COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, 13.10.2003
COM(2003) 603 final

2003/0232 (CNS)

C5-0501-03

REPORT FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT AND THE COUNCIL

Mid-term review of EIB external lending mandate pursuant to Council Decision 2000/24/EC of 22 December 1999, as amended

Proposal for a

COUNCIL DECISION

amending Decision 2000/24/EC to take into account the enlargement of the European Union and the EU's Wider Europe – New Neighbourhood policy

(presented by the Commission)

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Mid-term review of EIB external lending mandate pursuant to Council Decision 2000/24/EC of 22 December 1999, as amended

1. INTRODUCTION

This report is submitted to the European Parliament and the Council in accordance with Articles 1 and 2 of Council Decision 2000/24/EC adopted on 22 December 1999, as amended (the "Council Decision"). The mid-term review of the lending mandate is explicitly foreseen in Article 1: "*The Commission shall report on the application of this Decision at the latest on 31 January 2004, or six months before any new accession treaties enter into force, and make proposals for amendments of this Decision if appropriate. The Council will discuss and act on any proposal with effect from 1 August 2004, or the date of entry into force of any new accession treaty*".

As requested in Article 2 of the Council Decision, the report, which covers the period from the beginning of the mandate to 31 December 2002, 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 Council Decision are backed by a Guarantee Fund for external actions established by the Council Regulation (EC, Euratom) 2728/94 of 31 October 1994. In parallel with this mid-term review report, and as foreseen in the Council Regulation 1149/1999 of 25 May 1999 amending Regulation 2728/94, the Commission is submitting to the European Parliament and the Council a comprehensive report on the Guarantee Fund for external operations.

This mid-term report 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 Bank's operations under the mandate as at 31 December 2002, the third section describes the operating environment and constraints under which the Bank operates and the fourth section addresses the outlook and the proposed changes for the remainder of the mandate period. The report is complemented by annexes, providing details and assessment of the Bank's operations by region (Central and Eastern Europe, Mediterranean countries, Latin America and Asia, Republic of South Africa).

Alongside this report, the Commission is presenting a proposal for revision of the Council Decision (COM 2003/...) reflecting the proposed changes for the remainder of the mandate period.

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 Yugoslavia[6];

f) **Decision by the Board of Governors of 28 March 2000** authorizing the Bank to lend on the basis of the Council Decision of 22 December 1999;

g) **Guarantee contract (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, and on 12 April 2002 and 6 May 2002.

2.2. Guarantee system

Based on the Council 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 sums[7]. Within this aggregate ceiling, defaults on individual loans are de facto covered up to 100%. The guarantee covers the commercial risk not underwritten by the risk-sharing arrangement (see point 2.2.2 below) as well as the political risk in all cases.

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1 published in Official Journal L 9 of 13 January 2000.
2 published in Official Journal L 308 of 3 December 1999.
3 published in Official Journal L 285 of 10 November 2000.
4 published in Official Journal L 314 of 14 December 2000.
5 published in Official Journal L 292 of 9 November 2001.
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 interest, commissions, charges, expenses, …, as defined in the Contrat de Cautionnement

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, broken down as follows:

–	Central and Eastern Europe (CEEC)[8]	EUR 9 280 million
–	Mediterranean countries (MED)	EUR 6 425 million
–	Latin America and Asia (ALA)	EUR 2 480 million
–	Republic of South Africa (RSA)	EUR 825 million
–	EC/Turkey Customs Union Special Action Programme (Turkey SAP)	EUR 450 million
–	Turkey Earthquake Reconstruction and Rehabilitation Action (TERRA)	EUR 600 million

The guarantee covers a period of seven years beginning on 1 February 2000 for Central and Eastern Europe, the Mediterranean countries, Latin America and Asia, and 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 covers 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 have not attained the ceiling. The commitment period for TERRA terminated on 29 May 2003.

The Bank's operations within the framework of the Council Decision support "*the Community's relevant external policy objectives for investment projects carried out in Central and Eastern Europe, the Mediterranean countries, Latin America and Asia and the 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 Council Decision, the EIB should secure where possible adequate non-sovereign third-party guarantees for commercial risks, with the budgetary guarantee in that case covering only political risk arising from currency non transfer, expropriation, war or civil disturbance.

The Council 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

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[8] including the Western Balkans (Albania, Bosnia and Herzegovina, Croatia, Serbia and Montenegro, Former Yugoslav Republic of Macedonia).

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 2002.

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 at 31 December 2002 pursuant to the Council Decision, together with a regional and sectoral breakdown. The results are presented separately for CEEC, MED (including Turkey SAP and TERRA), ALA and RSA in Annexes 1 to 4.

Table 1 below shows that loan signatures as at 31 December 2002 (i.e. two fifths of the duration of the CEEC, MED and ALA lending mandates and more than one third of the duration of the RSA mandate) represent 40% of the overall lending ceiling of EUR 20 060 million, but there are significant differences by regions. The figure for CEEC is lower than the average because the bulk of EIB lending to the Candidate Countries has been carried out without the Community guarantee under the Pre-Accession Facility established by the EIB in 2000.

Table 1: Loans signed as at 31 December 2002

Mandate		Signatures			
Region	**Ceiling** EUR million	**Total** EUR million	**% of ceiling**	**Number of loans**	**Average loan size** EUR million
CEEC	9 280	2 905	31	55	53
MED	6 425	3 177	49	44	72
ALA	2 480	1 113	45	23	48
RSA	825	252	31	6	42
Turkey SAP	450	130	29	2	65
TERRA	600	450	75	3	150
Total	**20 060**	**8 027**	**40**	**133**	**60**

The sectoral breakdown in Table 2 below shows that the Communications sector (Roads and Telecoms) accounted for almost 40% of total lending. More than half of the loans in this sector were granted in the CEEC region, with Romania, Bulgaria and Serbia and Montenegro receiving the biggest amounts for rehabilitation and upgrading of roads and railways, and construction of motorways (see details in Tables 2 and 3 in annex 1).

The Water (and Miscellaneous, i.e. urban rehabilitation) sector absorbed 19% of total lending, of which the main share was granted in the Mediterranean countries, in particular to Turkey (Wastewater treatment and sewerage networks and rehabilitation and reconstruction of earthquake-damaged urban infrastructure) and Algeria (Completion of drinking water supply network). Details are given in Tables 2 and 3 in annex 2.

The Energy sector absorbed 18% during the period under review. The major part went to the following Mediterranean countries (see details in Tables 2 and 3 in annex 2):

– Egypt: construction of natural gas power plant;

– Morocco: increase in the electricity interconnection capacity between Morocco and two of its neighbours (Spain and Algeria) and construction of pumped storage power plant;

– Tunisia: electricity transport.

Table 2: Sectoral breakdown of loans signed at 31 December 2002

Region	**Energy**		**Communica-tions**		**Water & Miscell.**		**Industry & Services**		**Global loans**		**Total**	
	EUR million	%	EUR million	%	EUR million	%	EUR million	%	EUR million	%	EUR million	%
CEEC	331	11	1 718	60	445	15	185	6	226	8	**2 905**	100
MED	705	22	941	30	755	24	386	12	390	12	**3 177**	100
ALA	341	31	299	27	20	2	355	32	98	9	**1 113**	100
RSA	2	1	100	40	0	0	0	0	150	59	**252**	100
Turkey SAP	90	69	0	0	40	31	0	0	0	0	**130**	100
TERRA	0	0	0	0	300	67	75	17	75	17	**450**	100
TOTAL	**1 469**	**18**	**3 058**	**38**	**1 560**	**19**	**1 001**	**12**	**939**	**12**	**8 027**	**100**

3.2. Progress towards the risk-sharing objective

3.2.1. Overview

As explained under point 2.2.2., the Community Guarantee covers both political and commercial risks, unless risk-sharing arrangements are made. Under risk-sharing, the EIB is expected to obtain third party guarantees to cover the commercial risk with an aim to have 30% of the portfolio secured this way. For these loans, only defined political risks (currency non-transfer, expropriation, war or civil disturbance) 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, which would otherwise not have been available or would have been too costly. Table 3 under 3.2.2. shows that the Bank had achieved at the end of 2002 19% in terms of risk-sharing loans as a proportion of total loans signed under the mandate overall. The results are very different under 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 CEEC/Balkans, MED or RSA.

Most of the lending operations in the Accession Countries, however, were carried out without EU guarantee under the Pre-Accession Facility, adopted by the Bank after the Council 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 unguaranteed lending should 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 19% (mandate 2000-2007 only) to 57% (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. While no loans had been signed under this Facility up to end-2002, it is evident that, as with the Pre-Accession Facility, future signatures within this framework will increase the Bank's effective risk-sharing performance even further.

It should also be highlighted that, so far, no call on the EU guarantee has been made for political risk coverage.

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 **CEEC** and the Balkans 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, are signed under the Pre-Accession Facility outside the framework of the mandate;

– Secondly, most projects financed in the **Mediterranean** countries so far have also been in the public sector – which largley resulted in the past from the priorities of the governments with which the Bank has been co-operating under the Euro-Mediterranean Partnership. Accordingly, most of the loans signed up until now have been signed with governments or public bodies. The implementation of FEMIP should however lead to an increased level of private-sector operations in MED;

– Thirdly, in contrast, the **ALA** mandate is specifically linked to projects of interest to both the Community and the countries concerned, especially commercial/industrial projects involving EU companies. As a result, most projects financed are in the private sector and supported by non-sovereign guarantees, which explains why a particularly high percentage of operations have benefited from the risk-sharing scheme;

– Lastly, the Bank has not yet made any risk-sharing operations in **South Africa**. Lending for public-sector projects has so far been supported by State guarantees. As for private-sector projects, representing 25% of total lending in South Africa, most of them are guaranteed by first-class local banks, whose international rating is identical to, and indeed constrained by, the rating of the Republic of South Africa.

Table 3: Risk-sharing achieved as at 31 December 2002

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**
CEEC	9 280	2 905	456	15,7	73,3
MED	6 425	3 177	106	3,3	15,2
ALA	2 480	1 113	891	80,0	80,0
RSA	825	252	0	0	0
Turkey SAP	450	130	0	0	0
TERRA (*)	600	450	-	-	-
EU Mandate Total	**20 060**	**8 027**	**1 453**	**19,2**	**57,1**
Pre-Accession Fac. II - CEEC	8 500	6 269	6 269		
Pre-Accession Fac. II - MED		445	445		
Med Partnership Facility	1 000	0	0		
Outside Mandate Total	**9 500**	**6 714**	**6 714**		
Overall Total	**29 560**	**14 741**	**8 167**		

(*) No risk-sharing is foreseen in the Council Decision 1999/786

3.3. Support for EU policies

The Council 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 CEEC countries should be support for the EU's pre-accession strategy and the facilitation of the enlargement process. The Decision also provides that lending in the ALA group should be directed towards projects that serve the interest of both the EU and the recipient countries. In the Mediterranean the policy framework is established by the Euro-Mediterranean Partnership and the Barcelona process. These regionally-specific approaches are considered in more detail in the annexes to this report and are considered further in 3.4. below.

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 to SMEs*

Significant levels of banking sector reform have already allowed the EIB to undertake global loan operations to support and promote long-term lending to SMEs and this form of financing is expected to continue to grow.

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 natural gas power plant in Egypt in 2002 (EUR 150 million), the development of a gold mine in Morocco in 2000 (EUR 30 million) and of a phosphate mine in Jordan in 2000 (EUR 30 million), the planting of forests for producing pulpwood in Brazil in 2001 (EUR 33 million) (Veracel forestry project in Brazil which contributes to sustainable forest development in the poor North-Eastern state of Bahia), and the construction of gas-fired power plant in Argentina in 2001 (EUR 77 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 an exercise in strategic co-ordination with the Commission is underway. More generally, **environmental concerns** are being 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. Generally, a first disbursement under any loan will only be made once environmental conditions are 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. For example, the following projects were signed in 2002: the construction and equipping of regional hospitals in Syria (loan of EUR 100 million) and the supply of IT teaching technology for primary schools in Turkey (loan of EUR 50 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 co-operation*

While a common feature inside the EU as well as in the Accession Countries, regional co-operation 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 Bank's geographical areas of intervention. Increasingly, regional co-operation is being used by developing countries in order to improve integration into the world economy by addressing trans-boundary problems.

3.3.5. Transition to development

The Bank's activity in the 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.

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 is being paid to improving the region's disaster preparedness by introducing safer standards for new construction financed with EIB loans in this earthquake-prone region.

3.4. Co-operation with Community programmes and other financial institutions

Given the type of projects the Bank supports, co-financing is a regular feature and 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 Finance Institutions (IFIs). By these means, EIB financing helps to mobilise domestic resources and in many cases also attracts international sources of finance.

The Bank's interventions in the public sector can require important 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 then go hand in hand.

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

Table 4 below provides information for the projects financed under the mandate where several financial institutions contribute together, and on the top of promoters, to the financing of the total cost of the project. On a total loan amount of EUR 8 027 million granted by the EIB, EUR 4 696 million regard projects co-financed. Details of the co-operation described in Table 4 are given for each of the geographical regions in the annexes.

Table 4: Cofinancings as at 31 December 2002

(EUR million)

Region	Cost	EIB	PHARE/ ISPA	Multilateral Institutions	Bilateral and Regional Institutions	Balance[9]
CEEC	3 602	1 437	457	625	193	890
MED	5 923	1 944	-	928	744	2 307
ALA	7 782	1 015	-	410	1 704	4 653
RSA	-	-	-	-	-	-
Turkey SAP	-	-	-	-	-	-
TERRA	986	300	-	158	-	528
TOTAL	**18 293**	**4 696**	**457**	**2 121**	**2 641**	**8 378**

3.4.1. Candidate countries

In the countries that are candidates for EU membership, the Bank's activities are conducted within the framework of the EU programme to help the candidate countries to prepare for accession, in particular by financing investment aimed at integrating their infrastructure with that of the EU and by assisting SMEs.

The co-ordination of the Bank's efforts and the Commission's Instrument for Structural policies for Pre-Accession (ISPA)[10] has been particularly important in the past two years in achieving successful implementation of transport and environmental projects through the structuring of appropriate financing plans. Similarly, co-operation with Commission's PHARE[11] instrument has been confirmed, particularly in the areas of regional development and SME financing. In addition to frequent 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 co-operates with PHARE in cofinancing infrastructure projects.

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[9] Funds of states, promoters and commercial banks.

[10] This instrument helps the Central and Eastern European countries applying for membership to improve the environmental situation and develop transport networks.

[11] Assistance programme for Central Europe.

The Commission and the Bank are currently co-operating in the development of two new co-financing schemes (the Municipal Infrastructure Facility and the Municipal Finance Facility). Both schemes combine EIB lending and EU grants (PHARE) to encourage financial institutions active in the Accession Countries to increase their lending activity for municipal investment projects.

3.4.2. Western Balkans

In the Western Balkans, close co-operation with IFIs has been key to the EIB's involvement. There is good co-ordination amongst EU institutions in order 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. The Bank also co-operates closely with the World Bank and EBRD within 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 Bank has taken a lead role.

In the Balkans, the Bank has also contributed through a series of **regional studies** to supporting the overall planning process. It has completed the Air Traffic Infrastructure Regional Study (ATIRS) and has co-ordinated closely with the European Commission on the Transport Infrastructure Regional Study (TIRS).

3.4.3. Mediterranean

In the Mediterranean, and especially within the framework of the Facility for Euro-Mediterranean Investment and Partnership (FEMIP)[12], the Bank is developing an approach which combines financing with contribution 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 MEDA[13], and the World Bank).

3.4.4. Latin America and Asia

Projects in ALA are financed in the broad framework of co-operation agreements but are not linked to specific Community assistance programmes.

The Bank actively promotes 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 banking sector with a view to optimising added value (see Table 5 in Annex 3).

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

[13] 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 partners.

3.4.5. Republic of South Africa

Institutional issues in South Africa are addressed mainly through close co-operation with the parallel EU funded programme of assistance and the South African Department of Treasury.

3.5. The Bank's instruments under the mandate

The Bank's main product in all regions is the **standard senior loan**, with stringent guarantee requirements, as per the Bank's statute. The vast majority of EIB interventions in the Mediterranean Partner Countries and the Balkans have been based on such loans. Of particular value are the long maturities of up to 25 years for the financing of infrastructure projects unavailable in local markets. In addition, the Bank has provided funding to local banks for on-lending to SMEs ("Global loans").

In the Mediterranean, loan operations for environmental projects have been supplemented with interest subsidies and limited grants for technical assistance under the Mediterranean Environmental Technical Assistance Programme (METAP)[14]. The EIB made available EUR 9 million for environmental protection in the Mediterranean. From 1999 until 31 March 2003, 21 feasibility studies were completed in the public sector. These feasibility studies have led so far to the identification of investments for EUR 1 672 million, which have been, or will be supported by some EUR 522 million of EIB loans. Nearly 60% of the studies focused on water resource management (principally wastewater and, to a lesser extent, water supply) and 31% on solid waste.

In the Mediterranean, the Bank has been able to use **risk capital from the Community's budget** to extend credit and capital investment lines to banks and also directly to invest in private equity funds. In South Africa, the Commission - in consultation with the RSA authorities - asked the Bank 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 by the provision of equity capital. This scheme, channelled principally through the Industrial Development Corporation of South Africa, has got off to a very encouraging start, with 25 subprojects being financed (17% of the total facility) in the first six months after the launch in March 2002.

A particular effort has been made in **Hungary, Poland, the Czech Republic and South Africa**, to develop EIB funding in local currency. The Bank's AAA credit rating, together with a relatively well-advanced local currency market, has 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 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 Bank for long maturities and are thus able to avoid any foreign exchange risk.

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[14] 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.

4. OPERATING ENVIRONMENT AND CONSTRAINTS

The operating environment of the Bank's operations in different regions presents factors which can act as constraints on the development of its activities. The most salient features for each of the regions can be summarized as follows:

4.1. Accession Countries

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 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 has been exacerbated by the **global economic downturn** which has impacted upon growth rates in some Accession Countries.

– Finally, further difficulties have also arisen from the 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.

4.2. Balkans

EIB activities in the Balkan successor states to former Yugoslavia (i.e. with the exception of Slovenia) only resumed recently: in 1998 for the FYR of Macedonia, in 2000 for Bosnia and Herzegovina and only in 2001 for the two major countries being Croatia and the Federation of Yugoslavia (Serbia and Montenegro). After almost 10 years of absence – EIB operations in former Yugoslavia were suspended in 1991 – the Bank's new operations under the CEEC Mandate have focused 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).

The investment climate in the Balkans remains very volatile with a number of unresolved issues at hand (notably a lack of rule of law), which represent considerable obstacles to investment. Local public sector institutions are still weak and projects have been difficult to mount for this reason.

As to private sector investment, there are a number of constraints, detailed below. Nevertheless, the Bank started in 2002 a first risk sharing operation for an industry sector project in Bosnia and Herzegovina and first SME credit facilities (global loans) in Croatia. 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. Further progress in the Bank's lending in these sectors will depend on the speed of enterprise and banking sector reform.

4.3. Mediterranean Partner Countries

The objective underlying the Facility for Euro-Mediterranean Investment and Partnership (FEMIP)[15], for which the Bank is currently gearing up in terms of its organisation and human resources, 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 MPC by 2010. FEMIP will primarily focus on development of the private sector. Furthermore, the Bank has decided to focus on regional co-operation projects and investment in health and education. FEMIP will provide technical assistance for the design of projects and reforms in different economic sectors.

In most MPC, 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 other cases, MPC have preferred reserving 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, because resources under the mandate are limited and because it is hard to find funds of this magnitude and good conditions like EIB finance for such public projects on the market. The Turkish authorities, for example, insisted that private sector operations be allocated under the Pre-Accession Facility, rather than on the risk-sharing "volet" of the general mandate, because Turkey has relatively easy access to get big corporates (like recently Toyota) with an excellent rating to take care of the entire finance package and the guarantee.

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 MPC. This is achieved through the risk capital financing managed by the Bank using EU budget resources.

4.4. Latin America and Asia

As already mentioned and in spite of the aftermath of the Asian crisis and the situation in Argentina, almost half of the mandate has been signed during the first three years. This is a clear indication of high level of demand for EIB loans, which has forced the Bank to be

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

selective and in many cases to keep loans below the amount which was requested and substantially below the 50% limit of total project cost (average for the mandate to date: 13%). Maintaining the existing ceiling will imply a continuation of this situation.

4.5. Republic of South Africa

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 explains the strong demand for the Bank's funding.

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.

5. PROPOSALS FOR THE FUTURE

Table 5 below shows the projected utilisation of the different regional envelopes for the remaining period of the mandate, derived from the Corporate Operational Plan (COP) approved by the Bank's Board of Directors in December 2002, which reflects the additional efforts agreed for the Mediterranean Countries and the impact of the enlargement. These projections point to a total volume of guaranteed lending that is slightly above the overall ceiling of the mandate. The projections also imply a small surplus with respect to ALA and RSA. The Bank points out, however, that those projections for activity in ALA and RSA were constrained to comply with the existing ceilings and it could lend additional amounts in those regions. Consequently, the original ceilings for ALA and RSA should be maintained, which makes a global shortfall of EUR 442 million[16] compared to the overall ceiling.

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16 EUR 442 million = EUR 231 million + EUR 167 million (margin ALA) + EUR 44 million (margin RSA) (see Table 5).

Table 5: Projections of lending activity by region

(EUR million)

Region	Signatures	EIB Projections				Total utilisation	Ceilings	Margin
	2000-2002	2003	2004	2005	2006*			
CEEC	2 905	1 030	1 055	1 055	1 055	7 100	9 280	2 180
MED	3 177	1 360	1 310	1 620	1 580	9 047	6 425	-2 622
ALA	1 113	350	350	250	250	2 313	2 480	167
RSA	252	115	138	138	138	781	825	44
Turkey SAP	130	160	160	0	0	450	450	0
TERRA	450	150	0	0	0	600	600	0
Total EIB loans under Mandate	**8 027**	**3 165**	**3 013**	**3 063**	**3 023**	**20 291**	**20 060**	**-231**

* in fact 31 January 2007

5.1. Orientations

Taking into account these projections, on the one hand, and the evolution of Community external policy priorities, on the other, the Commission proposes to introduce in the current mandate a number of changes.

5.1.1. A new geographical distribution of the current mandate volume within the present ceiling of EUR 20 060 million

5.1.1.1. South-eastern Europe

The Commission proposes to restructure the current CEEC envelope to cover Bulgaria, Romania, Turkey and the Western Balkans[17] (a new South-eastern Neighbours envelope), in accordance with the agreement in Copenhagen to finance pre-accession support for Turkey from 2004 from the heading “pre-accession strategy” of the Financial Perspective. The ceiling for this new envelope would amount to EUR 9 185 million (see Table 6 below). This amount is consistent with Turkey’s share in the MED mandate up to end 2002. In accordance with the March 2002 Barcelona Council Decision, Turkey remains eligible for all FEMIP activities.

[17] Albania, Bosnia and Herzegovina, Croatia, Serbia and Montenegro, Former Yugoslav Republic of Macedonia.

5.1.1.2. Mediterranean partners

The Commission proposes to redefine the new lending envelope for **MED** in order to incorporate the foreseen lending under the FEMIP following the March 2002 Barcelona Council and in line with the "Wider Europe" initiative[18]. After the transfer of Turkey, the revised ceiling for MED would amount to EUR 6 520 million (see Table 6 below).

5.1.1.3. Other regions

Although the scope for increased lending in ALA is considered by the Bank to be high and would be in line with the orientations confirmed at the Madrid Summit in May 2002[19] and at the ASEM 4 Summit in Copenhagen in September 2002[20], there is no margin within the overall ceiling to go beyond the limits set in 1999. The Commission proposes therefore to maintain those limits. The same arguments apply to Republic of South Africa.

5.1.2. A limited geographical extension of the mandate, to Russia and the WNIS[21]

In the context of the decision to establish the current mandate, the Council invited the Commission to re-examine the possibility of future extension of the guarantee arrangements to Russia, Ukraine and Moldova. The Commission's Communication on "Wider Europe - Neighbourhood" foresees i.a. a progressive and targeted extension of the EIB's general lending mandate, to Russia, Ukraine, Moldova (and eventually Belarus), in close collaboration with the EBRD and other relevant IFIs. Extending the EIB's activities would be designed to reward reform efforts undertaken by the new neighbours. The extension would reflect the political importance of the region to the EU, as well as the need for enhanced investment in infrastructure that could be fostered by EIB projects. In the case of Russia, lending would as well build on the experience gained from the present lending mandate in support to environmental projects in the Baltic Sea basin of Russia[22].

An extension of EIB's mandate to the countries of the region should support the EU's Wider Europe – New Neighbourhood policy and the objectives set out in this framework. It should be sufficiently flexible to address partner country needs in these areas within the Bank's fields of expertise, in particular relating to infrastructure. EIB lending would be of particular interest in supporting the environment (particularly the cleaning up of

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[18] Wider Europe - Neighbourhood: A New Framework for Relations with our Eastern and Southern Neighbours, Communication from the Commission to the Council and the European Parliament COM (2003) 104.

[19] State and Government Heads of the EU and of Latin America and the Caribbean encouraged the Commission, the Bank and the Inter-American Development Bank to present initiatives in some fields essential to economic development.

[20] This was also confirmed in the Strategy for the EU vis-à-vis Asia adopted in December 2002 and at EU Summits with India and China.

[21] Western New Independent States (Ukraine, Moldova, Belarus).

[22] Council Decision 2001/777/EC of 6 November 2001 granting a Community guarantee to the European Investment Bank against losses under a special lending action for selected environmental projects in the Baltic Sea basin of Russia under the Northern Dimension (OJ L 292, 9.11.2001, p. 41).

environmental hotspots with cross-border implications) and the extension of Trans-European Networks (for transport, telecommunications and energy infrastructures), building on the Bank's experience in other regions.

The Wider Europe communication includes the idea of assistance being linked to reform benchmarks for the new neighbours and set in the context of country Action Plans. In the interest of a coherent approach across instruments of assistance, an extended EIB mandate should be linked to fairly simple benchmarks or triggers for Russia and the WNIS. Benchmarks in this context should be of a "yes/no" nature (determining whether EIB should engage in a country or not), simple, measurable and small in number. The trigger for activating EIB lending in a given country could be government endorsement of a Joint Action Plan developed by the Commission in close relation with partner countries. The Commission will inform the Bank accordingly.

Given the time needed for implementation, it is only realistic to foresee a small amount for this period. The initial lending envelope would amount to EUR 300 million in total for the countries concerned. A phased approach to the extension would appear appropriate: (i) a Council decision to extend EIB lending to this group of countries; (ii) after endorsement of the Joint Action Plan, triggering lending for each qualifying country by a Commission decision to "activate" the lending mandate. Nevertheless, concerning Russia, the extension would apply as such to projects currently eligible under Council Decision 2001/777/EC, as soon as the EUR 100 million ceiling of the Decision has been reached.

The amount envisaged is clearly small and would imply for the Bank significant start-up costs, especially in the WNIS, that could only be amortised over a longer term through larger mandates. For this reason, the EIB would only begin to prepare for investments in these countries and for a possible larger programme beyond the time-scale of the present mandate once the endorsement of Action Plans would activate the decision. In this context, it should be noted that the Bank, unlike the EBRD, has at the moment neither the capacity nor the experience or local presence to operate in the WNIS.

The EUR 300 million envisaged for this new group of countries should be subject to the same rules as the general mandate and fall within the blanket guarantee coverage of 65% applied to the whole mandate.

The Table 6 below shows the proposed changes outlined above.

Table 6: Proposed revised ceilings

(EUR million)

Region	Signatures	Revised mandate projections				Proposed revised ceilings
	2000-2002	2003	2004	2005	2006	
South-eastern Neighbours	3 675	1 170	1 330	1 505	1 505	9 185
MED	2 407	1 038	925	1 050	1 100	6 520
ALA	1 113	350	350	333	334	2 480
RSA	252	115	138	160	160	825
Turkey SAP	130	160	160	0	0	450
TERRA	450	150	0	0	0	600
Total	**8 027**	**2 983**	**2 903**	**3 048**	**3 099**	**20 060**
Russia and WNIS			50	100	150	300
Total EIB loans under revised mandate	**8 027**	**2 983**	**2 953**	**3 148**	**3 249**	**20 360**

The proposals for EIB activity and the current estimates for Macro-Financial Assistance and Euratom lending for the remainder of the mandate period could be absorbed within the available margin of the Guarantee Fund. The detailed analysis is set out in the separate Comprehensive Report on the Guarantee Fund.

5.2. Risk-sharing

Given the risk-sharing achieved as at 31 December 2002 (see point 3.2.), it does not seem appropriate to modify the existing 30% risk-sharing target for the remainder of the mandate. As foreseen in the current Council Decision, the Bank will continue to be invited to aim to cover this target as far as possible on an individual regional mandate basis.

5.3. Definition of political risk

Since the adoption of the Council Decision in 1999, the experience of the EIB and of other lending organisations has shown that the increased lending in the framework of Private Public Partnerships may necessitate extending the definition of the political risk, to cover cases involving breach of certain contracts (e.g. concession or off-take agreements) by the host government (or other public authorities) and a subsequent failure to enforce an arbitration award against the relevant public authority (Breach of Contract in combination with Denial of Justice). Such a risk cover is commonly offered by other multilateral financial institutions (i.a. the World Bank group and other regional development banks).

The EIB has proposed, in a prudent approach, to base the cover of Breach of Contract/Denial of Justice on the conditions offered by MIGA (in which all Member States are participating as shareholders as well) in order to enhance the effectiveness of the risk-sharing scheme. It may be expected that the inclusion of the Breach of Contract under the political risk cover could facilitate an increase in the number of risk-sharing loans granted by the EIB and thus support the EIB's move towards an increase in private sector lending as foreseen by the mandate. Such an enhanced political risk cover is well suited to cases in which commercial lenders are prepared to take on board the commercial (or credit) risks of a project, but require assistance from a multilateral institution in mitigating political risks. A comprehensive cover of political risks should therefore include Breach of Contract/Denial of Justice.

In practical terms the enlargement of the scope of the political risk coverage under Community guarantee would mean that in the event of a breach or repudiation of certain contracts, the investor or project company must normally invoke a dispute resolution mechanism (e.g. arbitration) in the underlying contract and first obtain an award for damages. If, after a specified period of time, the investor is unable to implement the outcome of the dispute resolution mechanism, or if the dispute resolution mechanism fails to function because of actions taken by the host government, the political risk of "Breach of Contract/Denial of Justice" would materialise and the Community guarantee would be called by the EIB.

As far as the implication for the budget is concerned, this effect may be judged as being rather limited given the experience gained by MIGA. Since 1999, when MIGA first introduced this type of cover, no claim has been filed where this risk materialised. One potential claim was avoided in 2002 due to intensive negotiations. This is probably due to the fact that Breach of Contract in combination with Denial of Justice means that the borrower has a claim against the host government; therefore the involvement of a multilateral institution like MIGA or EIB should have a considerable mitigating effect by reducing the willingness of the host government to firstly breach or repudiate a contract and secondly to continuously refuse to comply with an arbitral or judicial award against it.

Furthermore, the EIB would continue to adopt a rather selective approach to its financing of operations outside the EU and would be supported in its activity by the fact that it benefits from a preferred creditor status while operating as an EU public institution.

Therefore, it is proposed to extend the political risk cover to Breach of Contract in combination with Denial of Justice.

5.4. Blanket guarantee

The Commission, in the light of this report and the analysis of calls on the Guarantee Fund, is not proposing in the context of this review any change in the rate of coverage of the blanket guarantee. This will continue to be set at 65% of the aggregate amount of the credits opened for the remainder of the mandate period. The issue is addressed further in the separate report on the Guarantee Fund

ANNEX 1

EIB lending activity in Central and Eastern European countries

1.1 Objectives and priorities

1.1.1 Accession Countries

EIB lending in the Accession Countries is operated under the EU-guaranteed mandate and under 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 Council Decision, the Bank's lending activity in the Accession Countries effectively supports the Community's pre-accession policy and hence facilitates the enlargement process. To this end, the Bank's approach at country and sector level is 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 are aligned with the Accession Partnerships and checked against the Commission reports on the progress of the Accession Countries. Close co-operation with the Commission ensures 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.

1.1.2 Western Balkans

The Bank is participating in the so-called Quick-Start and Near-Term programmes, in which the European Commission, World Bank and EBRD are also involved.

Special emphasis is being placed on cross-border regional projects in transport and energy.

1.2 Results and assessment of the operations as at 31 December 2002

Under the mandate, the Bank has signed 55 loan contracts in Central and Eastern Europe and in the Balkans for an aggregate amount of EUR 2 905 million by 31 December 2002. There was a strong concentration of lending in a few countries: Romania and Bulgaria accounted for more than half of EIB lending under mandate in the region; lending in FRY, the Slovak Republic and Croatia accounted for another 30%. For the other countries, the "pre-accession effect" and the new Community aid instruments set up 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 2002

LOANS SIGNED			
Country	**Number of loans**	**Amount** EUR million	**%**
Accession and Candidate Countries			
Bulgaria	10	377	13%
Hungary	1	40	1%
Lithuania	2	60	2%
Romania	17	1 276	44%
Slovakia	6	339	12%
Slovenia	1	35	1%
Subtotal	**37**	**2 127**	**73%**
Western Balkans			
Albania	3	81	3%
Bosnia and Herzegovina	2	85	3%
Croatia	8	276	9%
Serbia and Montenegro	5	336	12%
Subtotal	**18**	**778**	**27%**
TOTAL	**55**	**2 905**	**100%**

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

Regions	Energy		Communications		Water & Miscell.		Industry & Services		Global loans		Total loan signatures	
	EUR million	%	EUR million	%	EUR million	%	EUR million	%	EUR million	%	EUR million	%
Accession and Candidate Countries												
Bulgaria	60	16%	267	71%	0	0%	0	0%	50	13%	377	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	8%	660	53%	415	33%	0	0%	90	7%	1 276	100%
Slovakia	0	0%	129	38%	30	9%	160	47%	20	6%	339	100%
Slovenia	0	0%	35	100%	0	0%	0	0%	0	0%	35	100%
Total Accession and Candidate Countries	**171**	**8%**	**1 191**	**56%**	**445**	**20%**	**160**	**8%**	**160**	**8%**	**2 127**	**100%**
Western Balkans												
Albania	30	37%	51	63%	0	0%	0	0%	0	0%	81	100%
Bosnia and Herzegovina	60	71%	0	0%	0	0%	25	29%	0	0%	85	100%
Croatia	0	0%	230	83%	0	0%	0	0%	46	17%	276	100%
Serbia and Montenegro	70	21%	246	73%	0	0%	0	0%	20	6%	336	100%
Total Western Balkans	**160**	**21%**	**527**	**68%**	**0**	**0%**	**25**	**3%**	**66**	**8%**	**778**	**100%**
TOTAL	**331**	**11%**	**1 718**	**60%**	**445**	**15%**	**185**	**6%**	**226**	**8%**	**2 905**	**100%**

The Bank has been a major contributor to almost all the major railway investment projects in the Accession Countries. Examples are priority sections of the rail network in Poland, and the rehabilitation of three railway lines in Hungary forming part of Pan-European Corridors IV and V.

Major road investments financed include the rehabilitation of national roads in Poland, development of the motorway network in the Czech Republic, and rehabilitation of the Via Baltica, Via Hanseatica and Vilnius-Klaipeda motorway in Lithuania.

In the coming years, the upgrading of the main air transport hubs, as well as certain regional airports, will also be supported. The Bank has already financed major schemes, including the extension of Warsaw Airport and the upgrading of air traffic control facilities throughout the region.

In addition, the Bank continues to support Community objectives through cofinancing with the EU of environmental sector projects, particularly water supply and wastewater investments. This is 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 disposable incomes are relatively low, which limits the scope for tariff increases. Despite such problems, there has been a strong increase in environmental lending over the last few years.

The Bank's lending in the field of transport infrastructure, often co-financed with PHARE and ISPA, has supported economic and social development and cohesion and thus has facilitated progress of the countries concerned towards EU membership.

While relatively limited, the Bank’s activity has been concentrated on energy distribution networks and security of supply. Upgrading and depollution of power plants has also been financed. As lending for renewable energy increases in the 15 current Member States, it is planned to develop this activity in the Accession Countries.

The Bank is applying the Innovation 2000 Initiative (i2i)[23] in the Accession 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 health care are considerable. So far, loans totalling EUR 725 million, or 17% of i2i lending, have been signed in the Accession Countries, of which EUR 100 million under mandate.

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

[23] 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 2002 in Central and Eastern Europe

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
Total			**377**	
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-Klaïpeda motorway)	50	No
Total			**60**	

Country	Year	Description	EUR million	Risk sharing
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
Total			**1 276**	
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	34	No

Country	Year	Description	EUR million	Risk sharing
		Hronsky Benadik-Nova Bana and Nova Bana-Rudno and Hronom sections of I/65		
	2002	Construction and/or rehabilitation of water supply and sewage infrastructure	30	No
Total			**339**	

Country	Year	Description	EUR million	Risk sharing
Slovenia	2001	Expansion and modernisation of fixed telecommunications network	35	Yes
Total			**35**	

TOTAL ACCESSION AND CANDIDATE COUNTRIES	**2 127**	

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
Total			**81**	
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
Total			**85**	
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
Total			**276**	

Country	Year	Description	EUR million	Risk sharing
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
Total			**336**	
TOTAL WESTERN BALKANS			**778**	
TOTAL ACCESSION AND CANDIDATE COUNTRIES, WESTERN BALKANS			**2 905**	

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	0	41	0	52
Lithuania	2001	Construction and upgrading of road sections of Pan-European Corridors	153	50	65	0	0	38
Romania	2000	Improvement of power transmission system	200	96	21	54	0	29
	2000	Road rehabilitation IV	491	245	72	0	0	174
	2002	Reinforcement and upgrading of 745 km of national roads	480	240	25	0	0	215
	2002	Upgrading of water supply and sewage networks in five municipalities	253	55	163	0	0	35
Slovakia	2002	Construction and/or rehabilitation of water supply and sewage infrastructure	120	30	60	0	0	30
Slovenia	2001	Expansion and modernisation of fixed telecommunications network	75	35	0	40	0	0
Total Accession and Candidate Countries			**1 925**	**811**	**406**	**135**	**0**	**573**

Country	Year	Project	Cost	EIB	PHARE / ISPA	Multilateral Institutions	Bilateral Institutions	Other
Western Balkans								
Albania	2000	Rehabilitation and upgrading of about 86km of roads	71	34	8	0	20	9
	2001	Upgrading of power transmission and distribution networks	191	4	0	45	96	46
	2001	Rehabilitation of basic infrastructure of port of Durrës and reconstruction of breakwater	35	17	1	13	2	2
Bosnia and Herzegovina	2000	Electric power reconstruction	223	60	0	70	62	31
	2001	Railway Reconstruction	112	40	17	21	3	31
	2002	Modernisation of a cement factory and construction of a new production line	75	25	0	25	0	25
Croatia	2002	Construction of two stretches of motorway	177	60	0	60	0	57
	2002	Rehabilitation of motorways	112	50	0	47	0	15
	2002	Modernisation of air traffic control	47	20	0	20	0	7
Serbia and Montenegro	2001	Rehabilitation of transport infrastructure	132	66	25	0	0	41
	2002	Rehabilitation of 860 km of roads and motorways	191	95	0	75	2	19
	2002	Rehabilitation of principal railway axes	171	85	0	61	8	17
	2002	Rehabilitation and modernisation of electricity infrastructure	140	70	0	53	0	17
Total Western Balkans			**1 675**	**626**	**51**	**490**	**193**	**317**

TOTAL ACCESSION AND CANDIDATE COUNTRIES, WESTERN BALKANS	**3 602**	**1 437**	**457**	**625**	**193**	**890**

ANNEX 2

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, 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 new Facility for Euro-Mediterranean Investment and Partnership (FEMIP), launched by the Finance Ministers of the 15 EU Member States and 12 Mediterranean Partner Countries (MPC) at a meeting held in Barcelona on 18 October 2002. Its objective is to help the 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 MPC by 2010. FEMIP will primarily focus on development of the private sector. Furthermore, the Bank has also decided that FEMIP would focus on regional co-operation projects and investment in health and education. It will provide technical assistance for the design of projects and reforms in different economic sectors.

To this end, the EIB has at its disposal funds under the existing Euro-Mediterranean mandates, risk capital resources entrusted to it from the EU budget as well as technical assistance and investment aid funds provided by the Union in application of the decisions of the Barcelona European Council (March 2002). The EIB will implement FEMIP in close co-operation with all participants in the region's development: the European Commission, the banking community in Europe and the MPC, multi- and bilateral financial institutions.

All activities of the Bank in the region will be grouped under the FEMIP umbrella whilst comprising the following financial envelopes:

(1) Continuation of EIB's operation on own resources under the existing Euromed guaranteed lending and MEDA risk capital mandates;

(2) Lending on the Bank's own resources to finance projects of mutual interest between the EU and Partner Countries, under the mandate (EUR 1 billion over the period 2002-2006) given to the Bank in Nice within the framework of the Euro-Med Partnership Facility. This lending is done under Article 18 of EIB's Statute and with no recourse to EU guarantees for political/commercial risk;

(3) Additional EUR 1,5 billion over five years resulting from the Barcelona Council Decision.

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

Under the terms of the Euro-Mediterranean Partnership, EIB own resources lending is complemented by interest subsidies (for loans in the environmental sector) and risk capital from EU budgetary sources, managed by the Bank.

In addition to its lending under mandate and at the request of the Council, the EIB is launching a programme of lending from its own resources, without budgetary guarantee, under its Mediterranean Partnership Facility.

2.2 Results and assessment of the operations as at 31 December 2002

The 2nd lending mandate for MED (EUR 6 425 million for the period 2000-2007, i.e. annual average of EUR 918 million per year) was a considerable reinforcement (increase of more than 19%) 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 satisfactory. The relatively 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 9 countries, i.e. all of the Mediterranean countries except Malta, Cyprus and Israel. Turkey, with a share of 24% (excluding TERRA and SAP) has become the main beneficiary of lending under the mandate. The other main beneficiaries are Tunisia, Algeria, Morocco and Egypt, which were also among the main beneficiaries under the first mandate.

Table 1: Geographical breakdown of EIB lending as at 31 December 2002

LOANS SIGNED			
Country	**Number of loans**	**Amount** EUR million	**%**
Algeria	6	544	14%
Egypt	6	480	13%
Gaza-West Bank	1	10	0%
Jordan	2	60	2%
Lebanon	1	45	1%
Morocco	8	503	13%
Syria	1	100	3%
Tunisia	11	665	17%
Turkey	8	770	20%
Turkey SAP	2	130	3%
TERRA	3	450	12%
TOTAL	**49**	**3 757**	**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 target 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.

The public sector accounts for the largest part of EIB lending as infrastructure and utility companies largely remain in the hands of the public sector in most MPC.

Global loans, on the other hand, support private sector development. By making available credit and equity lines to local banks and by investing in a broad range of private equity funds, the Bank has targeted the SME sector. The EIB holds shares in most of the funds operating in the region, has had a pioneering role in developing such vehicles and, through its presence, is acting as a catalyst for other investors. The Bank has also been successful at putting in place **lines of credit** in most MPC, thus allowing or even inducing local banks to offer medium and long term loans to a large number of SMEs and contributing to the creation of a substantial number of jobs. EIB support to SMEs included the provision of a broad range of financial products (participating, conditional or subordinated loans), which must be further developed in the context of **FEMIP**, using the larger amounts of risk capital that the Commission will provide.

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

Country	Energy		Communica-tions		Water & Miscell.		Industry & Services		Global loans		Total loan signatures	
	EUR million	%	EUR million	%	EUR million	%	EUR million	%	EUR million	%	EUR million	%
Algeria	0	0%	263	48%	225	41%	56	10%	0	0%	544	100%
Egypt	300	63%	50	10%	50	10%	0	0%	80	17%	480	100%
Gaza-West Bank	0	0%	0	0%	0	0%	0	0%	10	100%	10	100%
Jordan	0	0%	0	0%	0	0%	60	100%	0	0%	60	100%
Lebanon	0	0%	45	100%	0	0%	0	0%	0	0%	45	100%
Morocco	210	42%	153	30%	110	22%	30	6%	0	0%	503	100%
Syria	0	0%	0	0%	0	0%	100	100%	0	0%	100	100%
Tunisia	195	29%	205	31%	120	18%	20	3%	125	19%	665	100%
Turkey	0	0%	225	29%	250	32%	120	16%	175	23%	770	100%
Turkey SAP	90	69%	0	0%	40	31%	0	0%	0	0%	130	100%
TERRA	0	0%	0	0%	300	67%	75	17%	75	17%	450	100%
TOTAL	**795**	**21%**	**941**	**25%**	**1 095**	**29%**	**461**	**12%**	**465**	**12%**	**3 757**	**100%**

Financing **public 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 (25% of total lending, i.e. a third of operations with the public sector) 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 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 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 decision to include **health and education** among the list of eligible sectors has been made in late 2000 by the Bank's Management Committee. This decision 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 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 rapidly start its support for social infrastructure in several countries. Although the Bank's first interventions in health and education are in the public sector, it is conceivable that private projects might be considered in the future, as long as their economic benefits are demonstrated and appropriate guarantees can be secured. As local currency funding may well be appropriate for such projects, there is scope for using risk capital in the form of guarantees of local borrowing.

Table 3: EIB Loans signed as at 31 December 2002 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	73	No
	2002	Construction and operation of a new cement factory	56	Yes
	2002	Improvement of the roadway network in the Algiers neighbourhood	50	No
	2002	Reconstruction following flood damage	45	No
Total			**544**	
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
Total			**480**	
Gaza-West Bank	2000	Global loan for financing of small and medium-scale ventures	10	No
Total			**10**	

Country	Year	Description	EUR million	Risk sharing
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
Total			**60**	
Lebanon	2002	Extension of port infrastructure	45	No
Total			**45**	
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 a number of 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
Total			**503**	

Country	Year	Description	EUR million	Risk sharing
Syria	2002	Construction and equipping of regional hospitals	100	No
Total			**100**	
Tunisia	2000	Upgrading of power transmission and supply network	45	No
	2000	Extension of the light metro network in Tunis	30	No
	2000	Dualling 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
Total			**665**	

Country	Year	Description	EUR million	Risk sharing
Turkey	2000	Extension and modernisation of sewerage network in Bursa, west of Ankara - Bursa su ve Kanalizasyon Isletmesi Buski	80	No
	2000	Rehabilitation and reconstruction of earthquake-damaged urban infrastructure	300	No
	2000	Rehabilitation and reconstruction of earthquake-damaged industrial installations	75	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	Rehabilitation and reconstruction of industrial installations in earthquake-damaged regions	75	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	Conversion of gas storage installations	90	No
	2002	Supply of IT teaching technology for primary schools	50	No
	2002	Improvement of water and sewage services in medium-sized towns	40	No
Total			**1 350**	
GRAND TOTAL			**3 757**	

Table 4: 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
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 fired combined cycle power plant	531	150		189	192
	2002	Extension of the Cairo metro-line	133	50		29	54
Morocco	2000	Construction and upgrading 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
Jordan	2000	Eshidiya Phosphate Mines B	116	30		15	71
	2000	Jordan Bromine Company B	85	30		18	37

Country	Year	Project	Cost	EIB	Multilateral Institutions	Bilateral Institutions	Other
Tunisia	2000	Dualling 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
	2000	Extension of the light metro network in Tunis	67	30		13	24
	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
Turkey	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
	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
	2002	Improvement of water and sewage services in medium-sized towns	96	40	51		5
Syria	2002	Construction and equipping of regional hospitals	333	100		24	209
TOTAL			**6 909**	**2 244**	**1 086**	**744**	**2 835**

ANNEX 3

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 investments that contribute to regional integration, and improvement to the environment in host countries. In the future, the Bank intends to continue to widen its support to regional integration and environment projects as well as 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 2002

In ALA, the Bank has provided 23 loans, with a geographical coverage of 14 countries, for a total amount of EUR 1 113 million under the current mandate so far (ALA III). This amount is equivalent to 45% of the total amount available for the seven-year period.

As far as geographical breakdown is concerned (see Table 1 below), the Bank has endeavoured to maintain, whenever possible, a fair balance between the two regions and between individual countries. In this respect, it is worth recalling that the mandate does not have country ceilings, thus allowing the full use of available funding depending upon concrete investment opportunities. The end nineties Asian crisis, which jeopardised the investment climate, explains much of the unbalance at end 2002. Some priority was also given to areas or countries which are strengthening their ties with the Community (ASEAN Group and Mercosur). The distribution in percentage of EIB loans broadly reflects the geographical pattern of EU foreign direct investment in ALA countries.

A large proportion of the loans (85%) was made to private sector borrowers, in particular in support for the European investors in the area, with a balanced breakdown by origin of EU promoters.

The EIB co-operates, whenever possible and appropriate, with the multilateral development institutions (Asian Development Bank, Inter American Development Bank, International Finance Corporation) and the regional development banks. Co-operation has also been active with the European banking sector in the sphere of both direct joint financing and guarantees. During the period under review, the Bank co-financed 20 projects (see Table 5 below).

Table 1: Geographical breakdown of EIB lending as at 31 December 2002

LOANS SIGNED			
Country	**Number of loans**	**Amount** EUR million	**%**
Asia			
China	1	56	5%
Indonesia	3	148	13%
Philippines	1	93	8%
Sri Lanka	1	40	4%
Thailand	1	26	2%
Subtotal	**7**	**363**	**32%**
Latin America			
Argentina	5	219	20%
Brazil	8	431	39%
Mexico	1	16	1%
Panama	1	54	5%
Regional Central America*	1	30	3%
Subtotal	**16**	**750**	**68%**
TOTAL	**23**	**1 113**	**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		Communications		Water & Miscell.		Industry & Services		Global loans		Total loan signatures	
	EUR million	%	EUR million	%	EUR million	%	EUR million	%	EUR million	%	EUR million	%
Asia												
China	0	0%	56	100%	0	0%	0	0%	0	0%	56	100%
Indonesia	70	47%	50	34%	0	0%	0	0%	28	19%	148	100%
Philippines	0	0%	0	0%	0	0%	93	100%	0	0%	93	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%
Total Asia	**70**	**19%**	**132**	**36%**	**0**	**0%**	**93**	**26%**	**68**	**19%**	**363**	**100%**
Latin America												
Argentina	135	61%	0	0%	20	9%	64	29%	0	0%	219	100%
Brazil	136	31%	113	26%	0	0%	182	42%	0	0%	431	100%
Mexico	0	0%	0	0%	0	0%	16	100%	0	0%	16	100%
Panama	0	0%	54	100%	0	0%	0	0%	0	0%	54	100%
Regional Central America	0	0%	0	0%	0	0%	0	0%	30	100%	30	100%
Total Latin America	**271**	**36%**	**167**	**22%**	**20**	**3%**	**262**	**35%**	**30**	**4%**	**750**	**100%**
TOTAL	**341**	**31%**	**299**	**27%**	**20**	**2%**	**355**	**32%**	**98**	**9%**	**1 113**	**100%**

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

In the selection of projects, the Bank has in particular supported those that contributed to a significant improvement of services through a more efficient use of resources as well as to an improvement of the environmental situation.

In addition the Bank has continued its effort to make available the benefits of its financing to Small and Medium Size Enterprises (SMEs) through global loans. Under the current mandate so far 9% of funds have been allocated for such facilities; this proportion is likely to be increased in the future.

Table 3: EIB Loans signed as at 31 December 2002 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
Total			**56**	
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	28	Yes
	2002	Expansion of mobile communications network	50	Yes
Total			**148**	
Philippines	2001	Construction of second integrated circuits assembly and test plant in Calamba near Manila	93	Yes
Total			**93**	
Sri Lanka	2002	Financing of small and medium-scale ventures	40	No
Total			**40**	
Thailand	2000	Construction of air traffic control complex at second Bangkok international airport	**26**	No
Total			**26**	
TOTAL ASIA			**363**	

LATIN AMERICA				
Country	**Year**	**Description**	**EUR million**	**Risk sharing**
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 networks of Posadas and Garupá, in Misiones Province, eastern Argentina	20	Yes
	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	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
Total			**431**	

Mexico	2001	Construction of glass fibre production plant near Puebla, eastern Mexico	16	Yes
Total			**16**	

Country	Year	Description	EUR million	Risk sharing
Panama	2001	Upgrading and extension of telecommunications installations	54	Yes
Total			**54**	
Regional Central America	2002	Financing of small and medium-scale ventures	30	No
Total			**30**	
TOTAL LATIN AMERICA			**750**	
GRAND TOTAL ASIA AND LATIN AMERICA			**1 113**	

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 co-operation 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.
Indonesia	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 in the telecom sector.
	2001	Financing for small and medium-scale ventures	The project is of mutual interest in that (i) the borrower is a majority-owned subsidiary of a European Bank and (ii) the allocations will be targeted to investments undertaken by EU companies or including other forms of EU interest.
	2000	Extension of Sumatra's gas transmission network, including a pipeline to export gas to Singapore	The project will have a positive impact on the environment both in Indonesia and Singapore. In addition, it will stimulate regional development between Indonesia and Singapore, two member states of ASEAN.
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.
Sri-Lanka	2002	Financing of small and medium-scale ventures	The project is of mutual interest in that (i) one of the shareholders is an EU development finance institution and (ii) the allocations will be targeted to 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 enhancement of communications between Thailand and the EU. The project also stimulates regional development and integration.

Country	Year	Project	Mutual interest
LATIN AMERICA			
Argentina	2001	Construction of gas-fired power plant in Buenos Aires metropolitan area	The project has a strong mutual interest through the involvement of 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.
	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.
Brazil	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.
	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 the majority of the equipment suppliers.

Country	**Year**	**Project**	**Mutual interest**
Brazil (see also previous page)	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 and high-quality raw material, contributing thereby to the improvement of its international competitiveness. Also, the project will 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.
	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, will implement 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 a 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 will be 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 will result in transfers of technology from Europe. In addition, it will help 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.
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 a European group in North America and to its overall growth.
Panama	2001	Upgrading and extension of telecommunications installations	This is a joint venture with a 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
Regional Central America	2002	Financing of small and medium-scale ventures	The project is of mutual interest in that the allocations will be targeted to investments undertaken by subsidiaries of EU companies or EU-Central American joint-ventures or including other type of EU interest.

Table 5: Cofinancings (EUR million)

Country	Year	Project	Cost	EIB	Multilateral Institutions*	Bilateral and Regional Institutions **	Other
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	Production of gearboxes for passenger cars	167	47		113	7
	2001	Construction of gas fired power plant	433	77			356
Brazil	2000	Modernisation of two car-manufacturing plants	1 675	91		837	747
	2000	Mobile telephony in 6 North-Eastern States	300	58		53	189
	2000	Mobile telephony in Bahia and Sergipe	174	55		38	81
	2001	Construction of cold-rolling and hot-dip galvanising plant	462	58		178	226
	2001	Natural gas distribution São Paulo	189	47		95	47
	2001	Power transmission Rio de Janeiro	254	34			220
	2001	Planting eucalyptus forest	73	33			40
	2002	Expansion electricity network	223	55		56	112
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	1180
Mexico	2001	Glass fiber plant	95	16			79
Panama	2001	Telecommunications	278	54			224
Philippines	2001	Construction of second integrated circuits assembly and test facility	415	93			322

Thailand	2000	Air traffic control	70	26			44
TOTAL			**7 782**	**1 015**	**410**	**1 704**	**4 653**

* International Finance Corporation, Asian Development Bank, Inter-American Development Bank
** e.g. KfW, BNDES (National Bank of Brasilian Development)

ANNEX 4

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 European Commission had a grant-aid programme to RSA of around EUR 130 million per year, and the Bank financing was seen as a complementary source of funding within the EU support programme for the country.

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 2002

The mandate had been 30% committed and 18% disbursed at end-2002, which is well on target.

Profile of borrowers and sectors of financing. At the start of the programme, the Bank opened a dialogue - which continues on a regular basis today - with the National Treasury of RSA (formerly the Department of Finance) as to the direction of the Bank's programme and the type of borrowers and projects, which the Bank should aim to support.

It was agreed in broad terms that financing should be made available to central government departments (for services such as water supply), para-statal corporations (such as the Development Bank of Southern Africa, and Eskom), and the private sector (banks and industrial companies). This has been achieved, and the Bank's borrowers include both public and private sector organisations.

Table 1: EIB lending in the Republic of South Africa

Country	Year	Description	EUR million	Risk sharing
RSA	2000	Global loan for financing of small and medium-scale infrastructure	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
	2001	Electric power transmission	2	
	2002	Financing for small and medium-scale infrastructure	50	No
TOTAL			**252**	

Nature of Bank funding - maturity **and currency.** The attractiveness of Bank funding for South Africa has two essential 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 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 to issue Euro-rand bonds and to mobilise a treasury operation in Rand, thereby permitting it to denominate its loans to South African borrowers in Rand. 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, avoiding any foreign exchange risk.

Risk capital for emerging entrepreneurs. In 2001, the Commission - in consultation with the RSA authorities - asked the Bank 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 HDP communities in particular by the provision of equity capital. This scheme, channelled principally through the Industrial Development Corporation of South Africa, has got off to a very encouraging start, with 25 subprojects being financed (17% of the total facility) in the first six months after the launch in March 2002.

EXPLANATORY MEMORANDUM

This proposal deals with the revision for the remainder of the mandate period of the Community budget guarantee to the European Investment Bank (EIB) for the loans it grants from its own resources in various non-member countries. The modifications are proposed following the mid-term review carried out in accordance with Article 1 of the Council Decision 2000/24/EC[24], as amended.

The current overall ceiling of the credits opened is equivalent to EUR 19 460 million, broken down as follows:

– Central and Eastern Europe (CEEC)[25]	EUR 9 280 million
– Mediterranean countries (MED)	EUR 6 425 million
– Latin America and Asia (ALA)	EUR 2 480 million
– Republic of South Africa (RSA)	EUR 825 million
– EC/Turkey Customs Union Special Action Programme (Turkey SAP)	EUR 450 million

In addition, the Community guarantee covering the special earthquake facility for Turkey under Decision 1999/786/EC[26] (TERRA) has taken the form of an extension of the global guarantee under the Decision 2000/24/EC. The ceiling of credits for TERRA amounts to EUR 600 million. The total current ceiling amounts therefore to EUR 20 060 million.

The projected utilisation of the different regional envelopes for the remaining period of the mandate, derived from the Corporate Operational Plan (COP) approved by the Bank's Board of Directors in December 2002, points to a total volume of guaranteed lending that is slightly above the overall ceiling of the mandate. Taking into account these projections, on the one hand, and the evolution of Community external policy priorities, on the other, the Commission proposes the following amendments:

1. A NEW GEOGRAPHICAL DISTRIBUTION OF THE CURRENT MANDATE VOLUME WITHIN THE PRESENT CEILING OF EUR 19 460 MILLION[27]

Specifically, it is proposed:

– to restructure the current Central and Eastern Countries envelope to cover Bulgaria, Romania, Turkey and the Western Balkans[28] (a new South Eastern Neighbours envelope), in accordance with the agreement in Copenhagen to finance pre-accession support for Turkey from 2004 from the heading "pre-accession strategy" of the Financial Perspective. An amount of

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24 OJ L 9, 13.1.2000, p. 24

25 including the Western Balkans (Albania, Bosnia and Herzegovina, Croatia, Serbia and Montenegro, Former Yugoslav Republic of Macedonia)

26 OJ L 308, 3.12.1999, p. 35

27 excluding TERRA (EUR 600 million).

28 Albania, Bosnia and Herzegovina, Croatia, Serbia and Montenegro, Former Yugoslav Republic of Macedonia.

EUR 2 085 million would be transferred to this new envelope from the Mediterranean envelope. This amount is consistent with Turkey's share in the MED mandate up to end 2002. The ceiling for this new envelope would amount to EUR 9 185 million.

– to redefine the new lending envelope for MED to take into account the foreseen lending under FEMIP following the March 2002 Barcelona Council and in line with the "Wider Europe" initiative[29]. After the transfer of Turkey, the revised ceiling for MED would amount to EUR 6 520 million.

2. A LIMITED GEOGRAPHICAL EXTENSION OF THE MANDATE, TO RUSSIA AND THE WNIS

The Commission's Communication on "Wider Europe - Neighbourhood" foresees a progressive and targeted extension of EIB's general lending mandate to Russia, Ukraine, Moldova (and eventually Belarus), in close collaboration with the EBRD and other relevant IFIs. Extending EIB's activities would be designed to reward reform efforts undertaken by the new neighbours. The extension would reflect the political importance of the region to the EU, as well as the need for enhanced investment in infrastructure that could be fostered by EIB projects. In the case of Russia, lending would as well build on the experience gained from the present lending mandate in support to environmental projects in the Baltic Sea basin of Russia. EIB lending would be activated on a country-by-country basis, subject to appropriate reform efforts in each of the countries concerned as demonstrated by the endorsement of jointly agreed Action Plans. Nevertheless, concerning Russia, the extension would apply as such to projects currently eligible under Council Decision 2001/777/EC[30], as soon as the EUR 100 million ceiling of the Decision has been reached.

Given the time needed for implementation, it is only realistic to foresee a small amount for the period up to 2006. The initial lending envelope would amount to EUR 300 million in total for the countries concerned.

The EUR 300 million envisaged for this new group of countries would be additional to the overall ceiling established by Council Decision 2000/24/EC for the current set of regions. But it should be subject to the same rules as the general mandate and fall within the blanket guarantee coverage of 65% applied to the whole mandate.

[29] Wider Europe - Neighbourhood: A New Framework for Relations with our Eastern and Southern Neighbours, Communication from the Commission to the Council and the European Parliament COM (2003) 104 final.

[30] OJ L 292, 9.11.2001, p. 41.

Proposed revised ceilings

(EUR million)

Region	Signatures	Revised mandate projections				Proposed revised ceilings
	2000-2002	**2003**	**2004**	**2005**	**2006**	
South-eastern Neighbours	3 675	1 170	1 330	1 505	1 505	9 185
MED	2 407	1 038	925	1 050	1 100	6 520
ALA	1 113	350	350	333	334	2 480
RSA	252	115	138	160	160	825
Turkey SAP	130	160	160	0	0	450
Total	**7 577**	**2 833**	**2 903**	**3 048**	**3 099**	**19 460**
Russia and WNIS[31]			50	100	150	300
Total EIB loans under revised mandate (excluding TERRA)	**7 577**	**2 833**	**2 953**	**3 148**	**3 249**	**19 760**

3. A REVISED DEFINITION OF POLITICAL RISK

Since the adoption of the Council Decision 2000/24/EC in 1999, the experience of the EIB has shown that the increased lending in the framework of private public partnerships (or similar) necessitates extending the definition of the political risk, to cover cases involving breach of certain contracts (e.g. concession or off-take agreements) by the host government (or local public authorities) and a subsequent failure to enforce an arbitration award or like against the host government. Therefore, it is proposed to extend the political risk cover to breach of contract in combination with denial of justice.

[31] Western New Independent States (Ukraine, Moldova and Belarus).

2003/0232 (CNS)

Proposal for a

COUNCIL DECISION

amending Decision 2000/24/EC to take into account the enlargement of the European Union and the EU's Wider Europe – New Neighbourhood policy

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty establishing the European Community, and in particular Article 308 thereof,

Having regard to the proposal from the Commission[32],

Having regard to the opinion of the European Parliament[33],

Whereas:

(1) The Accession Treaties signed on 16 April 2003 are due to enter into force on 1 May 2004.

(2) The report[34] prepared by the Commission in accordance with the third subparagraph of Article 1(1) of Council Decision 2000/24/EC of 22 December 1999 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)[35] concludes that some amendments to that Decision are appropriate, in particular in view of the enlargement of the European Union.

(3) The Copenhagen European Council of 12 and 13 December 2002 concluded that pre-accession support for Turkey will from 2004 be financed under the budget heading "pre-accession expenditure".

(4) A conditional extension of the general lending mandate of the European Investment Bank (EIB) to Russia and the Western New Independent States (WNIS) should be envisaged to support the policy based on the Commission Communication "Wider Europe – Neighbourhood: A New Framework for Relations with our Eastern and Southern Neighbours"[36].

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32 OJ C , , p. .
33 OJ C , , p. .
34 COM(2003)[...].
35 OJ L 9, 13.1.2000, p. 24. Decision as last amended by Decision 2001/778/EC (OJ L 292, 9.11.2001, p. 43).
36 COM (2003)104

(5) The lending of the EIB under Council Decision 2001/777/EC of 6 November 2001 granting a Community guarantee to the European Investment Bank against losses under a special lending action for selected environmental projects in the Baltic Sea basin of Russia under the Northern Dimension[37] is approaching the ceiling.

(6) Since the adoption of Decision 2000/24/EC, the experience of the EIB on the changing practices in the field of investment protection guarantees has shown the need to review the scope of the political risks covered by the Community guarantee.

(7) Under the risk-sharing scheme the budgetary guarantee should cover in addition to political risks arising from currency non transfer, expropriation, war or civil disturbance those arising from denial of justice upon breach of certain contracts by the third country government or other authorities.

(8) The financial perspective for the period 2000 to 2006 according to the Interinstitutional Agreement of 6 May 1999 between the European Parliament, the Council and the Commission on budgetary discipline and improvement of the budgetary procedure[38] envisages a ceiling for the loan guarantee reserve in the Community budget of EUR 200 million per annum.

(9) Decision 2000/24/EC should therefore be amended accordingly.

(10) The Treaty does not provide, for the adoption of this Decision, powers other than those under Article 308,

HAS DECIDED AS FOLLOWS:

Article 1

Decision 2000/24/EC is amended as follows:

(1) Article 1 is amended as follows:

(a) paragraph 1 is amended as follows:

(i) the first subparagraph is replaced by the following:

“The Community shall grant the European Investment Bank (EIB) a global guarantee in respect of all payments not received by it but due in respect of credits opened, in accordance with its usual criteria, and in support of the Community’s relevant external policy objectives, for investment projects carried out in the South-eastern Neighbours, the Mediterranean countries, Latin America and Asia, Republic of South Africa and Russia and Western New Independent States (WNIS).”

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[37] OJ L 292, 9.11.2001, p. 41.
[38] OJ C 172, 18.6.1999, p. 1.

(ii) in the second subparagraph, the second sentence is replaced by the following:

"The overall ceiling of the credits opened shall be equivalent to EUR 19 760 million, broken down as follows:

– South-eastern Neighbours:

EUR 9 185 million,

– Mediterranean countries:

EUR 6 520 million,

– Latin America and Asia:

EUR 2 480 million,

– Republic of South Africa:

EUR 825 million,

– Special action supporting the consolidation and intensification of the EC-Turkey Customs Union:

EUR 450 million,

– Russia and Western New Independent States (WNIS):

EUR 300 million;

and shall be used by 31 January 2007 at the latest. The credits already signed shall be taken into account as a deduction from the regional ceilings. However, the effectiveness of the ceiling for Russia and the Western New Independent States (WNIS) shall be subject to these countries fulfilling specific conditions laid down by the Commission in accordance with the Commission communication "Wider Europe – Neighbourhood: A New Framework for Relations with our Eastern and Southern Neighbours". The Commission shall authorise the release of the ceiling for Russia and the WNIS on a country by country basis. Nevertheless, concerning Russia, projects fulfilling the criteria specified in Article 2(3) of Council Decision 2001/777/EC shall be eligible as soon as the EUR 100 million ceiling of the Decision has been reached."

(b) paragraph 2 is amended as follows:

(i) the first indent is replaced by the following:

"– *South-eastern Neighbours*: Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Former Yugoslav Republic of Macedonia, Romania, Serbia and Montenegro, Turkey;"

(ii) in the second indent the words "Cyprus", "Malta" and "Turkey" are deleted.

(iii) the following indent is added:

"– *Russia and the Western New Independent States (WNIS)*: Belarus, Moldova, Russia, Ukraine."

(2) In Article 2, the following subparagraph is added:

"The Commission shall report on the application of this Decision by 31 July 2006 at the latest."

Article 2

This Decision shall take effect on 1 May 2004.

Done at Brussels,

For the Council
The President

FINANCIAL STATEMENT

DATE:

1.	BUDGET HEADING: Art. B0-220: European Community guarantee for loans granted by the European Investment Bank to non member countries in the Mediterranean Basin; Art. B0-221: European Community guarantee for European Investment Bank loans to non member countries in central and eastern Europe and the western Balkans; Art. B0-222: European Community guarantee for European Investment Bank loans to other third countries.	APPROPRIATIONS: p.m.

2. TITLE:
Extension of the European Community guarantee for European Investment Bank (EIB) loans to Russia and the Western New Independent States (WNIS - Ukraine, Moldova and Belarus) and adjustment of the breakdown of ceilings between the following regions:
- Mediterranean countries;
- South eastern neighbours (CEECs, Western Balkans and Turkey).

3. LEGAL BASIS:
Proposal for a Council Decision amending Decision 2000/24/EC so as to take into account the enlargement of the European Union and the EU’s Wider Europe – New Neighbourhood policy.

4. AIMS:
The extension of the general mandate of the EIB to Russia and WNIS aims to support the EU’s Wider Europe - New Neighbourhood policy and the objectives set out in this framework. The Commission's Communication on "Wider Europe - Neighbourhood" (COM/2003/104 of 11 March 2003) foresees a progressive and targeted extension of EIB’s general lending mandate to Russia, Ukraine, Moldova (and eventually Belarus), in close collaboration with the EBRD and other relevant IFIs. The EUR 300 million envisaged for this new group of countries is additional to the overall ceiling established by the Council Decision for the current set of regions and brings the EIB mandate from EUR 20,060 million to EUR 20,360 million. The budget entry is intended to provide a budgetary back-up for guarantees granted by the European Community to the European Investment Bank. The extension of the guarantee to the new region for EUR 300 million will be included in the budget line B0-222: European Community guarantee for European Investment Bank loans to other third countries.
The modification of the breakdown of ceilings between the other regions has no budgetary impact as such since the Community guarantee to the EIB is globalised. The overall ceiling will be broken down as follows:
- South-eastern Neighbours: EUR 9,185 million (instead of EUR 9,280 million, but including Turkey)
- Mediterranean countries: EUR 6,520 million (instead of EUR 6,425 million, but excluding Turkey);
- Latin America and Asia: EUR 2,480 million (unchanged);
- Republic of South Africa: EUR 825 million (unchanged);
- Special action supporting the consolidation and intensification of the EC-Turkey Customs Union: EUR 450 million (unchanged);
- TERRA: EUR 600 million (unchanged);
Sub-total: EUR 20,060 million
-Russia and WNIS: EUR 300 million.
Total: EUR 20,360 million

5.	FINANCIAL IMPLICATIONS Only if a call is made on the guarantee	2004 (EUR million)	2005 (EUR million)	2006 (EUR million)
5.0	EXPENDITURE - CHARGED TO THE EC BUDGET The direct budgetary impact of the extension relates to the Compulsory Expenditure linked to the mechanism of the Guarantee Fund for external actions.	[2.9]	[5.9]	[8.8]

5.2	METHOD OF CALCULATION: The direct budgetary impact of the extension is linked to the mechanism of the Guarantee Fund and affects the use of the Reserve for the Guarantee Fund. It is calculated according to the current rules of the Fund: amount of the guaranteed loan * blanket guarantee rate* provisioning rate = EUR 300 million * 65% * 9% = EUR 17.55 million. The loans are planned to be signed in 2004 for EUR 50 million, in 2005 for EUR 100 million and in 2006 for EUR 150 million. The EIB estimates for loans over those years, as well as the Commission's estimates for Euratom and macro financial assistance loans, leave sufficient margins to fund the proposed extension of the mandate from the Reserve to the Guarantee Fund. The budget headings supporting the Community guarantee are entered with a "pm". Should the EIB activate the Community guarantee, the Guarantee Fund will intervene. The Community budget will be called only after the resources of the Fund have been exhausted. As a result, the amount and timing of any call on this budget heading cannot be calculated in advance and should not occur since the guarantee fund mechanism has been created to avoid direct calls on Community budget.	
6.0	CAN THE PROJECT BE FINANCED FROM APPROPRIATIONS ENTERED IN THE RELEVANT CHAPTER OF THE CURRENT BUDGET?	YES
OBSERVATIONS:		