: macro-economic, financial sector development, institutional development, sub-sector development and at the final beneficiary level. At the macro-economic level, the global loans have increased medium and long-term capital flows to the country, thereby contributing to some strengthening of local financial markets and to private sector development.

The sub-loans used to finance **infrastructure** projects and programmes were generally successful, particularly those involved in the provision of basic infrastructure that benefits the lower income and disadvantaged communities in South Africa - leading to first-time access to services, SME and micro-enterprise development, and employment. The global loans targeted at **SME development** and black economic empowerment achieved their objectives and helped make possible projects that might either not have taken place otherwise or would have taken longer to implement: the 10-15 year tenor and denomination in local currency were important aspects of the EIB financing.

5. PROJECTIONS TO THE END OF THE MANDATE

Table 5 shows projections made by the EIB of lending to the end of the mandate period. The EIB expects that the mandates will be fully utilised. This will imply careful project selection in those mandates which have been heavily used to date (Mediterranean countries, ALA, South Africa) and an expansion of lending under the SEN mandate. The Turkey SAP and TERRA mandates have already been fully used.

Table 5: Projections of lending activity by region

(EUR million)

| Region | Signature 2000-2005 | Projections 2006* | Total utilization | Ceilings |
|--|------------------------|----------------------|----------------------|----------|
| SEN | 7 817 | 1 368 | 9 185 | 9 185 |
| MED | 6 272 | 248 | 6 520 | 6 520 |
| ALA | 1 942 | 538 | 2 480 | 2 480 |
| RSA | 757 | 68 ⁺ | 825 | 825 |
| TERRA | 600 | 0 | 600 | 600 |
| Turkey SAP | 450 | 0 | 450 | 450 |
| Total EIB loans under Mandate | 17 838 | 2 222 | 20 060 | 20 060 |

* in fact 31 January 2007

⁺ to be noted that if necessary for operational reasons, cancelled amounts may be re-utilised. Under no circumstances, however, will overall signatures, net of such cancellations, exceed the mandate ceiling.

EIB lending activity to South-Eastern Neighbours

1.1 Objectives and priorities

1.1.1 Accession and Candidate Countries

For the period under review, EIB lending in the Accession²² and Candidate Countries²³ is operated under

- a) the EU-guaranteed mandate, and
 - b) the Pre-Accession Facility without EU guarantee,
- both on EIB own resources.

The emphasis on pre-accession support and European integration is common to both of these lending envelopes. Project eligibility is basically the same under both.

On the basis of Recital 18 of the Decision, the Bank's lending activity in the Accession and Candidate Countries has effectively supported the Community's pre-accession policy and hence facilitated the enlargement process. To this end, the Bank's approach at country and sector level has been closely linked to the EU's policy priorities and to the needs of the countries concerned with regard to compliance with the *acquis communautaire* and links with EU infrastructure. The Bank's activities have been aligned with the appropriate Accession Partnerships and checked against the Commission reports on the progress of the countries. Close cooperation with the Commission has ensured consistency and synergy with the EU's main financial instruments, including PHARE and ISPA.

EIB lending in support of the enlargement process is focused on the following priorities:

- Regional development;
- Communications infrastructure;
- Natural and urban environment;
- Rational use of energy;
- Private-sector development;
- Health and education.

²² For the purpose of this report, "Accession Countries" comprise Bulgaria and Romania in addition to the new Member States which acceded on 1 May 2004.

²³ Croatia and Turkey.

- The Bank also lends under the TERRA Programme (Turkey Earthquake Reconstruction and Rehabilitation Action) and under the Turkey Special Action Programme (SAP).

1.1.2 Western Balkans

After an initial focus in the early 1990s on urgent rehabilitation of basic infrastructure, EIB activity in the Western Balkans has been centred on the modernisation and upgrading of the infrastructure network, with the particular aim of removing bottlenecks in the national/regional road and rail networks. Transport projects (mainly in road, but also railways, aviation and air traffic facilities), accounted for more than 50% of total loans while energy projects represented some 20% of total lending over the past few years, underlining the strong need for improving basic infrastructure in the countries of the region.

Close cooperation with the European Commission, its European Agency for Reconstruction, the other IFIs active in the area - including in particular the World Bank, the EBRD and Council of Europe Development Bank - as well as bilateral donors, traditionally represents a key feature of EIB activities in the region.

In 2000/2001 the EIB participated in the Quick-Start and Near-Term programmes, in which the European Commission, World Bank and EBRD are also involved. In the following years, the Bank continued to contribute to key investments at national and regional level as a major player in the Regional Infrastructure Steering Group, with special emphasis placed on cross-border regional projects in transport and energy.

1.2 Results and assessment of the operations as at 31 December 2005

Under the mandate, the Bank has signed 130 loan contracts in the South-Eastern Neighbours and Western Balkans for an aggregate amount of EUR 8 867 million by 31 December 2005. There was a strong concentration of lending in a few countries: Romania and Turkey accounted for nearly 60% of EIB lending under mandate in the region; lending in Bulgaria, the Slovak Republic and Croatia accounted for 17%, while Serbia and Montenegro and Bosnia and Herzegovina received 13%. For the other countries, the “pre-accession effect” and the Community aid instruments established since 2000 (SAPARD and mainly ISPA) contributed to slow down the rhythm of signatures of loans guaranteed by the Community. This was accentuated by the creation of the Pre-Accession Facility (outside the mandate and not guaranteed by the Community) and the specific facilities for SMEs and municipalities.

Table 1: Geographical breakdown of EIB lending as at 31 December 2005

| LOANS SIGNED | | | |
|--|----------------------------|-------------------------------|------------|
| Country | Number of loans | Amount EUR million | % |
| Accession and Candidate Countries | | | |
| Bulgaria | 14 | 507 | 6 |
| Croatia | 13 | 491 | 5 |
| Hungary | 1 | 40 | 0.5 |
| Lithuania | 2 | 60 | 1 |
| Romania | 30 | 2 782 | 31 |
| Slovakia | 9 | 498 | 6 |
| Slovenia | 1 | 35 | 0.5 |
| Turkey | 16 | 2 035 | 23 |
| TERRA | 5 | 600 | 7 |
| Turkey SAP | 5 | 450 | 5 |
| Subtotal | 96 | 7 498 | 85 |
| Western Balkans | | | |
| Albania | 6 | 183 | 2 |
| FYROM | 1 | 13 | 0 |
| Bosnia and Herzegovina | 7 | 296 | 3 |
| Serbia and Montenegro | 20 | 877 | 10 |
| Subtotal | 34 | 1 369 | 15 |
| TOTAL | 130 | 8 867 | 100 |

Table 2: Breakdown by country and sector of EIB lending in the SEN

| Regions | Energy | | Communi- cations | | Water & Miscell. | | Industry & Services | | Global loans | | Total loan signatures | |
|--|------------|-----------|---------------------|-----------|---------------------|-----------|------------------------|----------|-----------------|-----------|--------------------------|------------|
| | EUR m | % | EUR m | % | EUR m | % | EUR m | % | EUR m | % | EUR m | % |
| Accession and Candidate Countries | | | | | | | | | | | | |
| Bulgaria | 60 | 12 | 347 | 68 | 0 | 0 | 0 | 0 | 100 | 20 | 507 | 100 |
| Croatia | 90 | 18 | 275 | 56 | 50 | 10 | 0 | 0 | 76 | 15 | 491 | 100 |
| Hungary | 0 | 0 | 40 | 100 | 0 | 0 | 0 | 0 | 0 | 0 | 40 | 100 |
| Lithuania | 0 | 0 | 60 | 100 | 0 | 0 | 0 | 0 | 0 | 0 | 60 | 100 |
| Romania | 111 | 4 | 1 410 | 51 | 1 066 | 38 | 35 | 1 | 160 | 6 | 2 782 | 100 |
| Slovakia | 0 | 0 | 224 | 45 | 30 | 6 | 224 | 45 | 20 | 4 | 498 | 100 |
| Slovenia | 0 | 0 | 35 | 100 | 0 | 0 | 0 | 0 | 0 | 0 | 35 | 100 |
| Turkey | 0 | 0 | 810 | 40 | 330 | 16 | 70 | 3 | 825 | 41 | 2 035 | 100 |
| TERRA | 0 | 0 | 0 | 0 | 450 | 75 | 75 | 13 | 75 | 13 | 600 | 100 |
| Turkey SAP | 90 | 20 | 120 | 27 | 40 | 9 | 0 | 0 | 200 | 44 | 450 | 100 |
| Total Accession and Candidate Countries | 351 | 5 | 3 321 | 44 | 1 966 | 26 | 404 | 5 | 1 456 | 19 | 7 498 | 100 |
| Western Balkans | | | | | | | | | | | | |
| Albania | 70 | 38 | 86 | 47 | 27 | 15 | 0 | 0 | 0 | 0 | 183 | 100 |
| FYROM | 13 | 100 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 13 | 100 |
| Bosnia and Herzegovina | 60 | 20 | 151 | 51 | 0 | 0 | 25 | 9 | 60 | 20 | 296 | 100 |
| Serbia and Montenegro | 92 | 10 | 535 | 61 | 100 | 11 | 0 | 0 | 150 | 17 | 877 | 100 |
| Total Western Balkans | 235 | 17 | 772 | 56 | 127 | 9 | 25 | 2 | 210 | 15 | 1 369 | 100 |
| TOTAL | 586 | 7 | 4 093 | 46 | 2 093 | 24 | 429 | 5 | 1 666 | 19 | 8 867 | 100 |

As mentioned above, over the past few years, EIB activities in the Western Balkans focused on projects in infrastructure sectors that are essential to stimulate economic activities - including private sector industrial investments - and ensure the balanced development of the Pan-European corridors crossing the region (V, VII, VIII and X). An example of EIB financing in the road sector is a loan of EUR 144m signed in 2004 for Serbia and Montenegro to rehabilitate and improve sections of the motorway between Belgrade and Novi Sad and the motorway between Podgorica and Bar.

More recently, the EIB has diversified into relatively new sectors such as health and education; examples are the financing of the reconstruction and refurbishment of 20 Serbian regional hospitals and a research centre as well as the construction of primary, secondary and pre-university schools in Serbia, along with the modernisation of a special

school. In addition, the Bank was able to develop its activity in favour of environment projects (water, urban renewal). Support to SMEs through global loans (operations in Serbia and Montenegro, Bosnia and Herzegovina) continued to represent a significant sector for EIB operations, with satisfactory results in terms of job creation and economic benefits. This activity is gradually building up, through global loan operations with several international banking groups active in the region, in support of the expansion of their lending or leasing activities both in favour of SMEs and small-medium scale urban infrastructure projects promoted by local authorities.

Such diversification of activities should allow the Bank to significantly expand the range of projects financed and establish a basis for developing activities in the Western Balkan countries in the coming years, thereby contributing to their economic growth and facilitating their integration into the wider European region.

The EIB has contributed to many major railway and road investment projects, often co-financed with ISPA funds, in the Accession and Candidate Countries. Examples are the rehabilitation of three railway lines in Hungary forming part of Pan-European Corridors IV and V, upgrading of rolling stock and the rail network in Turkey, the upgrading of major transit roads throughout Bulgaria and the Via Hanseatica and Vilnius-Klaipeda motorway in Lithuania.

In addition, the Bank has continued to support Community objectives through co-financing with the EU of environmental sector projects, particularly water supply and wastewater investments. This has continued to be a difficult market for the Bank, primarily because the governments concerned often accord low priority to it in the face of limited national budgetary resources, and relatively low disposable incomes, which limits the scope for tariff increases. Despite such problems, there has been a strong increase in environmental lending over recent years.

While relatively limited, the Bank's activity has been concentrated on energy distribution networks and improving security of supply. Upgrading and depollution of power plants has also been financed.

The Bank has applied the Innovation 2000 Initiative (i2i)²⁴ in the Accession and Candidate Countries, particularly in the areas of health and education, following a request from the Stockholm European Council in 2001. Needs in terms of education restructuring and more efficient healthcare are considerable.

Table 3 below gives details of the loan contracts signed, indicating whether projects involve risk-sharing or not.

²⁴ This initiative was launched by the EIB Group in the wake of the conclusions of the Lisbon European Council (March 2000) with a view to fostering the development of an innovation and knowledge-based European economy.

Table 3: EIB Loans signed as at 31 December 2005 in South Eastern Neighbours

| Accession and Candidate Countries | | | | |
|--|-------------|--|--------------------|---------------------|
| Country | Year | Description | EUR million | Risk sharing |
| Bulgaria | 2000 | Construction of two motorway sections on Pan-European Corridor VII between Sofia and Black Sea | 100 | No |
| | 2000 | Construction of combined (road and rail) bridge on Pan-European Corridor IV between Vidin (Bulgaria) and Calafat (Romania) | 50 | No |
| | 2000 | Global loan for financing of small and medium-scale ventures | 10 | No |
| | 2001 | Rehabilitation of priority national roads | 30 | No |
| | 2001 | Upgrading of Plovdiv-Dimitrovgrad-Svilengrad railway line | 70 | No |
| | 2001 | Financing for small and medium-scale ventures (2 loans) | 30 | Yes |
| | 2002 | Reconstruction and modernisation of port infrastructure and equipment | 17 | No |
| | 2002 | Rehabilitation of electricity distribution sector | 60 | No |
| | 2002 | Financing for small and medium-scale ventures | 10 | Yes |
| | 2003 | Upgrading of main transit roads throughout the country | 60 | No |
| | 2004 | Construction of combined (road and rail) bridge on Pan-European Corridor IV | 20 | No |
| | 2004 | Financing of small and medium-scale ventures | 20 | Yes |
| | 2005 | Financing of small and medium-scale ventures | 30 | Yes |
| Total | | | 507 | |
| Croatia | 2001 | Rehabilitation and modernisation of Croatian railway section of Pan-European Corridor Vc | 40 | No |
| | 2001 | Technical upgrading of priority sections of national road network | 60 | No |
| | 2001 | Financing for small and medium-scale ventures (3 loans) | 46 | Yes (on 36m) |
| | 2002 | Construction of two stretches of motorway | 60 | No |

| | | | | |
|------------------|------|--|------------|-----|
| | 2002 | Rehabilitation of motorways | 50 | No |
| | 2002 | Modernisation of air traffic control | 20 | No |
| | 2003 | Expansion and modernisation of Croatian gas transmission system and onshore section of new gas line linking existing network of gas fields in Adriatic Sea and, ultimately, to Italian network | 90 | No |
| | 2003 | Financing for small and medium-scale infrastructure schemes | 50 | No |
| | 2003 | Financing for small and medium scale ventures | 20 | Yes |
| | 2003 | Financing for small and medium scale ventures | 10 | Yes |
| | 2004 | Construction of Zupanja-Lipovac motorway section (Pan-European Corridor X) | 45 | No |
| Total | | | 491 | |
| Hungary | 2001 | Rehabilitation and upgrading of railway network | 40 | No |
| Total | | | 40 | |
| Lithuania | 2000 | Renovation and modernisation of port infrastructure at Klaipeda | 10 | No |
| | 2001 | Construction and upgrading of road sections of Pan-European Corridors (Via Baltica, Via Hanseatica and Vilnius-Klaipeda motorway) | 50 | No |
| Total | | | 60 | |
| Romania | 2000 | Upgrading of power transmission network | 96 | No |
| | 2000 | Upgrading of waste collection, processing and disposal facilities and of electricity supply equipment at Port of Constanta | 15 | No |
| | 2000 | Rehabilitation and upgrading of around 650 km of roads | 245 | No |
| | 2000 | Modernisation of 60 trains within Bucharest's metro system, and safety improvements to partially constructed tunnel | 115 | No |
| | 2000 | Modernisation of tram network in Bucharest | 7 | No |
| | 2000 | Modernisation of ticketing and seat-reservation system and of railway maintenance equipment | 15 | No |
| | 2000 | Rehabilitation and modernisation of urban infrastructure in Bucharest | 110 | No |

| | | | |
|------|--|-----|-----|
| 2000 | Reconstruction of basic infrastructure damaged by heavy floods and implementation of watercourse management and flood prevention schemes | 250 | No |
| 2001 | Financing for small and medium-scale ventures (2 loans) | 40 | Yes |
| 2002 | Reinforcement and upgrading of 745 km of national roads | 240 | No |
| 2002 | Upgrading of water supply and sewage networks in five municipalities | 55 | No |
| 2002 | Improvement of navigation conditions in the Danube delta | 38 | No |
| 2002 | Financing of small and medium-scale ventures and contribution to modernisation of Bank (3 loans) | 50 | Yes |
| 2003 | Construction of section of new motorway in western Romania, linking towns of Arad and Timisoara, on Pan-European Corridor IV | 200 | No |
| 2003 | Rehabilitation of around 1400 pre-university schools throughout the country | 131 | No |
| 2003 | Rehabilitation and equipping of some 100 schools in Bucharest | 112 | No |
| 2003 | Construction of saw-mill at Sebes (2 loans) | 35 | Yes |
| 2004 | Upgrading and expansion of sewerage and water supply networks | 29 | No |
| 2004 | Financing of small and medium-scale ventures (2 loans) | 50 | Yes |
| 2005 | Investments in support of a comprehensive strategy for health care reform | 66 | No |
| 2005 | Support for programme to develop the infrastructure in small and medium sized towns | 13 | No |
| 2005 | Renewal and modernisation of a stretch of railway on TEN IV | 300 | No |
| 2005 | Reconstruction of flood damaged roads | 300 | No |
| 2005 | Construction of a motorway section and bypass on TEN IV | 250 | No |
| 2005 | Financing of small and medium-scale ventures | 20 | No |

| Total | | 2 782 | |
|-----------------|---|--------------|-----|
| Slovakia | 2000 Construction of motor vehicle production plant in Bratislava | 160 | Yes |
| | 2000 Modernisation of telecommunications network | 50 | Yes |
| | 2000 Global loan for financing of small and medium-scale ventures | 20 | Yes |
| | 2001 Construction of road bridge over Danube and several sections of urban access roads in Bratislava | 45 | No |
| | 2001 Realignment and technical upgrading of Hronsky Benadik-Nova Bana and Nova Bana-Rudno and Hronom sections of I/65 | 34 | No |
| | 2002 Construction and/or rehabilitation of water supply and sewerage infrastructure | 30 | No |
| | 2003 Nationwide improvements of road infrastructure | 68 | No |
| | 2003 Modernisation and increase of production capacity of a paper mill in Ruzemberok (Northern Slovakia) | 64 | Yes |
| | 2003 Construction of motorway section (D61) in south Bratislava | 27 | No |
| Total | | 498 | |
| Slovenia | 2001 Expansion and modernisation of fixed telecommunications network | 35 | Yes |
| Total | | 35 | |
| Turkey | 2000 Extension and modernisation of sewerage network in Bursa, west of Ankara - Bursa su ve Kanalizasyon Isletmesi Buski | 80 | No |
| | 2000 Industrial pollution abatement schemes, mainly involving upgrading of wastewater treatment plants and reduction of atmospheric pollution | 70 | No |
| | 2000 Global loan for financing of small and medium-scale ventures | 50 | No |
| | 2001 Wastewater treatment and sewerage networks in city of Mersin on Mediterranean coast | 60 | No |
| | 2001 Urban development in Eskisehir | 110 | No |
| | 2001 Financing for small and medium-scale ventures | 125 | No |

| | | | |
|---------------------|--|--------------|----|
| | 2002 Upgrading and doubling of some 500km of roads along two priority corridors | 225 | No |
| | 2002 Supply of IT teaching technology for primary schools | 50 | No |
| | 2003 Financing for small and medium-scale ventures | 100 | No |
| | 2004 Construction of tunnel including section under Bosphorus and upgrading of rolling stock and existing rail network | 80 | No |
| | 2004 First phase of construction of light rail transit system in Bursa | 55 | No |
| | 2004 Financing for small and medium-scale ventures | 150 | No |
| | 2004 Financing for small and medium sized ventures | 150 | No |
| | 2005 Construction of a wastewater treatment plant and rehabilitation of the storm water drainage system. | 30 | No |
| | 2005 Construction of a tunnel under the Bosphorus | 450 | No |
| | 2005 Financing of small and medium-scale ventures | 250 | No |
| Total | | 2 035 | |
| TERRA | 2000 Reconstruction of earthquake-damaged urban infrastructure (2 loans) | 300 | No |
| | 2000 Rehabilitation and reconstruction of earthquake-damaged industrial installations | 75 | No |
| | 2001 Rehabilitation and reconstruction of industrial installations in earthquake-damaged regions | 75 | No |
| | 2003 Rehabilitation and reconstruction of earthquake-damaged urban infrastructure | 150 | No |
| Total | | 600 | |
| Turkey - SAP | 2002 Conversion of gas storage installations | 90 | No |
| | 2002 Improvement of water and sewerage services in medium-sized towns | 40 | No |
| | 2003 Financing for small and medium-scale ventures | 100 | No |
| | 2004 Construction of tunnel including section under Bosphorus and upgrading of rolling stock and existing rail network | 120 | No |
| | 2004 Financing of small and medium-scale ventures | 100 | No |

| | | | | |
|--|--------------|--|--------------------|---------------------|
| Total | | | 450 | |
| TOTAL ACCESSION AND CANDIDATE COUNTRIES | | | 7 498 | |
| Western Balkans | | | | |
| Country | Year | Description | EUR million | Risk sharing |
| Albania | 2000 | Rehabilitation and upgrading of around 86 km of roads on Albania's main north-south corridor | 34 | No |
| | 2001 | Upgrading of power transmission and distribution networks | 30 | No |
| | 2001 | Rehabilitation of basic infrastructure of port of Durrës and reconstruction of breakwater | 17 | No |
| | 2003 | Extension and rehabilitation of water supply and sewerage networks serving 5 municipalities | 27 | No |
| | 2004 | Construction of combined cycle thermal power plant in Vlore | 40 | No |
| | 2005 | Realisation of a new single carriageway road (37 km new alignment and 33 km rehabilitation of existing road) | 35 | No |
| | Total | | 183 | |
| FYROM | 2003 | Upgrading of several electricity substations and transmission lines | 13 | No |
| | Total | | 13 | |
| Bosnia and Herzegovina | 2000 | Rehabilitation of electricity transmission and supply networks | 60 | No |
| | 2002 | Modernisation of a cement factory and construction of a new production line | 25 | Yes |
| | 2005 | Financing for small and medium-scale ventures | 20 | Yes |
| | 2005 | Financing for small and medium-scale ventures | 10 | Yes |
| | 2005 | Construction of several sections of railway on the north-south and east-west axes | 86 | No |
| | 2005 | Construction of a stretch of 4-lane highway | 65 | No |
| | 2005 | Financing for small and medium-scale ventures | 30 | Yes |
| | Total | | 296 | |

Serbia and Montenegro

| | | | |
|------|--|-----|-----|
| 2001 | Rehabilitation of transport infrastructure in Serbia and Montenegro; road repair, reconstruction of breakwater at port of Bar and infrastructure works at Belgrade International Airport | 66 | No |
| 2002 | Rehabilitation of 860 km of roads and motorways | 95 | No |
| 2002 | Rehabilitation of principal railway axes. | 85 | No |
| 2002 | Rehabilitation and modernisation of electricity infrastructure | 70 | No |
| 2002 | Financing of small and medium-scale ventures | 20 | No |
| 2003 | Upgrading of urban transport (tramway) and road networks in Belgrade | 90 | No |
| 2003 | Modernisation of twenty regional hospitals and state-owned Torlak Institute in Serbia | 50 | No |
| 2003 | Modernisation of power control system of state-owned electricity utility | 22 | No |
| 2004 | Rehabilitation of existing carriageway between Belgrade and Novi Sad (Pan-European Corridor X) and repair of road section between Podgorica and Bar (Adriatic Coast) (2 loans) | 144 | No |
| 2004 | Urgent rehabilitation and modernisation of Podgorica and Tivat airports | 12 | No |
| 2004 | Rehabilitation and upgrading of water supply and wastewater collection and treatment networks in Novi Sad and Nis | 25 | No |
| 2004 | Financing of small and medium-scale ventures | 45 | No |
| 2005 | Rehabilitation and modernisation of Air Traffic Control infrastructure | 34 | No |
| 2005 | Construction of eight pre-university schools and modernisation of a special needs school | 25 | No |
| 2005 | Financing of small and medium-scale ventures | 20 | Yes |
| 2005 | Financing of small and medium-scale ventures | 10 | Yes |
| 2005 | Financing of small and medium-scale ventures | 30 | Yes |
| 2005 | Financing of small and medium-scale ventures | 25 | Yes |
| 2005 | Upgrading of roads and bridges | 9 | No |

| | |
|---|--------------|
| Total | 877 |
| TOTAL WESTERN BALKANS | 1 369 |
| TOTAL ACCESSION AND CANDIDATE COUNTRIES, WESTERN BALKANS | 8 867 |

Table 4: Cofinancings (EUR million)

| Country | Year | Project | Cost | EIB | PHARE / ISPA | Multilateral Institutions | Bilateral Institutions | Other |
|--|-------------|---|-------------|------------|---------------------|----------------------------------|-------------------------------|--------------|
| Accession and Candidate Countries | | | | | | | | |
| Bulgaria | 2002 | Rehabilitation of electricity distribution sector | 153 | 60 | | 41 | | 52 |
| | 2004 | Construction of combined (road and rail) bridge on Pan-European Corridor IV | 180 | 70 | 70 | 25 | | 15 |
| Croatia | 2002 | Construction of two stretches of motorway | 177 | 60 | | 60 | | 57 |
| | 2002 | Rehabilitation of motorways | 112 | 50 | | 47 | | 15 |
| | 2002 | Modernisation of air traffic control | 47 | 20 | | 20 | | 7 |
| Lithuania | 2001 | Construction and upgrading of road sections of Pan-European Corridors | 153 | 50 | 65 | | | 38 |
| Romania | 2000 | Upgrading of power transmission system | 200 | 96 | 21 | 54 | | 29 |
| | 2000 | Rehabilitation of 650km of roads | 491 | 245 | 72 | | | 174 |
| | 2002 | Reinforcement and upgrading of 745 km of national roads | 480 | 240 | 25 | | | 215 |
| | 2002 | Upgrading of water supply and sewage networks in five municipalities | 253 | 55 | 163 | | | 35 |
| | 2003 | Rehabilitation of around 1400 pre-university schools throughout the country | 175 | 131 | | 44 | | |

| | | | | | | | | |
|----------|------|---|-----|-----|-----|-----|----|-----|
| | 2004 | Upgrading of sewerage and water supply networks | 120 | 29 | 79 | | | 12 |
| | 2005 | Investment in support of a comprehensive strategy for health care reform | 168 | 66 | | 65 | | 37 |
| | 2005 | Support for programme to develop the infrastructure in small and medium sized towns | 39 | 13 | 14 | 7 | | 5 |
| | 2005 | Renewal and modernisation of a stretch of railway on TEN IV | 820 | 300 | 500 | | | 20 |
| | 2005 | Construction of a motorway section and bypass on TEN IV | 680 | 250 | | 100 | | 330 |
| Slovakia | 2002 | Construction and/or rehabilitation of water supply and sewerage infrastructure | 120 | 30 | 60 | | | 30 |
| Slovenia | 2001 | Expansion and modernisation of fixed telecoms network | 75 | 35 | | 40 | | |
| Turkey | 2001 | Urban development in Eskisehir | 232 | 110 | | 28 | 48 | 46 |
| | 2002 | Upgrading and doubling of some 500km of roads along two priority corridors | 927 | 225 | | 315 | | 387 |
| | 2005 | Construction of a wastewater treatment plant and rehabilitation of the storm water drainage | 75 | 30 | | | 18 | 27 |

| | | | | | | | | |
|--|------|--|--------------|--------------|--------------|--------------|------------|----------------------------|
| | | system | | | | | | |
| | 2005 | Construction of a tunnel under the Bosphorus | 2 000 | 450 | | | 625 | 925 (inc. 200 EIB loan) |
| TERRA | 2000 | Rehabilitation and reconstruction of earthquake-damaged urban infrastructure | 493 | 150 | | 79 | | 264 |
| | 2000 | Rehabilitation and reconstruction of earthquake-damaged industrial installations | 493 | 150 | | 79 | | 264 |
| | 2003 | Rehabilitation and reconstruction of earthquake-damaged urban infrastructure | 300 | 150 | | 150 | | |
| Turkey SAP | 2002 | Improvement of water and sewerage services in medium-sized towns | 96 | 40 | | 51 | | 5 |
| Total Accession and Candidate Countries | | | 9 059 | 3 105 | 1 069 | 1 205 | 691 | 2 989 |

Western Balkans

| | | | | | | | | |
|---------|------|---|-----|----|---|----|----|----|
| Albania | 2000 | Rehabilitation and upgrading of about 86km of roads | 71 | 34 | 8 | | 20 | 9 |
| | 2001 | Upgrading of power transmission and distribution networks | 191 | 4 | | 45 | 96 | 46 |
| | 2001 | Rehabilitation of basic infrastructure of port of Durrës and reconstruction of breakwater | 35 | 17 | 1 | 13 | 2 | 2 |
| | 2004 | Construction of combined-cycle thermal power plant in Vlore | 96 | 40 | | 50 | | 6 |

| | | | | | | | | |
|---|------|--|---------------|--------------|--------------|--------------|------------|--------------|
| | 2005 | Upgrading and modernisation of a 70km stretch of road on the north-south axe | 101 | 35 | 3 | 35 | | 28* |
| Bosnia and Herzegovina | 2000 | Rehabilitation of electricity networks | 223 | 60 | | 70 | 62 | 31 |
| | 2002 | Modernisation of a cement factory and construction of a new production line | 75 | 25 | | 25 | | 25 |
| Serbia and Montenegro | 2001 | Rehabilitation of transport infrastructure | 132 | 66 | 25 | | | 41 |
| | 2002 | Rehabilitation of 860 km of roads and motorways | 191 | 95 | | 75 | 2 | 19 |
| | 2002 | Rehabilitation of principal railway axes | 171 | 85 | | 61 | 8 | 17 |
| | 2002 | Rehabilitation and modernisation of electricity infrastructure | 140 | 70 | | 53 | | 17 |
| | 2005 | Rehabilitation and modernisation of air traffic control system | 112 | 34 | | 34 | | 44 |
| | 2005 | Construction of eight pre-university schools and modernisation of a special school | 50 | 25 | 13 | 9 | | 3 |
| | 2005 | Upgrading of roads and bridges | 79 | 9 | 3 | 14 | | 53* |
| Total Western Balkans | | | 1 667 | 599 | 53 | 484 | 190 | 341 |
| TOTAL ACCESSION AND CANDIDATE COUNTRIES, WESTERN BALKANS | | | 10 726 | 3 704 | 1 122 | 1 689 | 881 | 3 330 |

* Could include some further EIB financing

EIB lending activity in the Mediterranean countries**2.1 Objectives and priorities**

In order to give a new impetus to growth in the Mediterranean Partner Countries (MPCs), the EU Council, in March 2002 in Barcelona, called for a new major initiative for the Mediterranean Region. The EIB answered this call by expanding and restructuring all its operations in the Mediterranean region, and integrating them into the Facility for Euro-Mediterranean Investment and Partnership (FEMIP), launched by the Finance Ministers of the then 15 EU Member States and 12 MPCs²⁵ at a meeting held in Barcelona on 18 October 2002.

FEMIP's objective is to help the MPCs meet the challenges of economic and social modernisation and enhanced regional integration, with a view to the planned creation of a free-trade area between Europe and the MPCs by 2010. FEMIP is primarily focussing on development of the private sector, both by providing direct support to private sector enterprises in the region and creating the necessary "enabling environment" for private sector investment. In addition to the more traditional infrastructure and industry sectors, FEMIP has also addressed regional cooperation projects and investment in health and education. It has provided technical assistance for the design of projects and reforms in different economic sectors, and this aspect is being reinforced by a recently established Trust Fund.

The EIB has implemented FEMIP in close cooperation with all participants in the region's development: the European Commission and the MPCs, the international and local banking community, and multi- and bilateral financial institutions.

All activities of the Bank in the region have taken place under the FEMIP umbrella comprising (for the MED element²⁶) of the following financial envelopes:

- (1) Continuation of EIB's own resources operations under the current guaranteed lending mandate. The EIB's lending under mandate takes place mainly within the framework of the Euro-Mediterranean Partnership, in support of the economic development of the countries concerned. EIB lending supports individual investment projects and, through the global loan mechanism, smaller projects and SMEs, while at the same time strengthening the financial sector in the various countries.
- (2) In addition to its lending under mandate and at the request of the Council, the EIB has implemented a programme of lending from its own resources (undertaken under Article 18 of the EIB's Statute), without budgetary guarantee, to finance projects of mutual interest between the EU and MPCs. This financial envelope (EUR 1 billion over the period 2002-2006) was entrusted to the Bank by the Nice

²⁵ Following the accession of Malta and Cyprus in 2004, the MPC are now ten.

²⁶ EIB Lending to Turkey is also included under FEMIP, though is part of the Southern Eastern Neighbours mandate (see Annex 1).

European Council in 2000 and is known as the Euro-Mediterranean Partnership Facility (or “Nice Facility”). Until mid-2005 the Bank has lent approximately EUR 400 million under this Facility, with the expectation that operations will accelerate so that the full envelope of EUR 1 billion will be utilised by end-2006. At the Barcelona summit in November 2005, the Heads of State/Government welcomed the EIB’s initiative to create an additional facility (“FEMIP Interim Facility”) of up to EUR 1.5 billion from its own resources to bridge the funding of FEMIP, if needed, in order to guarantee continuity of operations in the region until the renewal of the external mandates.

- (3) EIB own resources lending is complemented by interest subsidies (for loans in the environmental sector), risk capital and technical assistance funds, all granted by the European Commission under the MEDA budget and managed by the Bank.

In addition to the above-mentioned instruments, in 2003 a “Special FEMIP Envelope” (SFE) was introduced to allow the EIB to undertake selected investments of a greater risk profile than would otherwise have been the case. This envelope is aimed at reinforcing the EIB’s support for the private sector. In 2005, two operations were signed for an amount of EUR 80 million. A third SFE operation was approved in Jordan in 2005 but has not yet been signed, due to hesitations by the Jordanian authorities on the applicability of the Framework Agreement between Jordan and the Bank to purely private sector operations. With a project pipeline up to EUR 80-90 million in estimated capital utilisation, it is foreseen that the first EUR 100 million SFE tranche will be soon fully depleted. A request for an additional EUR 100 million for SFE operations is being submitted to EIB governing bodies.

In 2004, with voluntary contributions from several donors, a FEMIP Trust Fund was established with the goal of contributing to private sector development in the region through the financing of risk capital and technical assistance projects.

2.2 Results and assessment of the operations as at 31 December 2005

The 2nd lending mandate for MED (EUR 6 520 million for the period 2000 to 2007, i.e. annual average of EUR 930 million per year) was a considerable reinforcement (increase of more than 20%) compared to the first lending mandate (EUR 2 310 million for the period 1997-1999, i.e. annual average of EUR 770 million per year).

Global performance under the 2nd mandate, measured by loans signed, has been very satisfactory. The high take-up of loans under the 2nd mandate has been accompanied by a considerable change in the relative share of beneficiaries. The Table 1 below (geographical breakdown of lending during the reference period) shows that loans on own resources were signed in 8 countries, i.e. all of the applicable Mediterranean countries except Israel. Egypt and Tunisia, with a total share of 50%, have been the main beneficiaries of lending under the mandate. The other main beneficiaries are Algeria and Morocco, which were also among the main beneficiaries under the first mandate.

Table 1: Geographical breakdown of EIB lending as at 31 December 2005

| LOANS SIGNED | | | |
|---------------------|------------------------|---------------------------|------------|
| Country | Number of loans | Amount EUR million | % |
| Algeria | 9 | 787 | 13 |
| Egypt | 15 | 1 609 | 26 |
| Gaza-West Bank | 3 | 58 | 1 |
| Jordan | 5 | 226 | 4 |
| Lebanon | 6 | 320 | 5 |
| Morocco | 20 | 1 078 | 17 |
| Syria | 6 | 690 | 11 |
| Tunisia | 25 | 1 504 | 24 |
| TOTAL | 89 | 6 272 | 100 |

Regarding the sector composition of EIB lending, Table 2 below shows that Water and Miscellaneous, Communications (including road infrastructure) and Energy represent the most important targets for EIB support. The Energy sector already accounted for more than 21% of total lending under the first mandate, but the Communications sector, representing 6% under the first mandate, has increased considerably.

Table 2: Breakdown by country and sector of EIB lending under mandate in the Mediterranean countries

| Country | Energy | | Communi- cations | | Water & Miscell. | | Industry & Services | | Global loans | | Total loan signatures | |
|-------------------|---------------|-----------|-----------------------------|-----------|---------------------------------|-----------|------------------------------------|----------|-------------------------|-----------|----------------------------------|------------|
| | EUR m | % | EUR m | % | EUR m | % | EUR m | % | EUR m | % | EUR m | % |
| Algeria | 0 | 0 | 263 | 33 | 455 | 58 | 69 | 9 | 0 | 0 | 787 | 100 |
| Egypt | 1 024 | 64 | 340 | 21 | 105 | 7 | 0 | 0 | 140 | 9 | 1 609 | 100 |
| Gaza-West Bank | 45 | 78 | 3 | 5 | 0 | 0 | 0 | 0 | 10 | 17 | 58 | 100 |
| Jordan | 100 | 44 | 26 | 12 | 40 | 18 | 60 | 27 | 0 | 0 | 226 | 100 |
| Lebanon | 0 | 0 | 105 | 33 | 105 | 33 | 0 | 0 | 110 | 34 | 320 | 100 |
| Morocco | 330 | 31 | 407 | 38 | 281 | 26 | 30 | 3 | 30 | 3 | 1 078 | 100 |
| Syria | 400 | 58 | 150 | 22 | 0 | 0 | 100 | 14 | 40 | 6 | 690 | 100 |
| Tunisia | 250 | 17 | 375 | 25 | 264 | 17 | 135 | 9 | 480 | 32 | 1 504 | 100 |
| TOTAL | 2 149 | 34 | 1 669 | 27 | 1 250 | 20 | 394 | 6 | 810 | 13 | 6 272 | 100 |

Financing **infrastructure** projects remains an important task for the Bank as such projects are often essential to support the development of the private sector. As part of its support for public sector projects, the Bank has been able to allocate substantial amounts

to projects with clear environmental benefits. Most of these projects concern the provision of clean water and sewerage. Other such projects concern waste treatment or the rehabilitation of polluted sites. In many cases the Bank's support for such environmental projects has relied upon prior studies financed under the METAP's technical assistance programme. In these sectors, where affordability of the improved service is often an issue for end-users and where externalities create a wedge between often low financial rates of return and higher economic ones, the availability of interest subsidies, funded from Commission resources, has proved useful.

The inclusion of **health and education** among the list of eligible sectors recognises the importance of human capital for private sector development. In particular, as the MPC do not appear to have a competitive advantage in terms of their unskilled labour costs, unlike other regions of the world, a well-trained labour force is an important factor for private sector investment decisions, particularly in the case of foreign direct investment. Moving away from its past focus on physical infrastructure projects, the Bank has been able to increase its support for social infrastructure in several countries.

In addition, global loans have been used in order to meet the financing needs of local SMEs and have contributed to the creation of a substantial number of jobs²⁷. An EIB evaluation report on financing with own resources through global loans under the Mediterranean mandates has found that the financial value-added provided by the Bank to these operations has generally been significant or high, mostly because throughout the region medium-long term financing has been limited in supply and access to the international financial markets was also restricted. The report concludes that the fact that the EIB is a regular provider of medium-long term financing to financial intermediaries has provided reliable support for the gradual modernisation and expansion of the private sector in the region.²⁸

Public sector entities continue to be the main, direct recipients of EIB lending in a region where infrastructure and utility companies continue to remain in the hands of governments. On the other hand, the Bank's support for the private sector in MPCs has taken, over the years, two different forms: "direct" private sector support to private enterprises in the region (SMEs, medium to large corporates, etc) as well as support towards the creation of an "enabling environment" where the private sector can thrive and prosper. This means that although the borrower may have been the government or a public sector entity, EIB financing was directed to a project supporting future private sector investment.

The table below illustrates the development of "direct" private sector operations undertaken under mandate in MPCs over the period²⁹.

²⁷ Support to SMEs provided under risk capital resources from the EU budget is not reflected in Table 2, which refers only to lending under mandate.

²⁸ "EIB financing with own resources through global loans under Mediterranean mandates, December 2004." The evaluation report covers global loans under Mediterranean mandates during the period 1994-2003.

²⁹ "Direct" private sector support operations include all operations in which the borrower or final beneficiary was private (i.e. including all global loans)

Table 3: Breakdown by private/public sector of EIB lending under mandate in the Mediterranean countries

| | | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | Total 2000- 2005 |
|-------------------------------|-------|------------|------------|--------------|--------------|--------------|--------------|---------------------|
| “Direct” private sector | EUR m | 145 | 130 | 80 | 378 | 252 | 457 | 1 442 |
| | % | 29 | 14 | 8 | 29 | 18 | 41 | 23 |
| Public sector | EUR m | 356 | 780 | 920 | 945 | 1 185 | 645 | 4 831 |
| | % | 71 | 86 | 92 | 71 | 82 | 59 | 77 |
| Total | | 501 | 910 | 1 000 | 1 323 | 1 437 | 1 102 | 6 273 |

The swings in “direct” private sector figures are mostly attributable to swings in global loans signatures, as these are generally renewed only once previous lines of credit are fully exhausted. As a general trend, “direct” support to the private sector in MPCs has more than doubled in absolute terms since the establishment of FEMIP at the end of 2002.

In addition, the figures above do not take into account the private sector operations signed by the Bank within the same period under mandates other than EuroMed II. In particular, operations signed under the Euro-Mediterranean Partnership Facility, which can generally be classified as pure private sector support (mostly taking the form of support to FDI in the field of energy), are excluded. Nor can they be taken as representative of FEMIP private sector activity as a whole, as they refer to private sector operations in nine MPCs only, Turkey being excluded.

Similarly risk capital operations financed from EU budgetary funds from the MEDA programme and managed by the Bank, are also excluded. Through risk capital operations, the Bank provides support to the development of the private sector in the MPCs by way of equity or quasi-equity investments in small to mid-sized companies. These operations can be either intermediated or direct. Intermediated operations include investments in private equity funds and global loans on risk capital whereby the Bank co-invests with the intermediary, sharing the overall risk on the final private sector beneficiary. Direct operations concern equity stakes or participating loans (i.e. with a variable interest rate, function of the performance of the company) in private companies usually of larger size. By holding shares in most of the funds operating in the region, the EIB has helped develop such vehicles and, through its presence, has acted as a catalyst for other investors. Thanks to the availability of these budgetary funds, the Bank has been able to further broaden support to SMEs by including the provision of a broad and diversified range of financial products (participating, conditional or subordinated loans)³⁰. In recent years the Bank has also been actively promoting and supporting micro-finance initiatives in the region.

³⁰ Support for SMEs provided under risk capital resources from the EU budget is not reflected in Table 2, which refers only to lending under mandate.

Table 4: Overview of risk capital operations 2000-2005³¹

| | | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | Total 2000- 2005 |
|----------------------|-------|------|------|------|------|------|------|---------------------|
| Total amount signed | EUR m | 27.6 | 6.0 | 37.0 | 13.5 | 14.0 | 45.0 | 143.1 |
| | % | 19 | 4 | 26 | 9 | 10 | 31 | 100 |
| Number of operations | | 5 | 1 | 3 | 2 | 2 | 3 | 16 |
| | % | 31 | 6 | 19 | 13 | 13 | 19 | 100 |

Finally, extending private sector lending in the Mediterranean region depends to a large extent on the overall level of private sector investment in the region, in particular FDI and other forms of “bankable” private sector activity. Although recent years have seen a surge of financial flows to the region, such capital inflows have been highly concentrated in a handful of countries and sectors and still appear very low both by international standards and when compared to other developing regions. The main reasons for this weakness are structural obstacles (i.e. lack of market sector reforms) combined with regional instability.

The establishment of the FEMIP TA Support Fund, funded by MEDA budgetary means and managed by the EIB, in July 2003 further provided FEMIP with a new instrument to improve the quality and development impact of its lending operations in the Mediterranean region. Through TA operations the Bank provides support to the MPCs for project preparation, implementation and evaluation, institutional reform and capacity building. So far, most TA operations have been directed towards environment (project management services for water and wastewater projects, environmental studies and capacity building measures for utilities), infrastructure (project management services for road construction and maintenance, port modernisation, private participation in infrastructure and social housing) and private sector support (long-term lending to SMEs in the context of global loan operations, setting up and strengthening risk capital intermediaries, feasibility and market studies). TA support for the energy, health and education sectors has proven less relevant because of the existence of competent promoters (e.g. in the energy sector) and the reluctance of MPCs to use non-concessional finance for health and education projects. In all sectors technical assistance is beginning to play an important role in enhancing the added value provided by EIB loans and risk capital operations.

³¹ Most of the operations concern “global authorisations”, giving a framework authorisation to sign individual operations. Between 2000 and 2005, the Bank has taken participations in 7 funds and financed 18 local private companies directly. This table excludes 155 operations signed between 2000 and 2005 on global authorisations pre-dating 2000 for an amount of around EUR 100 m.

Table 5: EIB Loans signed as at 31 December 2005 in the Mediterranean countries

| Country | Year | Description | EUR million | Risk sharing |
|----------------|-------------|---|--------------------|---------------------|
| Algeria | 2000 | Completion of three sections of east-west motorway, south-west and south-east of Algiers - Banque Algérienne de Développement | 95 | No |
| | 2001 | Completion of drinking water supply network between Taksebt dam and Algiers | 225 | No |
| | 2002 | Construction of a motorway section | 70 | No |
| | 2002 | Construction and operation of a new cement factory (2 loans) | 60 | Yes |
| | 2002 | Improvement of the roadway network in the Algiers neighbourhood | 50 | No |
| | 2002 | Reconstruction following flood damage | 45 | No |
| | 2003 | Reconstruction and repair of infrastructure in areas hit by earthquake | 230 | No |
| | 2004 | Increase in capacity of M'silia cement plant | 12 | Yes |
| Total | | | 787 | |
| Egypt | 2000 | Rehabilitation and extension of agricultural land drainage networks in Nile valley and delta | 50 | No |
| | 2000 | Global loan for financing of small and medium-scale ventures | 50 | No |
| | 2001 | Construction of natural gas-fired combined-cycle power plant in Cairo | 150 | No |
| | 2001 | Financing for small and medium-scale ventures | 30 | No |
| | 2002 | Construction of a natural gas power plant | 150 | No |
| | 2002 | Extension of the Cairo metro-line | 50 | No |

| | | | | |
|-----------------------|--------------|---|--------------|-----|
| | 2003 | Construction of liquefied natural gas plant in Idku, east of Alexandria. | 153 | Yes |
| | 2003 | Construction of second 650MW module for natural gas-fired combined-cycle power plant | 150 | No |
| | 2003 | Modernisation and extension of wastewater collection and treatment network | 55 | No |
| | 2004 | Construction of liquefied natural gas plant (LNG) | 94 | Yes |
| | 2004 | Construction of two natural gas-fired combined-cycle power generation modules | 160 | No |
| | 2004 | Acquisition of Airbus aircraft for fleet renewal | 290 | No |
| | 2004 | Financing for small and medium-scale ventures | 60 | No |
| | 2005 | Construction of a second liquefied natural gas plant | 117 | Yes |
| | 2005 | Construction of two gas pipelines | 50 | No |
| | Total | | 1 609 | |
| Gaza-West Bank | 2000 | Global loan for financing of small and medium-scale ventures | 10 | No |
| | 2000 | Port Construction | 3 | No |
| | 2005 | Technical improvement and reinforcement of the electricity distribution network | 45 | No |
| | Total | | 58 | |
| Jordan | 2000 | Construction of manufacturing facilities for bromine and bromine derivatives at Safi, on southern shore of Dead Sea | 30 | No |
| | 2000 | Development of Eshidiya phosphate mine in south-eastern Jordan | 30 | No |
| | 2003 | Construction of Amman ring road | 26 | No |
| | 2003 | Reform of elementary education system and schools in Jordan | 40 | No |

| | | | | |
|----------------|------|--|------------|-----|
| | 2004 | Construction of gas pipeline across Jordan | 100 | No |
| Total | | | 226 | |
| Lebanon | 2002 | Extension of port infrastructure | 45 | No |
| | 2004 | Upgrading and extension of sewerage networks | 45 | No |
| | 2004 | Financing of small and medium-scale ventures | 60 | No |
| | 2005 | Two new road investments of national and regional priority | 60 | No |
| | 2005 | Construction of a water purification plant | 60 | No |
| | 2005 | Financing of small and medium-scale ventures | 50 | Yes |
| Total | | | 320 | |
| Morocco | 2000 | Construction and improvement of rural roads in northern provinces | 53 | No |
| | 2000 | Development of a gold mine in Akka, southern Morocco | 30 | Yes |
| | 2001 | Construction of pumped storage power plant, south-east of Casablanca | 90 | No |
| | 2001 | Construction of two motorways between Sidi El Yamani and Tangier and between Casablanca and El Jadida | 100 | No |
| | 2001 | Improvement of drinking water supply in several Moroccan towns | 50 | No |
| | 2001 | Rehabilitation of hydro-agricultural equipment belonging to Regional Agricultural Development Agencies | 40 | No |
| | 2002 | Increase in the electricity interconnection capacity between Morocco and two of its neighbours (Spain and Algeria) | 120 | No |
| | 2002 | Environment protection | 20 | No |
| | 2003 | Construction of Settat-Marrakesh | 110 | No |

| | | | | |
|--------------|------|---|--------------|-----|
| | | motorway, completing Casablanca-Marrakesh link constituting first section of North-South route | | |
| | 2003 | Rehabilitation and extension of sewerage network and construction of first sewage treatment plant in city of Oujda, eastern Morocco | 30 | No |
| | 2003 | Creation and extension of professional training centres in tourism, textiles and information and communications technologies sectors | 30 | No |
| | 2003 | Upgrading of infrastructure of 5 Moroccan ports (Tangiers, Larache, El Jadida, Essaouira and Sidi Ifni) | 14 | No |
| | 2004 | Modernisation and environmental upgrading of thermal power plant | 40 | No |
| | 2004 | Construction of wind farm | 80 | No |
| | 2004 | Upgrading of wastewater collection and treatment works | 20 | No |
| | 2004 | Upgrading of wastewater collection and treatment works | 20 | No |
| | 2004 | Upgrading of areas of unsanitary social housing | 71 | No |
| | 2005 | Improvement of rural roads throughout the country | 60 | No |
| | 2005 | Construction of a section of the Settat-Marakesh motorway, which will form part of the Casablanca-Marakesh link constituting the first section of the North/South link. | 70 | No |
| | 2005 | Financing of small and medium-scale ventures | 30 | Yes |
| Total | | | 1 078 | |
| Syria | 2002 | Construction and equipping of regional hospitals | 100 | No |
| | 2003 | Upgrading and development of Port of Tartous on Lebanese border | 50 | No |
| | 2003 | Financing of small and medium- | 40 | No |

| | | | | |
|----------------|------|---|------------|-----|
| | | scale ventures | | |
| | 2004 | Construction and operation of natural gas-fired combined-cycle power plant | 200 | No |
| | 2005 | Construction of a gas-fired, combined cycle power plant | 200 | No |
| | 2005 | Extension of the fixed-line telephone network in rural areas | 100 | No |
| Total | | | 690 | |
| Tunisia | 2000 | Upgrading of power transmission and supply network | 45 | No |
| | 2000 | Extension of the light metro network in Tunis | 30 | No |
| | 2000 | Doubling of Tunis-Sousse rail line and modernisation of rail network in Sousse region | 25 | No |
| | 2000 | Development of regional systems for solid waste management | 25 | No |
| | 2000 | Global loan for financing of small and medium-scale ventures | 25 | No |
| | 2001 | Upgrading and construction of road network around lake of Bizerte, north of Tunis | 30 | No |
| | 2001 | Upgrading of drinking water supply to eastern coastal regions of Sahel and Sfax | 95 | No |
| | 2001 | Financing for small and medium-scale ventures mounted by Tunisian enterprises | 100 | No |
| | 2002 | Electricity transport | 150 | No |
| | 2002 | Construction of a toll motorway | 120 | No |
| | 2002 | Modernisation of a cement factory and extension of production capacity | 20 | Yes |
| | 2003 | Financing for small and medium-scale ventures | 150 | No |

| | | | |
|--------------------------------------|--|--------------|-----|
| 2003 | 2003-2006 public healthcare investment programme | 110 | No |
| 2003 | Upgrading of gas supply, transmission and distribution network | 55 | No |
| 2003 | Extension and modernisation of public urban rail transport in Greater Tunis | 45 | No |
| 2003 | Modernisation and expansion of metallurgical plant producing galvanised sheet steel in Bay of Sabra, north-west of Tunis | 35 | Yes |
| 2004 | Improvement of country's urban road infrastructure | 65 | No |
| 2004 | Construction of rail link for transporting phosphogypsum waste and upgrading of national rail network | 20 | No |
| 2004 | Improvement of road networks of Greater Tunis and other cities | 40 | No |
| 2004 | Decontamination of Taparura coastal site in greater Sfax area | 34 | No |
| 2004 | Global loan for financing local authority investment | 25 | No |
| 2005 | Establishment and construction of five specialised "technopoles" (science and technology parks) | 80 | No |
| 2005 | Financing of small and medium-scale ventures | 70 | No |
| 2005 | Financing of small and medium-scale ventures | 60 | No |
| 2005 | Financing of small and medium-scale ventures | 50 | No |
| Total | | 1 504 | |
| TOTAL MEDITERRANEAN COUNTRIES | | 6 272 | |

Table 6: Cofinancings (EUR million)

| Country | Year | Project | Cost | EIB | Multilateral Institutions | Bilateral Institutions | Other |
|-----------------------|-------------|--|-------------|------------|----------------------------------|-------------------------------|--------------|
| Algeria | 2001 | Completion of drinking water supply network between Taksebt dam and Algiers | 540 | 225 | | 30 | 285 |
| | 2002 | Construction and operation of a cement plant | 264 | 46 | 35 | | 183 |
| | 2004 | Increase in capacity of M'silia cement plant | 160 | 13 | 8 | 8 | 131 |
| Egypt | 2000 | Rehabilitation and extension of agricultural land drainage networks in Nile valley and delta | 284 | 50 | 52 | 42 | 140 |
| | 2001 | Construction of natural gas-fired combined-cycle power plant in Cairo | 426 | 150 | 146 | | 130 |
| | 2002 | Construction of a natural gas power plant | 531 | 150 | | 189 | 192 |
| | 2002 | Extension of the Cairo metro-line | 133 | 50 | | 29 | 54 |
| | 2003 | Construction of second 650 MW module for natural gas-fired combined-cycle power plant | 350 | 150 | 93 | | 107 |
| | 2004 | Construction of liquefied natural gas (LNG) plant | 1 022 | 94 | 94 | | 834 |
| | 2004 | Construction of two natural gas-fired combined-cycle power generation modules | 569 | 160 | 97 | 70 | 242 |
| Gaza/ West Bank | 2005 | Technical improvement and reinforcement of the electricity distribution | 98 | 45 | | 53 | |
| Jordan | 2000 | Development of Eshidiya phosphate Mines | 116 | 30 | | 15 | 71 |
| | 2000 | Construction of manufacturing facilities for bromine | 85 | 30 | | 18 | 37 |
| | 2003 | Construction of Amman Ring road | 123 | 26 | 58 | | 39 |
| | 2003 | Reform of elementary education | 335 | 40 | 106 | 75 | 114 |

system and schools in Jordan

| | | | | | | | |
|---------|------|---|-----|------------------------|----|----|-----|
| Lebanon | 2004 | Upgrading and extension of sewerage networks | 112 | 45 | | 45 | 22 |
| | 2005 | Construction of a section of motorway | 155 | 60 | 35 | | 60 |
| Morocco | 2000 | Construction and improvement of rural roads | 118 | 53 | | 24 | 41 |
| | 2000 | Development of a gold mine in the Western Atlas | 71 | 30 | | 20 | 21 |
| | 2001 | Construction of pumped storage power plant, south-east of Casablanca | 230 | 90 | 84 | | 56 |
| | 2001 | Construction of two motorways between Sidi El Yamani and Tangier and between Casablanca and El Jadida | 320 | 100 | 80 | 40 | 100 |
| | 2001 | Improvement of drinking water supply in a number of Moroccan towns | 139 | 50 | | 58 | 31 |
| | 2002 | Increase in the electricity interconnection capacity between Morocco and two of its neighbours (Spain and Algeria) | 362 | 120 | 82 | 50 | 110 |
| | 2003 | Rehabilitation and extension of sewerage network and construction of first sewage treatment plant in city of Oujda | 65 | 30 | 4 | 12 | 19 |
| | 2003 | Creation and extension of professional training centres in tourism, textiles and information and communication technologies sectors | 70 | 30 | | 17 | 23 |
| | 2004 | Construction of wind farm | 172 | 80 | | 50 | 42 |
| | 2004 | Upgrading of wastewater collection and treatment networks | 59 | 20 | | 20 | 19 |
| | 2005 | Construction of a section of motorway to complete the link Casablanca-Settat | 408 | 70 | 83 | 51 | 94 |
| | | | | (in 2004 EIB loan 110) | | | |
| Syria | 2002 | Construction and equipping of | 333 | 100 | | 24 | 209 |

| | | | | | | | |
|--------------|------|---|--------------|--------------|--------------|--------------|--------------|
| | | regional hospitals | | | | | |
| | 2004 | Construction and operation of natural gas-fired combined-cycle power plant | 415 | 200 | 100 | | 115 |
| Tunisia | 2000 | Extension of the light metro network in Tunis | 67 | 30 | | 13 | 24 |
| | 2000 | Doubling of rail line and modernisation of rail network | 81 | 25 | 21 | | 35 |
| | 2000 | Development of regional systems for solid waste management | 59 | 25 | | 9 | 25 |
| | 2001 | Upgrading of drinking water supply to eastern coastal regions of Sahel and Sfax | 199 | 95 | 34 | 25 | 45 |
| | 2002 | Construction of a toll motorway | 310 | 120 | | 110 | 80 |
| | 2004 | Construction of rail link for transporting phosphogypsum waste and upgrading of national rail network | 62 | 20 | | 35 | 7 |
| | 2004 | Global loan for financing local authority investment | 198 | 25 | 80 | 50 | 43 |
| TOTAL | | | 9 041 | 2 787 | 1 292 | 1 182 | 3 780 |

EIB lending activity in Latin America and Asia**3.1 Objectives and priorities**

The Bank's financing in eligible Asia and Latin America countries (ALA) has been managed in such a way as to support Community policies in accordance with the terms of the mandate.

Projects financed by the EIB must serve the interest of both the European Union and the country in which the investment is implemented (details are included in Table 4 below).

In this context, particular emphasis has been placed on supporting EU foreign direct investment in ALA and to a lesser extent on investments that contribute to regional integration, and improvement of the environment in host countries. The EIB has also been able to support some projects involving the transfer of European technology and joint ventures with, or concessions to, European companies.

3.2 Results and assessment of the operations as at 31 December 2005

In ALA, the Bank has provided 44 loans, with a geographical coverage of 18 countries, for a total amount of EUR 1 942 million under the current mandate so far (ALA III). This amount is equivalent to 78% of the total amount available for the seven-year period.

The pattern of activity (see Table 1 below) to date has been broadly one third of lending in Asia and two thirds in Latin America. The geographical imbalance of financings under the mandate can be explained in part by the focus of the ALA mandate on supporting projects of mutual interest, in particular projects linked to EU foreign direct investment in ALA countries. Indeed, the distribution of EIB loans broadly reflects the geographical pattern of these investments in ALA countries. The geographical imbalance has been partly corrected by the recent EUR 500 million loan to support Beijing Airport, which had been extended outside the ALA mandate.

Some 80% of loans were made to private sector borrowers, particularly in support of European investors in the area, with a balanced breakdown by origin of EU promoters.

The EIB cooperates, whenever possible and appropriate, with the multilateral development institutions (Asian Development Bank, Inter-American Development Bank, International Finance Corporation) and the regional development banks. For example, a Memorandum of Understanding between the EIB and the Inter-American Development Bank was signed in December 2004. Cooperation has also been good with the European banking sector in the sphere of both direct joint financing and guarantees. During the period under review, the Bank co-financed 24 projects (see Table 5 below).

Table 1: Geographical breakdown of EIB lending as at 31 December 2005

| LOANS SIGNED | | | |
|---------------------------|------------------------|---------------------------|------------|
| Country | Number of loans | Amount EUR million | % |
| Asia | | | |
| China | 1 | 56 | 3 |
| India | 1 | 50 | 3 |
| Indonesia | 4 | 189 | 10 |
| Laos | 1 | 42 | 2 |
| Pakistan | 1 | 43 | 2 |
| Philippines | 3 | 159 | 8 |
| Sri Lanka | 1 | 40 | 2 |
| Thailand | 1 | 26 | 1 |
| Vietnam | 1 | 30 | 2 |
| Subtotal | 14 | 635 | 33 |
| Latin America | | | |
| Argentina | 5 | 219 | 11 |
| Brazil | 18 | 801 | 41 |
| Mexico | 2 | 86 | 4 |
| Panama | 2 | 95 | 5 |
| Regional Central America* | 3 | 106 | 6 |
| Subtotal | 30 | 1 307 | 67 |
| TOTAL | 44 | 1 942 | 100 |

* Global loan to Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua

Table 2: Breakdown by country and sector of EIB lending in Latin America and Asia

| Country | Energy/Environment | | Communi-cations | | Water & Miscell. | | Industry & Services | | Global loans | | Total loan signatures | |
|----------------------------|--------------------|-----------|-----------------|-----------|------------------|----------|---------------------|-----------|--------------|-----------|-----------------------|------------|
| | EUR m | % | EUR m | % | EUR m | % | EUR m | % | EUR m | % | EUR m | % |
| Asia | | | | | | | | | | | | 0 |
| China | 0 | 0 | 56 | 100 | 0 | 0 | 0 | 0 | 0 | 0 | 56 | 100 |
| India | 50 | 100 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 50 | 100 |
| Indonesia | 70 | 37 | 50 | 26 | 0 | 0 | 0 | 0 | 69 | 37 | 189 | 100 |
| Laos | 42 | 100 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 42 | 100 |
| Pakistan | 43 | 100 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 43 | 100 |
| Philippines | 0 | 0 | 0 | 0 | 0 | 0 | 93 | 58 | 66 | 42 | 159 | 100 |
| Sri Lanka | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 40 | 100 | 40 | 100 |
| Thailand | 0 | 0 | 26 | 100 | 0 | 0 | 0 | 0 | 0 | 0 | 26 | 100 |
| Vietnam | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 30 | 100 | 30 | 100 |
| Total Asia | 205 | 32 | 132 | 21 | 0 | 0 | 93 | 15 | 205 | 32 | 635 | 100 |
| Latin America | | | | | | | | | | | | |
| Argentina | 135 | 62 | 0 | 0 | 20 | 9 | 64 | 29 | 0 | 0 | 219 | 100 |
| Brazil | 225 | 28 | 113 | 14 | 0 | 0 | 389 | 49 | 74 | 9 | 801 | 100 |
| Mexico | 0 | 0 | 0 | 0 | 0 | 0 | 86 | 100 | 0 | 0 | 86 | 100 |
| Panama | 0 | 0 | 95 | 100 | 0 | 0 | 0 | 0 | 0 | 0 | 95 | 100 |
| Regional Central America | 36 | 34 | 0 | 0 | 0 | 0 | 0 | 0 | 70 | 66 | 106 | 100 |
| Total Latin America | 396 | 30 | 208 | 16 | 20 | 2 | 539 | 41 | 144 | 11 | 1 307 | 100 |
| TOTAL | 601 | 31 | 340 | 18 | 20 | 1 | 632 | 33 | 349 | 18 | 1 942 | 100 |

A reasonable balance and diversification has been achieved as regards the sectoral distribution with Energy/Environment, Industry/Services and Communication being the most important sectors (see Table 2 above). This can be explained by the fact that the EIB's activities in the ALA private sector are mainly market/sector driven.

In the selection of projects, the Bank has particularly supported those that contribute both to a significant improvement of services through the more efficient use of resources and to an improvement of the environmental situation.

In addition, the Bank has continued in its effort to make available the benefits of its financing to Small and Medium Size Enterprises (SMEs) through global loans. Under the current mandate to date, 14% of funds have been allocated for such facilities, an increase over the early years of the mandate and a trend that is expected to continue.

Table 3: EIB Loans signed as at 31 December 2005 in Latin America and Asia

| Asia | | | | |
|----------------------|-------------|--|--------------------|---------------------|
| Country | Year | Description | EUR million | Risk sharing |
| China | 2001 | Construction of toll expressway and ancillary roads between Nanning and Vietnamese border | 56 | No |
| India | 2003 | Financing for small and medium-scale ventures | 50 | Yes |
| Indonesia | 2000 | Extension of Sumatra's gas transmission network, including project to export gas to Singapore | 70 | No |
| | 2001 | Financing for small and medium-scale ventures | 19 | Yes |
| | 2002 | Expansion of mobile communications network | 50 | Yes |
| | 2005 | Financing of small and medium-scale ventures | 50 | Yes |
| Total | | | 189 | |
| Laos | 2005 | Construction and operation of a reservoir type hydro power plant. | 42 | No |
| Pakistan | 2003 | Construction of oil pipeline for transportation of refined petroleum | 43 | No |
| Philippines | 2001 | Construction of second integrated circuits assembly and test plant in Calamba near Manila | 93 | Yes |
| | 2004 | Financing of small and medium-scale ventures | 41 | Yes |
| | 2004 | Financing of small and medium-scale ventures (2 loans) | 25 | No |
| Total | | | 159 | |
| Sri Lanka | 2002 | Financing of small and medium-scale ventures | 40 | No |
| Thailand | 2000 | Construction of air traffic control complex at second Bangkok international airport | 26 | No |
| Vietnam | 2005 | Financing of small and medium-scale ventures | 30 | No |
| TOTAL ASIA | | | 635 | |
| Latin America | | | | |
| Argentina | 2000 | Expansion and conversion of gas-fired power station into combined-cycle plant in Tucumán, northern Argentina | 58 | Yes |
| | 2000 | Extension of water supply and sewerage | 20 | Yes |

| | | | | |
|---------------|------|--|------------|-----|
| | | networks of Posadas and Garupá, in Misiones Province, eastern Argentina | | |
| | 2000 | Construction of glass-container production line in Mendoza | 17 | Yes |
| | 2001 | Construction of gas-fired power plant in Buenos Aires metropolitan area | 77 | Yes |
| | 2001 | Production of gearboxes for passenger cars in Córdoba | 47 | Yes |
| Total | | | 219 | |
| Brazil | 2000 | Modernisation and extension of mobile telephony network in six north-eastern States | 58 | Yes |
| | 2000 | Modernisation and extension of mobile telephony network in States of Bahia and Sergipe in north-eastern Brazil (2 loans) | 55 | Yes |
| | 2000 | Modernisation of two plants for manufacturing new range of compact passenger cars, in State of São Paulo | 91 | Yes |
| | 2001 | Expansion and modernisation of natural gas distribution network in State of São Paulo | 47 | Yes |
| | 2001 | Expansion and modernisation of power transmission and distribution networks in State of Rio de Janeiro | 34 | Yes |
| | 2001 | Construction of cold-rolling and hot-dip galvanising plant in State of Santa Catarina | 58 | Yes |
| | 2001 | Planting of eucalyptus forests in State of Bahia for producing pulpwood | 33 | Yes |
| | 2002 | Expansion and modernisation of electricity network | 55 | Yes |
| | 2003 | Construction and operation of eucalyptus-based pulp mill | 65 | Yes |
| | 2003 | Modernisation and expansion of light-vehicle tyre production unit | 45 | Yes |
| | 2003 | Financing of small and medium-scale ventures (2 loans) | 49 | Yes |
| | 2003 | Financing of small and medium-scale ventures | 25 | Yes |
| | 2003 | Modernisation and expansion of natural gas distribution network | 35 | Yes |

| | | | | |
|---|------|---|--------------|-----|
| | 2004 | Construction of third blast furnace for steel slab production | 57 | Yes |
| | 2005 | Technical and environmental upgrading of a refinery | 54 | Yes |
| | 2005 | Construction of a new production plant for vehicle tyres | 40 | Yes |
| Total | | | 801 | |
| Mexico | 2001 | Construction of glass fibre production plant near Puebla, eastern Mexico | 16 | Yes |
| | 2004 | Construction and upgrading of vehicle and engine production facilities | 70 | Yes |
| Total | | | 86 | |
| Panama | 2001 | Upgrading and extension of telecommunications installations | 54 | Yes |
| | 2004 | Construction of second bridge over Panama canal and associated motorway links | 41 | No |
| Total | | | 95 | |
| Regional Central America | 2002 | Financing of small and medium-scale ventures | 30 | No |
| | 2003 | Power Interconnector | 36 | No |
| Regional Andean Countries | 2005 | Financing of small and medium-scale ventures | 40 | No |
| Total | | | 106 | |
| TOTAL LATIN AMERICA | | | 1 307 | |
| GRAND TOTAL ASIA AND LATIN AMERICA | | | 1 942 | |

Table 4: Mutual interest of projects in Latin American and Asian countries

| Country | Year | Project | Mutual interest |
|------------------|-------------|--|---|
| Asia | | | |
| China | 2001 | Construction of toll expressway and ancillary roads between Nanning and Vietnamese border | The project facilitates regional cooperation between China, Vietnam and other countries of the Greater Mekong Subregion, as well as internal communication. A European consultancy company has been involved in the project preparation and, during implementation, an international consultant will strengthen the project supervision unit. |
| India | 2003 | Financing of small and medium-scale ventures | The borrower is a 75% owned subsidiary of a European bank. Such a global loan is considered an effective way for the Bank to start its activities in the private sector in India and support investment projects of a mutual interest. |
| Indonesia | 2000 | Extension of Sumatra's gas transmission network, including a pipeline to export gas to Singapore | The project is expected to have a positive impact on the environment both in Indonesia and in Singapore. In addition, it will stimulate regional development between Indonesia and Singapore, two member states of ASEAN. |
| | 2001 | Financing of small and medium-scale ventures | The borrower is a majority-owned subsidiary of a European bank and the allocations will be targeted at investments undertaken by EU companies or including other forms of EU interest. |
| | 2002 | Expansion of mobile communications network | The borrower is a wholly owned subsidiary of a European bank. In addition, the project will involve the transfer of European know-how and technology to the telecom sector. |
| | 2005 | Financing of small and medium-scale ventures | The borrower is a majority-owned subsidiary of a European bank and the allocations will be targeted at investments undertaken by EU companies or including other forms of EU interest. |
| Laos | 2005 | Construction and operation of a | A European company, EDF, plays a critical role as lead developer and lead shareholder; moreover, it will be technical service provider to the project when operations will start. |

| | | | |
|--------------------|------|---|--|
| | | reservoir type hydro power plant | This project involves significant transfers of technology and know-how from Europe. |
| Pakistan | 2003 | Construction of oil pipeline for transportation of refined petroleum | The borrower is engaged in a number of marketing ventures with several EU companies and the project will help a major EU-based oil company to protect its strategic presence in the region. |
| Philippines | 2001 | Construction of second integrated-circuits assembly and test facility in Calamba, near Manila | The project concerns a significant investment of a major EU-based industrial group in the Philippines. It will help a European company which is operating at a global level to optimise its production cycle for semiconductors and therefore to improve its international competitiveness. |
| | 2004 | Financing of small and medium-scale ventures - 2 operations | The operations support EU development and cooperation policies with the Philippines as well as the local operations of a EU financial intermediary. Moreover, allocations will support investment projects featuring a European interest, for instance, the transfer of technology and EU – Filipino Joint Ventures. |
| Sri-Lanka | 2002 | Financing of small and medium-scale ventures | One of the shareholders is an EU development finance institution and the allocations are targeted at investments undertaken by EU companies or including other forms of EU interest. |
| Thailand | 2000 | Construction of air traffic control complex at second Bangkok international airport | The project is of mutual interest due to its contribution to enhancement of communications between Thailand and the EU. The project also stimulates regional development and integration. |
| Vietnam | 2005 | Financing of small and medium-scale ventures | The project facilitates the implementation of projects featuring a mutual interest carried out by joint ventures between EU and Vietnamese entities. |

| Country | Year | Project | Mutual interest |
|----------------|-------------|----------------|------------------------|
|----------------|-------------|----------------|------------------------|

| | | | |
|----------------------|------|--|--|
| Latin America | | | |
| Argentina | 2000 | Expansion and conversion of gas-fired power station into combined-cycle plant in Tucumán, northern Argentina | Apart from the involvement of a European shareholder (REPSOL), the project will result in the transfer of technology, thus enabling more efficient use of local energy resources. Commercial banks participate as co-financiers under a COFACE facility and by providing their guarantee. |
| | 2000 | Extension of water supply and sewerage networks of Posadas and Garupá, in Misiones Province, eastern Argentina | There will be a European shareholder (Dragados group) and the project will involve the transfer of technology and beneficial effects on the environment. Commercial banks participate by providing their guarantee. |
| | 2000 | Construction of glass-container production line in Mendoza | In addition to the involvement of an EU shareholder (Saint Gobain Group), the project contributes to the competitiveness of the Argentinean viticulture and has environmental benefits deriving from the increased use of recycled glass. |
| | 2001 | Construction of gas-fired power plant in Buenos Aires metropolitan area | The project involves two European shareholders, ENDESA and REPSOL. It will enhance the competitiveness of a European service business beyond its home market in the EU. |
| | 2001 | Production of gearboxes for passenger cars in the Córdoba province | The project is implemented by the subsidiary of a leading European company, the Volkswagen group, which has established a prominent position in Latin America in general. The project will result in transfers of technology from Europe, create jobs and help develop the country's exports of automotive parts. |
| Brazil | 2000 | Modernisation and extension of mobile telephony network in six north-eastern States | A company owned, managed and operated by a leading European shareholder, Telecom Italia, implements the project. TI has made massive strategic long-term investments in Latin America in general, and in Brazil in particular. In addition, the project has significant developmental potential in an underdeveloped region that has historically been overlooked by commercial lenders. |

| | | | |
|--|------|--|---|
| | 2000 | Modernisation and extension of mobile telephony network in States of Bahia and Sergipe in north-eastern Brazil | The project is implemented by a company owned, managed and operated by leading European shareholders with a strategic long-term commitment to Latin America, and to Brazil in particular. As with the project mentioned above, this project allows the Bank to support an underdeveloped region that has historically been overlooked by commercial lenders. |
| | 2000 | Modernisation of two plants for manufacturing new range of compact passenger cars, in State of São Paulo | The project is implemented by the subsidiary of a leading European company, the Volkswagen group, which has established a prominent position in Latin America in general, and in Brazil in particular. The project results in transfers of technology from Europe. In addition, it helps safeguard jobs and improve the quality of the Brazilian vehicle fleet in terms of emissions and safety, and contribute to the modernisation of local manufacturing industries. |
| | 2001 | Expansion and modernisation of natural gas distribution network in State of São Paulo | The project is implemented by Comgás, which is owned and operated by EU companies (BG and Shell). The project will contribute to the competitiveness of these companies. In addition, it will contribute to the improvement of the environment and to regional integration in the Southern Cone of Latin America. |
| | 2001 | Expansion and modernisation of power transmission and distribution networks in State of Rio de Janeiro | The project is implemented by a joint venture with strong European participation and management control. There will also be a transfer of know-how from Europe. The financial intermediary, Banco BBA Creditanstalt, S.A. has a European shareholder, the Bank Austria Group, holding 48% of capital. |
| | 2001 | Construction of cold-rolling and hot-dip galvanising plant in State of Santa Catarina | The project is promoted and partially owned and operated by Arcelor, a leading European company in its sector. Also, it will support the international growth strategies of Arcelor's main customers and result in significant transfers of technology from Europe. The contractor selected to build the core facilities is European, as also are a majority of the equipment suppliers. |
| | 2001 | Planting of eucalyptus forests in State of Bahia for producing pulpwood | Implemented by a company owned and managed by Finland's Stora-Enso, in joint venture with two Brazilian companies, the project will help this EU company to |

| | | |
|------|---|--|
| | | consolidate its presence in Latin America and provide a source of cheaper, high-quality raw material, contributing thereby to the improvement of its international competitiveness. The project should also have a globally positive impact on the environment and is in line with the recommendations of the Kyoto protocol, as well as with the EU policy on climate change. |
| 2002 | Expansion and modernisation of electricity network | The borrower is a company owned and operated by an EU company. The project will extend and improve infrastructure in a very poor area. |
| 2003 | Construction and operation of eucalyptus-based pulp mill | One of the main shareholders of the borrower is from an EU country. Also one of the co-financiers is a European development finance institution. |
| 2003 | Modernisation and expansion of light-vehicle tyre production unit | This loan will further support a strategic investment project implemented by an EU company to bolster its competitiveness in a leading emerging market, where it has established a prominent position. |
| 2003 | Financing of small and medium-scale ventures – 2 operations | The two intermediaries have long-standing relationships with subsidiaries of EU companies. The facility will enhance the support provided by the Bank to European companies investing in Brazil. |
| 2003 | Modernisation and expansion of natural gas distribution network | A EU company is one of the main shareholders and the operator of the concession. |
| 2004 | Construction of third blast furnace for steel slab production | The project supports investments that enhance the presence of EU companies in ALA countries. A European company is the largest shareholder and other European companies will act as suppliers of equipment and technology, but also probably of certain vital raw materials. The proposed investment will help this leading European steel company to consolidate its presence in Brazil, one of the world's fast growing markets, where it currently employs about 13 500 employees . |
| 2005 | Technical and environmental | The project will consolidate the strategic presence of a European partner in Brazil. |

| | | | |
|----------------------------------|------|---|--|
| | | upgrading of a refinery | |
| | 2005 | Construction of a new production plant for vehicle tyres | This strategic investment project implemented by a European company will bolster its competitiveness in a leading emerging market. It will consolidate the company's market share and also involves the transfer of state-of-the-art technology. |
| Mexico | 2001 | Construction of glass fibre production plant near Puebla, eastern Mexico | Vetrotex America S.A. belongs to the Saint-Gobain group. The project will contribute to increasing the competitiveness of this European group in North America and to its overall growth. |
| | 2004 | Construction an upgrading of vehicle and engine production facilities | The project, to be implemented by the subsidiary of a leading European company, will bring strategic advantages to the promoter by assuring its position in the key NAFTA market. |
| Panama | 2001 | Upgrading and extension of telecommunications installations | This is a joint venture with strong European participation and management control through the Cable and Wireless Group. The project will involve the transfer of technology and know-how and help the presence in the Panamanian market of one of the most important European firms in the sector. |
| | 2004 | Construction of second bridge over Panama canal and associated motorway links | The project will involve a European constructor and consultant. |
| Regional Central America | 2002 | Financing of small and medium-scale ventures | The allocations will be targeted at investments undertaken by subsidiaries of EU companies or EU-Central American joint-ventures, or including other type of EU interest. |
| | 2003 | Power Interconnector | The Bank's contribution will strengthen the presence of a European company in a strategic regional market and will complete a financing package including multilateral and bilateral financing. |
| Regional Andean Countries | 2005 | Financing of small and medium-scale ventures | In a context where term financing is very scarce and costly, the project will enhance the support the Bank can provide to projects presenting a mutual interest for the host |

| | | |
|--|--|-----------------------|
| | | countries and the EU. |
|--|--|-----------------------|

Table 5: Cofinancings (EUR million)

| Country | Year | Project | Cost | EIB | Multilateral Institutions* | Bilateral and National Institutions+ | Other |
|----------------------|------|--|-------|-----|----------------------------|--------------------------------------|-------|
| Asia | | | | | | | |
| China | 2001 | Construction of toll expressway and ancillary roads | 521 | 56 | 170 | | 295 |
| Indonesia | 2000 | Extension of Sumatra's gas transmission network | 750 | 70 | 217 | 194 | 269 |
| | 2002 | Expansion of mobile communications network | 1 370 | 50 | | 140 | 1 180 |
| Laos | 2005 | Construction and operation of a reservoir type hydro power plant | 998 | 42 | 100 | 66 | 790 |
| Philippines | 2001 | Construction of second integrated circuits assembly and test plant | 415 | 93 | | | 322 |
| Thailand | 2000 | Construction of air traffic control complex | 70 | 26 | | | 44 |
| Latin America | | | | | | | |
| Argentina | 2000 | Expansion and conversion of a gas-fired power station into a combined-cycle plant in Tucuman | 205 | 58 | | | 147 |
| | 2000 | Extension of water supply and sewerage networks | 71 | 20 | 23 | | 28 |
| | 2000 | Construction of glass container | 57 | 17 | | | 40 |
| | 2001 | Construction of gas fired power plant | 433 | 77 | | | 356 |
| | 2001 | Production of gearboxes for passenger cars | 167 | 47 | | 113 | 7 |
| Brazil | 2000 | Modernisation of mobile telephony in six North-Eastern States | 300 | 58 | | 53 | 189 |
| | 2000 | Modernisation of mobile telephony in Bahia and Sergipe | 174 | 55 | | 38 | 81 |
| | 2000 | Modernisation of two car-manufacturing plants | 1 675 | 91 | | 837 | 747 |

| | | | | | | | |
|--------------------------|------|--|---------------|--------------|------------|--------------|--------------|
| | 2001 | Expansion of natural gas distribution network in São Paulo | 189 | 47 | | 95 | 47 |
| | 2001 | Expansion of power transmission network in Rio de Janeiro | 254 | 34 | | | 220 |
| | 2001 | Construction of cold-rolling and hot-dip galvanising plant | 462 | 58 | | 178 | 226 |
| | 2001 | Planting eucalyptus forest for producing pulpwood | 73 | 33 | | | 40 |
| | 2002 | Expansion electricity network | 223 | 55 | | 56 | 112 |
| | 2003 | Construction and operation of eucalyptus-based pulp mill | 765 | 65 | 57 | | 643 |
| | 2004 | Construction of blast furnace for steel slab production | 917 | 57 | | 248 | 612 |
| | 2005 | Technical and environmental upgrading of a refinery | 821 | 54 | | 218 | 549 |
| Mexico | 2001 | Construction of Glass fibre production plant | 95 | 16 | | | 79 |
| | 2004 | Construction and upgrading of vehicle and engine production facilities | 798 | 70 | | 100 | 628 |
| Panama | 2001 | Upgrading of telecommunications installations | 278 | 54 | | | 224 |
| Regional Central America | 2003 | Power Interconnector | 343 | 36 | 151 | 62 | 94 |
| TOTAL | | | 12 424 | 1 339 | 718 | 2 398 | 7 969 |

* International Finance Corporation, Asian Development Bank, Inter-American Development Bank

+ e.g. KfW, BNDES (National Bank of Brazilian Development)

EIB lending activity in the Republic of South Africa**4.1 Objectives and priorities**

Following the ending of the former apartheid regime and the establishment of a democratically-elected government in the Republic of South Africa ("RSA"), the Council asked the Bank to start a lending programme in that country, and in 1995 the first Framework Agreement between the Bank and RSA was signed.

The objective of the Bank programme is to contribute to the economic development of RSA - principally by promoting growth in the economy, having special regard to the historical disparities between different sections of the population and the need to improve the living conditions and economic "empowerment" of historically-disadvantaged persons ("HDPs").

4.2 Results and assessment of the operations as at 31 December 2005

The mandate was 92% committed at end of December 2005, across 14 projects, with the expectation that it will be fully utilised by the end of 2006. The projects have been selected according to the objectives mentioned above and in close consultation with the South African authorities. For each individual operation, the National Treasury of RSA is asked for its consent and a regular briefing on the progress of the programme takes place.

The Bank's strategy has been to strike a balance between direct lending operations to well-defined projects, and indirect lending to local financial institutions for on-lending to smaller projects, whose individual full appraisal would not be cost-effective for the Bank. Whereas 46% of all loans committed until end 2005 fall into the first category, 54% are of the second type. For its indirect lending the Bank has focussed on two categories of financial intermediaries:

- a) the two main local development finance institutions, Development Bank of Southern Africa (DBSA), focussing on municipal infrastructure, and Industrial Development Corporation (IDC), specialised in SME finance;
- b) private sector banks and financial institutions, including the major commercial banks and Infrastructure Finance Corporation (INCA)

Whilst the former are "natural" counterparts of the Bank to reach the municipal and the SME market, providing wholesale finance to private sector banks allows EIB to make a valuable contribution to the development of the local financial market through the provision of long-term funding. Commercial banks are generally very reluctant to extend finance with maturities long enough to match the actual cash flow profile of most investment projects. Hence many economically viable projects are either financed on expensive overdraft facilities (with the risk of encountering liquidity problems), or are down-sized or postponed. As a result, the level of fixed investment essential for high GDP growth and employment is constrained at a sub-optimal level. The funding provided by the Bank helps ease this constraint by giving the banks access to a source of stable long-term finance in a wide range of currencies, including South African Rand.

All in all 7 global loans totalling EUR 445 million have been signed with five financial institutions. Approximately two-thirds of the funds have been channelled to the municipal sector, the remaining being aimed at SMEs. In addition, two framework loans totalling EUR 60m have been made specifically for urban infrastructure development.

Direct lending operations targeted major infrastructure projects in the energy (Motraco, Mozambique-RSA Natural Gas Pipeline), transport (N4 Platinum Highway) and water sector (Berg Water project).

Table 1: EIB lending in the Republic of South Africa

| Country | Year | Description | EUR million | Risk sharing |
|----------------|-------------|---|--------------------|---------------------|
| RSA | 1999 | Electric power transmission | 2 | No |
| | 2000 | Global loans for financing of small and medium-scale infrastructure (2 operations) | 50 | No |
| | 2001 | Financing for small and medium-scale infrastructure | 40 | No |
| | 2001 | Modernisation and technical upgrading of N1 linking Pretoria and Warmbaths to the north and N4 linking Pretoria and Botswana border to the west | 50 | No |
| | 2001 | Financing for small and medium-scale ventures | 60 | No |
| | 2002 | Financing for small and medium-scale infrastructure | 50 | Yes |
| | 2003 | Gas field development and construction of gas pipeline | 50 | No |
| | 2003 | Financing for small and medium-scale infrastructure | 100 | No |
| | 2003 | Financing for small and medium-scale infrastructure | 80 | No |
| | 2003 | Financing for small and medium-scale infrastructure | 30 | Yes |
| | 2004 | Construction of dam and related infrastructure for supplying water to Cape Town Metropolitan Area | 100 | No |
| | 2005 | Financing for rehabilitation of urban infrastructure | 30 | No |
| | 2005 | Construction of a water pipeline | 85 | No |
| | 2005 | Financing for rehabilitation of urban infrastructure | 30 | No |
| TOTAL | | | 757 | |

EIB funding is attractive for South Africa for two principal features:

- **Long maturity:** South Africa can find short and medium-term credit from the overseas capital markets, but this is not suitable funding for long-term development as the funds can flow out of the country as easily as they flow in. The Bank's facilities, extending up to 25 years for long-term infrastructure, have been very useful in this respect.
- **Funding in local currency:** the Bank's AAA credit rating, together with a relatively well-advanced Rand market, has enabled the Bank for some years to issue Euro-rand bonds and to mobilise treasury operations in Rand, thereby permitting it to denominate its loans to South African borrowers in this currency. For projects serving the local market - typically utilities with local currency revenues - borrowing from the Bank for long maturities in local currency has been especially useful, thereby allowing them to avoid any foreign exchange risk.
- Furthermore, the Bank's technical expertise has been called upon in the implementation of the projects, and the Bank's involvement has given comfort to other lenders and rating agencies, lowering the cost of funding.

Risk capital for emerging entrepreneurs. In 2001, the Commission - in consultation with the RSA authorities - asked the Bank to manage part (EUR 54.9 million) of its grant-aid programme in the form of a risk-capital financing facility to assist emerging entrepreneurs from the HDP communities, in particular by the provision of equity capital. This scheme supports the Government's Black Economic Empowerment policy and is channelled principally through the Industrial Development Corporation of South Africa. It has got off to a very encouraging start, with 93 allocations being made to subprojects (for nearly ZAR 400 million, thereby almost exhausting the total facility) between its launch in March 2002 and May 2005 and more than 6500 jobs were created. The project has pilot character in how best to leverage the impact of grant funds of the Commission to support SMEs, whilst at the same time involving the local financial sector.

EIB lending activity in Russia, Ukraine, Moldova and Belarus

5.1 Northern Dimension Environmental Projects/Russia Mandate

The EIB's first mandate for lending to Russia was intended to cover environmental projects in the Baltic Sea Basin of Russia, notably St Petersburg and Kaliningrad, with a total ceiling of EUR 100 million. The Northern Dimension Lending Mandate expired in May 2005.

Table 1: EIB lending in Russia

| Country | Year | Description | EUR million | Risk sharing |
|----------------|-------------|---|--------------------|---------------------|
| Russia | 2003 | St Petersburg South West Wastewater project | 25 | No |
| | 2005 | St Petersburg Vodokanal II | 20 | No |
| | 2005 | St Petersburg Flood Barrier project | 40 | No |
| TOTAL | | | 85 | |

5.2 Russia, Ukraine, Moldova and Belarus (WNIS)

The Russia/WNIS mandate was set up in December 2004, amounting to EUR 500 million. To date, only Russia and Ukraine have been confirmed by the Commission to have fulfilled the appropriate conditionality for EIB to start operations under this mandate but no operations have been signed until end of 2005. The EIB forecasts to commit EUR 225 million in 2006 and the remainder in the first half of 2007.