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ANNEX TO

THE REPORT FROM THE COMMISSION TO THE COUNCIL AND TO THE EUROPEAN PARLIAMENT ON BORROWING AND LENDING ACTIVITIES OF THE COMMUNITY IN 2007

COM(2008)590

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2.19. Interest subsidies paid under the various Community mechanisms from 1995 to 2007[39]

1. BORROWING ACTIVITIES IN 2007

1.1. Trends in borrowing and lending

EUR million

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
I. Borrowing											
ECSC(1)	474	-	-	-	-	-	-	-	-	-	
European Community(2)	195	403	108	160	305	12	118	10	15	19	
Euratom(3)	-	-	-	-	40	40	25	65	215	51	39
Total Commission	669	403	108	160	345	52	143	75	230	70	39
EIB	23 026	30 098	28 355	29 038	32 172	38 016	41 911	49 865	49 807	48 050	54 725
Total Community	**23 695**	**30 501**	**28 463**	**29 198**	**32 517**	**38 068**	**42 054**	**49 940**	**50 037**	**48 120**	**54 764**
II. Lending											
ECSC(1)	541	21	-	-	-	-					
European Community(2)	195	403	108	160	305	12	118	10	15	19	
Euratom(3)	-	-	-	-	40	40	25	65	215	51	39
Total Commission	736	424	108	160	345	52	143	75	230	70	39
EIB(4)	22 958	25 116	27 765	30 644	31 184	33 443	34 187	39 661	42 276	39 850	41 431
Total Community	**23 694**	**25 540**	**27 873**	**30 804**	**31 529**	**33 495**	**34 330**	**39 736**	**42 506**	**39 920**	**41 470**

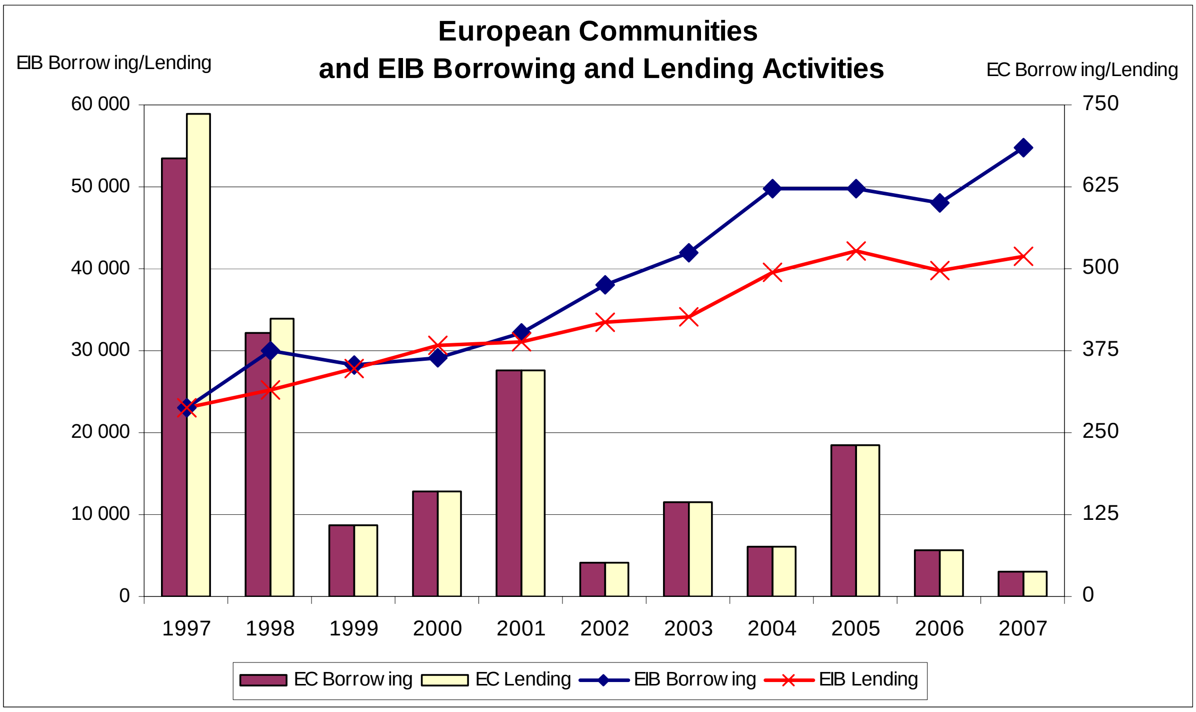
(1) The ECSC Treaty expired in 2002.

(2) Mechanism for providing Balance of Payments support for Member States and financial assistance for non-member States.

(3) The Euratom loans instrument is available for financings to Member States and certain non-Member States.

(4) Loans signed from own resources (with and without guarantees from the EU budget), no account being taken of the guarantees provided by the EIB to promoters.

Graph: annual trends in borrowing and lending activities from 1997 (in EUR million)



Note: The differences between total borrowing and lending by the Commission are due to borrowing operations undertaken for refinancing purposes and to changes in the balance of loans not assigned by the end of the year.

1.2. Borrowing of the European Institutions: outstanding at the end of each period [(1)]

EUR million

	ECSC	EC (NCI)[(4)]	Euratom	European Community	Commission Sub-total	EIB [(2)]	Total borrowing
1982	6 178	1 747	1 272	591	9 788	16 570	26 358
1983	6 539	3 269	1 680	4 610	16 098	20 749	36 847
1984	7 119	4 432	1 892	4 932	18 375	25 007	43 382
1985	7 034	4 960	2 013	3 236	17 243	26 736	43 979
1986	6 761	5 202	2 168	1 890	16 021	30 271	46 292
1987	6 689	5 229	2 500	2 997	17 415	31 957	49 372
1988	6 825	5 514	2 164	2 459	16 962	36 928	53 890
1989	6 738	5 122	1 945	2 075	15 880	42 330	58 210
1990	6 673	4 542	1 687	(3) 2 045	14 947	48 459	63 406
1991	7 139	3 817	1 563	3 516	16 035	58 893	74 928
1992	7 327	3 326	1 338	4 026	16 017	67 784	83 801
1993	7 331	2 202	1 018	5 204	15 755	78 661	94 416
1994	6 548	1 570	779	7 697	16 594	83 673	100 267
1995	5 966	1 113	720	8 032	15 831	87 079	102 910
1996	4 677	748	572	6 666	12 663	96 649	109 312
1997	3 637	218	118	5 853	9 826	110 394	120 220
1998	2 806	168	28	4 166	7 168	123 767	130 935
1999	2 432	130	12	4 074	6 648	146 223	152 871
2000	2 039	90		1 566	3 695	159 860	163 555
2001	1 386	19	40	1 614	3 059	176 027	179 086
2002	713	18	80	1 361	2 172	181 167	183 339
2003	431	16	105	1 356	1 908	194 505	196 413
2004	423		170	1 214	1 807	214 825	216 632
2005	440		385	1 080	1 905	248 283	250 188
2006	436		436	969	1 841	246 576	248 417
2007	400		474	786	1 260	254 221	255 481

(1) The conversion rates used are those of 31 December of each year. As the majority of borrowings are denominated in national currency, the difference between two year-ends reflects on the one hand changes in the valuation of existing stock due to exchange rates fluctuations and on the other the net volume of borrowings during the year. Original amount of borrowings, plus or minus repayments of the principal, cancellations, annulments and exchange-rate adjustments.

(2) As from 1989, including short term.

(3) As from 1990, including macro-financial assistance for non-member States.

(4) This instrument was not extended.

1.3. Borrowing of the European Institutions in 2007 by currency

The share of EUR-denominated borrowings slightly decreased from the level of 37.9% in 2006 to 37.7% in 2007 (see Table 1.3). Issues in other Community currencies increased from 16.6% to 22.4%. Non-Community currencies took a smaller share of borrowing, decreasing from 45.4% to 39.9% of the total. Issues in USD were down from 30.4% to 26.3%. In 2007, after swaps, 99.1% of the loans were on a variable-rate as compared to 94.5% in 2006 (figure before swaps: see Table 1.3).

EUR million (rounded)

	EIB		**European Communities (EC, Euratom)**[3]	**Total borrowing**		**2007 %**	
	(1)	(2)		(1)	(2)	(1)	(2)
EUR	20 675	33 807	39	20 714	33 846	37.7	61.7
GBP	11 023	6 123		6 769	2 549	20.1	11.2
SEK	893	677		309	309	1.6	1.2
DKK	134	134		235	235	0.2	0.2
HUF	108	108				0.2	0.2
RON	90	0		102		0.2	
BGN[4]	28	0		97	97	0.1	
PLN	27	27		32	32	0.0	0.0
CZK	0	0		18	18	0.0	0.0
SIT	0					0.0	
SKK	0					0.0	0.0
Total EU	**32 979**	**40 877**	**39**	**33 018**	**40 916**	**60.1**	**74.5**
USD	14 400	13 955		13 789	11 675	26.3	25.5
JPY	2 198			1 813		4.0	
NZD	1 344			1 205		2.5	
TRY	1 097			943		2.0	
AUD	905			875		1.7	
CAD	659			703		1.2	
CHF	445	0		424	88	0.8	0.0
ISK	261			420		0.5	
ZAR	234	0		280	80	0.4	0.0
NOK	196	0		101		0.4	0.0
RUB	**115**					**0.2**	
HKD	**0**					**0.0**	
MXN	**0**					**0.0**	
TWD	**0**					**0.0**	
Sub-total	**21 853**	**13 955**		**20 552**	**11 843**	**39.9**	**25.5**
TOTAL[5]	**54 832**	**54 832**	**39**	**54 871**	**54 871**	**100.0**	**100.0**
Fixed-rate	50 790	516		41 302	2 396	**92.6**	**0.9**
Variable-rate	4 042	54 316	**39**	3 994	42 900	**7.4**	**99.1**

(1) Figures before swaps.

(2) Figures after swaps.

(3) Macro-financial assistance to non-member States and Euratom.

(4) EU currency as of 01.01.2007.

(5) Difference before/after SWAP due to exchange-rate fluctuations.

2. LENDING IN NON-MEMBER STATES

2.1. Lending in non-member States in 2007 – Overview

EUR million

	EIB[1]		**TOTAL**
	EDF resources[2]	**Own resources**	
Pre-Accession countries (Mandate 2007-2013)		388	388
Neighbourhood and Partnership countries (Mandate 2007-2013)		1 205	1 205
ALA – Asia and Latin America (Mandate 2007-2013)		305	305
SEN - South Eastern Neighbours[3]		1 362	1 362
ALA – Asia and Latin America (Mandate 2000-2007)[3]		120	120
RSA - South Africa (Mandate 2000-2007)		113	113
ACP-OCT countries[4]	335	432	767
Russia / WNIS (2004-2007)		230	230
Total	**335**	**4 155**	**4 490**

(1) Loan signatures, excluding lending at own risk of the EIB.

(2) Granted and administered by the EIB out of the budgetary resources of the EC or the European Development Fund (EDF).

(3) This grouping follows Council Decision 2005/47/EC.

(4) Africa, Caribbean, Pacific / Overseas Countries and Territories.

2.2. Loan disbursements for macro-financial assistance and Euratom to non-member States (2001-2007)

EUR million

	2001	2002	2003	2004	2005	2006	2007	Total
Bulgaria								0
Romania			**50**					50
Subtotal "Enlargement" countries (Member States as of 01.01.2007)	**0**	**0**	**50**	**0**	**0**	**0**	**0**	**50**
Albania(1)						**9**		9
Bosnia and Herzegovina(2)	**10**			**10**		**10**		30
fYRoM(3)	**10**	**12**	**28**					50
Serbia and Montenegro(4)	**225**		**40**		**15**			280
Subtotal Other Western Balkans(5)	**245**	**12**	**68**	**10**	**15**	**19**	**0**	**369**
Armenia(6)								0
Georgia(6)								0
Tajikistan(7)	**60**							60
Ukraine								0
Subtotal NIS	**60**	**0**	**0**	**0**	**0**	**0**	**0**	**60**
Lebanon(8)								0
Sub total Mediterranee								**0**
Euratom(9)	**40**	**40**	**25**	**65**	**215**	**51**	**39**	**475**
Grand Total	**345**	**52**	**143**	**75**	**230**	**70**	**39**	**954**

(1) A grant of EUR 3 million was disbursed to Albania in 2005 and a further grant of EUR 13 million in 2006.

(2) Disbursement of the loan was accompanied by disbursements of grants of EUR 10 million in 2000. A further grant of EUR 15 million was paid in 2001 and of EUR 25 million in 2003. In 2005 EUR 15 million grants were disbursed.

(3) Former Yugoslav Republic of Macedonia. Grants totalling EUR 20 million were disbursed in 2000, followed by a further grant of EUR 10 million in 2001, one of EUR 10 million in 2002 and another one of EUR 18 million in 2003.

(4) One grant of EUR 115 million was paid to Serbia and Montenegro in 2002, one of EUR 35 million in 2003, one of EUR 10 million in 2004 and another one of EUR 25 million in 2005.

(5) Grants of EUR 35 million and EUR 7 million were disbursed to Kosovo and Montenegro respectively in 2000. In 2001 EUR 35 million were disbursed to Kosovo and EUR 13 million to Montenegro, granted in the form of budgetary support. In the same year a further grant of EUR 15 million was disbursed to Kosovo, followed by another one of EUR 15 million in 2002.

(6) Exceptional financial assistance. These loan disbursements to Armenia and Georgia were supplemented by the disbursement of grants totalling respectively, EUR 8 million and EUR 10 million in 1998 and EUR 4 million and EUR 9 million in 1999. A further grant of EUR 6 million was made to Georgia in 2001. A grant of EUR 11 million was paid to Armenia in 2002. Further grants to Armenia EUR 5.5 million and Georgia EUR 6.5 million were paid in 2004. In 2005 1.5 million grants was paid to Armenia. In 2006, Georgia received two grants of EUR 11 million each.

(7) This loan was accompanied by the disbursement of grants totalling EUR 14 million. A further grant of EUR 7 million was paid in 2003 (although decided in 2002), in 2005 for the same amount as well as in 2006.

(8) Macro-financial assistance to Lebanon in the form of EUR 50 million in loans and up to EUR 30 million in grants. Disbursements should start in 2008.

(9) Including Bulgaria and Romania (Member States as of 01.01.2007)

2.3. Signatures on EIB Own Resources in non-EU countries (excluding signatures on EIB own risk under Pre-Accession and Mediterranean Partnership facilities)

EUR million

	2000	2001	2002	2003	2004	2005	2006	1st half 2007	2nd half 2007	Total 2000-2007[1]	Ceiling
ALA (2007-2013)									305	305	3 800
ENP MED (2007-2013)									1 205	1 205	12 400
Pre-Accession mandate (2007-2013)									388	388	8 700
RSA (2007-2013)											900
New General Mandate (2007-2013)									***1 898***	***1 898***	***25 800***
SEN (2000-2007)	1 086	653	925	1 169	865	2 107	1 336	441	921	9 503	9 185
MED (2000-2007)	502	910	1 000	1 322	1 436	1 102	905			7 177	6 520
ALA (2000-2007)	397	543	174	348	233	256	483	60	60	2 546	2 480
RSA (2000-2007)	50	152	50	260	100	130	80	25	88	935	825
Turkey Terra	375	75		150						600	600
Turkey – Special Action			130	100	220					450	450
Sub-Total Previous General Mandate (2000-2007)	***2 410***	***2 333***	***2 279***	***3 349***	***2 854***	***3 595***	***2 804***	***526***	***1 069***	***21 211***	***20 060***
Russia				25		60				85	100
Russia WNIS (2004-2007)								30	200	230	500

[1] These amounts include re-utilisation of cancelled undisbursed loan balances where applicable. For comparison against the 2000-2007 General Mandate sub-ceilings, the cumulative signatures net of cancellations per region amounted (in EUR million) to:

Asia and Latin America:	2 175
Mediterranean:	6 475
South-Eastern Neighbours:	9 177
Republic of South-Africa:	824

COTONOU (2003-2007)					68	151	167	30	402	818	N/A
TOTAL	**2 410**	**2 333**	**2 279**	**3 374**	**2 922**	**3 806**	**2 971**	**586**	**3 569**	**24 157**	

2.4. Sharing of Risks

Council Decision 2000/24/EC, which defines the legal framework of the 2000-2007 General Mandate, invited 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"*.

Under this risk-sharing arrangement, the Community Guarantee covers selected political risks. This has helped to mobilize commercial bank guarantees in markets where they would otherwise not have been available or would have been too costly.

As it can be seen in Table 2.4 below, at the overall mandate level, at expiry of the 2000-2006 General Mandate, risk-sharing loans represented 19% of total cumulative signatures. However, this figure covers significant regional differences:

– In ALA countries, where the mandate specifically focused on supporting private European initiatives in the form of foreign direct investment, transfer of technology and know-how, 74% of loan signatures were made under the risk-sharing scheme.

– In the Mediterranean, South-Eastern Neighbours and South Africa, projects financed under the mandate were, to a large part, in the public sector without risk-sharing arrangements. The proportion of risk-sharing loans reached 11% of total cumulative signatures in the Mediterranean and in South Africa, while the respective proportion in the South-Eastern Neighbours was 12%.

Loans to private sector borrowers with non-sovereign guarantees were mostly signed under the Mediterranean Partnership and Pre-Accession Facilities, which are at EIB's own risk. Therefore, they do not directly impact the risk-sharing figures under the mandate but reflect the EIB's increased propensity to take more commercial risk. More precisely, the cumulative volume of lending at EIB's own risk[2] reached EUR 16 billion in the corresponding period (ending at 31 July 2007). By way of illustration, when combining risk-sharing operations under the 2000-2006 General Mandate with EIB own risk lending, the overall proportion of loans granted either under the risk-sharing arrangements or fully outside the coverage of the Community Guarantee increases to some 55% of total EIB lending outside the EU[3].

Under the 2007-2013 General Mandate, the nature of the guarantee coverage has been clarified as covering risks of a political or sovereign nature. This means that the 2007-2013 General Mandate, instead of setting a target for EIB financing without Community coverage of the commercial risk on operations, specifies the EIB financing operations which are eligible for Comprehensive Guarantee as operations entered into with sovereign or sub-sovereign entities (in the case of the latter, provided that the risk on the operation is appropriate) or covered by a State Guarantee. Those operations not meeting these criteria are covered by Political Risk Guarantee only.

For the sake of completeness, Table 2.4 below shows that by the end of 2007, 4 operations in Latin America and 7 operations in the Mediterranean had been signed under the Political Risk Guarantee coverage of the 2007-2013 General Mandate, corresponding to 91% of total signatures in Latin America and 30% of total signatures in the Mediterranean under this

2 Under Pre-Accession Facility, Mediterranean Partnership Facility I (expired on 31.01.2007) and under the specific Article 18 authorisation of the EIB's Board of Governors. The two latter mechanisms are not represented in Table 2.4, given that no lending thereunder was made in 2007.

3 In the regions covered by the 2000-2006 General Mandate, i.e. excluding operations in EFTA countries as well as ACP and OCT countries.

mandate. However, it is still too early to deduct any general trends from this limited number of operations.

Table 2.4: Risk-sharing under external lending mandates and lending at EIB own risk as at 31 December 2007 (EUR million)

	All signatures			Loans signed with risk-sharing / Political Risk cover		
	Ceiling	**Signatures in 2007**	**Cumulative signatures**	**No. of loans**	**Amount signed**	**Risk-sharing / cumulative signatures**
2000-2007 external lending mandate			**until 31.07.2007:**			
Asia and Latin America	2 480	120	2 545	40	1 876	74%
Mediterranean	6 520	0	7 177	13	807	11%
South-Eastern Neighbours	9 185	1 362	9 503	40	1 123	12%
Republic of South Africa	825	113	935	3	105	11%
	19 010	**1 595**	**20 159**	**96**	**3 911**	**19%**
Russia/WNIS (2004-2007)	500	230	230		n/a	
		1 825	**20 389**			
2007-2013 external lending mandate			**until 31.12.2007:**			**Political Risk cover**
Asia and Latin America	3 800	305	305	4	278	91%
- Asia	*1 000*	*0*	*0*	0	0	0
- Latin America	*2 800*	*305*	*305*	4	278	91%
Neighbourhood and Partnership Countries	12 400	1 205	1 205	7	365	30%
- Mediterranean	*8 700*	*1 205*	*1 205*	7	365	30%
- Eastern Europe, Southern Caucasus and Russia	*3 700*	*0*	*0*	0	0	0
Pre-Accession Countries	8 700	388	388	0	0	0
Republic of South Africa	900	0	0	0	0	0
	25 800	**1 898**	**1 898**	**11**	**643**	**34%**
Lending outside the Community guarantee			**until 31.12.2007:**			
Pre-Accession Facility	19 500	1 176	15 407			
Mediterranean Partnership Facility II	2 000	185	185		Not applicable	
Facility for Energy Sustainability and Security of Supply	3 000	500	500			
	24 500	**1 861**	**16 092**			

2.5. EIB own risk lending

The 2006 Council Decision invites the EIB "*to increase its operations outside the Community without recourse to the Community guarantee, particularly in the pre-accession countries and the Mediterranean as well as in investment grade countries in other regions*".

In 2007, to allow the EIB to provide more support from its own resources and at its own risk, the EIB's Board of Governors has authorised the following additional lending envelopes:

- Pre-Accession Facility - an additional indicative lending envelope of EUR 5.5 billion until 2010,
- Mediterranean Partnership Facility II - EUR 2 billion for the period of 2007-2013, and
- Facility for Energy Sustainability and Security of Supply – EUR 3 billion for the period of 2007-2013.

Table 2.4 above shows that total lending volumes in 2007 were relatively evenly distributed among the lending frameworks in force: EUR 1.83 billion was lent under the lending mandates that expired on 31 July 2007 (including EUR 230 million signed under the special mandate[4] for certain types of projects in Russia, Ukraine, Republic of Moldova and Belarus), while EUR 1.90 billion was lent under the 2007-2013 General Mandate. In addition to mandate lending, a total of EUR 1.86 billion, was lent under the EIB own-risk facilities without the support of the Community Guarantee.

Signatures under the replenished Pre-Accession Facility amounted in 2007 to EUR 1.18 billion, of which Turkey received 70% and Croatia 28%. The geographical coverage of lending under the Pre-Accession Facility was extended to include also the Potential candidate countries, all of which are potential beneficiaries of a regional microfinance fund aimed at fostering economic development in South-East Europe (EUR 25 million signed in 2007). In terms of sectoral distribution, credit lines accounted for 54% of signatures under the Pre-Accession Facility, while industry and services represented 19%, followed by energy (16%) and transports (11%).

Under the Mediterranean Partnership Facility II, an EIB loan amounting to EUR 185 million was signed to finance the capacity expansion of one of the priority energy TENs.

Finally, under the Facility for Energy Sustainability and Security, a highly visible EUR 500 million multi-investment scheme was signed in China to support investment projects in the energy and industrial sectors that will help to prevent or reduce greenhouse gases and other polluting emissions.

2.6. Impact and value added of EIB external lending

A major guiding principle for the EIB when fulfilling its mission as a policy-driven public bank is to maximize the value added of its activity. The EIB assesses the value added of its operations on the basis of a framework structured along the following three pillars:

Pillar 1 - the consistency with and contribution to EU policy objectives;
Pillar 2 - the quality and soundness of the project; and
Pillar 3 - the financial and non-financial contribution made by the EIB to the project.

[4] Council Decision 2005/48/EC of 22 December 2004. Loans granted under this Decision benefit from 100% coverage by the Community guarantee in contrast to 65% applicable to the other mandates in force in 2007.

Each individual financing operation is assessed against this framework, using a set of relevant indicators. The framework applied to operations in the Pre-Accession countries, called the Value Added (VA) framework, is designed to reflect the EIB's support to Pre-Accession countries' economic development process and thus also their preparation for potential transition to EU membership status. This framework is identical to the one used for financing operations within the EU.

The framework that is applied to operations in all other regions covered by the external lending mandate, called the Economic and Social Impact Assessment Framework (ESIAF), is adapted to reflect the different needs and characteristics as well as the respective lending objectives of each of the geographical regions. In addition, the assessment of project quality and soundness, which constitutes the second pillar, is significantly expanded under ESIAF to take account of a broader range of issues, notably in the social area.

On the basis of facts and data collected during project appraisal, the EIB project teams provide a qualitative performance rating for each of the three pillars, based on their professional judgement. Besides serving as a tool to assess projects during the selection and appraisal process, the framework provides valuable information and benchmarks for both monitoring and ex-post evaluation. It also plays a central role in providing information to stakeholders in a systematic manner on the performance and impact of EIB activity.

2.7. Performance indicators

The EIB sets operational targets (measured by Performance Indicators) for the value added of its lending activity. These targets are defined as the minimum proportion of operations with "high" or "medium" overall ratings, which represent the two highest categories of a total of four overall rating categories. Operations signed in 2007 under the external lending mandate met the value added targets in each of the three pillars.

Table 3: Summary of value added ratings of operations signed in 2007

Impact rating	**Pillar 1**	**Pillar 2 - Investment loans**	**Pillar 2 - Financial sector**	**Pillar 3**
High	26	11	2	26
Medium	5	9	9	5
Moderate	0	1	0	1
Low	0	1	0	0
Total no. of operations[5]	***31***	***22***	***11***	***32***

84% of EIB operations signed under mandate in 2007 are judged to be highly consistent with, and to make a strong contribution to, the mandate objectives and priorities. This is reflected in the assignment of a "high" rating on Pillar 1. In turn, 16% of operations were rated "medium" on Pillar 1. The interpretation of the "medium" rating is that the EIB contributes to a project that is, in the reasonable and justified opinion of the project team, compliant with the key EU criteria on political eligibility and consistency with EU external policies and strategies, which in turn also imply consistency with national strategies. More specifically, such a project is deemed to meet one or more of the mandate-specific core objectives, which can be either

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[5] In 2007, loans signed under mandate represented 34 projects. One project was appraised in 2003, i.e. prior to the introduction of VA, and has therefore not been rated. Several projects were appraised prior to the formal introduction of ESIAF in the second half of 2007; they have been assessed according to a preliminary framework that was at the time in test phase. Due to this, overall ratings are not available for Pillar 1 in the case of two projects and for Pillar 3 in the case of one project

sectoral or thematic. (The mandate-specific objectives and EIB contribution to them are summarised in section 2.8 below and further detailed by geographical regions in section 2.12). In contrast, the “high” rating means that in addition to unambiguously meeting the foregoing, it can be evidenced that the project has additional strengths based on clear confirmation of other indicators, classified as non-core. No projects were rated “moderate” or “low” in Pillar 1 thereby reflecting the EIB’s upfront screening of operations and clear focus on their consistency with, and contribution to, EU policy objectives.

Pillar 2 measures the expected quality of the project, i.e. the extent to which the project represents a rational allocation of resources and meets the needs of its beneficiaries, including its final customers, and of the society at large. The assessment of project quality takes into consideration possible EIB input in project definition, preparation and implementation arrangements, which may have contributed to improve the project quality and mitigate risks. Particular value added can arise from project conditionality (e.g. those related to tariff studies or environmental, social and governance issues) or from technical assistance elements provided during project conception or appraisal. These usually push or commit promoters to reach standards beyond their usual practice. Such EIB contribution towards an improvement in project quality is separately reported under Pillar 3.

Project quality is assessed according to extensive criteria covering the economic, technical, financial and environmental soundness of the project, as well as management capability to design, implement and operate the project. The key quality criteria concern essentially: the economic and financial sustainability, the environmental sustainability, the quality of the promoter’s management and, if relevant, specific technological, social, governance and/or institutional aspects.

For indirect financial sector operations, where the individual sub-projects are not known at the time of appraisal, a distinct set of indicators is used. These incorporate assessments of the operating (macro-financial and regulatory) environment, the financial intermediaries within that environment and the development impact of the operation.

18% of financial sector operations signed in 2007 were rated “high” in Pillar 2, while 82% received “medium”. The higher proportion of “medium” ratings notably reflects the quality of financial intermediaries used in some global loans, either in terms of their financial performance or their experience in the sector or the objective targeted by the operation.

For investment loans, the proportion of “high” ratings in Pillar 2 represented 50% of projects; “medium” was attributed to 41% of projects.

Only one "low" rating was attributed to Pillar 2 for a desalination plant in Israel. The quality and soundness of this project is justified on strategic grounds, the benefits of which cannot be quantified. Desalination is perhaps the only method under Israel's control to increase security of water supply during Israel's extreme drought events, the frequency of which is increasing.

Pillar 3 provides an assessment of the EIB’s contribution to a project. It covers the financial benefits obtained by a borrower from EIB participation in the project, such as the longer maturities and grace periods, attractive interest rates, and risk capital instruments. In addition, the EIB provides non-financial benefits that improve the sustainability of the project through changes to project design and features, project conditionality and technical assistance.

81% of projects were assessed to benefit from “high” EIB contribution (Pillar 3), while 16% were rated “medium”.

2.8. Support for EU policies

The EIB's role as a public policy-driven bank is to contribute, by financing sound investment, to the implementation of the EU policy and objectives. As mentioned earlier, Council Decision 2006/1016/EC in its preamble provides some specific policy goals to be addressed through EIB external financing. In alignment, the EIB's Corporate Operational Plan defines parallel priority strategic operational objectives for the period 2008-2010 in the regions covered by the 2007-2013 General Mandate.

Table 4: Summary of key lending objectives

Lending Objectives	Asia & Latin America	Eastern Neighbours & Russia	Mediterranean Countries	Pre-Accession Countries	South Africa
Energy - Security of Supply	X	X	X	X	X
Environmental Protection and Improvement	X	X	X	X	X
Private Sector Development, SMEs			X	X	X
Infrastructure Development, including extension of TENs		X	X	X	X
Pre-Accession support				X	
Support of EU presence (FDI, transfer of technology and know-how)	X				

As shown in Table 4 above, the protection of the environment and energy security are common objectives throughout the regions covered by the external lending mandate. The specific regional orientations and the corresponding financing activity in 2007 are detailed for each geographical region in the sections below.

For all the projects it finances, the EIB must pay special attention to the issue of **environmental sustainability**, focusing on the environmental impact assessment of the investments proposed and the adequacy of mitigating measures as well as on the energy efficiency of proposed technologies or processes. Furthermore, an increasingly large part of the EIB's lending is specifically targeted at protecting and improving the natural and built environments and fostering social well-being in the interest of sustainable development.

Many transport projects also have positive contributions to the environment. This is typically the case with investment in public transport infrastructure. The construction of light rail and tramway systems featured prominently in the EIB financing, reflecting the trend towards more cost-effective and flexible mass transport systems. Moreover, the Bank supports a range of transport projects where the explicit project aim is to achieve environmentally friendly and sustainable transport systems leading to a substantial reduction in emissions of CO_2 and other pollutants.

In Pre-Accession countries, projects financed in 2007 under mandate with specific environmental protection as the main lending objective accounted for EUR 731 million or 42% of total lending in the region. These consisted of public transport projects in Turkey and a renewable energy project in Bosnia-Herzegovina. In the Mediterranean, EUR 120 million was advanced for environmental schemes in Israel, namely for the improvement of environment and health through provision of safe drinking water. This same objective was also targeted by a EUR 60 million project in Asia for the extension and upgrading of water supply and distribution infrastructure in Greater Manila, and by another EUR 27 million project in Latin America, for the improvement of sanitation and environmental conditions in Panama City.

In total, EUR 938 million, or 25% of EIB financing under mandate, contributed to the Bank's overarching goal of promoting environmentally sustainable development in the partner countries.

Environmental consideration is taken into account at all stages of the EIB project cycle. The EIB applies a set of "safeguards" to ensure the application throughout its financing activities of good practice towards environmental issues, based on EU environmental principles and standards, that is the "European Principles for the Environment" (EPE), defined as:

– the guiding environmental principles in the EC Treaty, and

– the practices and standards incorporated in EU secondary environmental legislation.

In 2007, the five EPE signatory financing institutions (Council of Europe Development Bank (CEB), European Bank for Reconstruction and Development (EBRD), Nordic Environmental Finance Corporation (NEFCO), Nordic Investment Bank (NIB) and the EIB), with the support of the European Commission and its DG ENV, decided to further develop the concept of EPE by preparing a single reference document of EU environmental legislation, principles and standards most relevant to the projects the EPE institutions are financing. Through this common EU approach, the institutions provide a consistent and visible mechanism for engaging with project sponsors in addressing environmental issues. In turn, this will allow the institutions to better manage credit and project risk related to the environment.

In the **energy** sector, the Bank generally seeks to contribute to the key policy objectives of the EU as follows:

- sustainability – by promoting renewable energy sources, to reduce both dependence on the outside world and the negative impact of energy production and consumption on the natural environment, particularly through $CO2$ emissions;

- competitiveness in energy supply – a key consideration for the economic development, given the central role played by energy in the modern economy; and

- security of supply – by promoting diversified sources of energy, reducing dependence on external supplies and the potential impact of the many international risk factors that affect the energy market.

As can be seen in table I of the report, energy represented the third most important sector in 2007 with EUR 471 million directed towards the aim of enhancing energy supply and stimulating economic development in Egypt, Morocco, Bosnia-Herzegovina and South Africa. This lending under mandate was complemented by another EUR 875 million lent in favour of 3 operations, one under each of the EIB-own risk facilities:

– EUR 500 million multi-investment scheme in China, signed under the Facility for Energy Sustainability and Security of Supply, to support investment projects in the energy and industrial sectors that will help to prevent or reduce emission of greenhouse gases and other polluting emissions. This pilot operation will serve as a benchmark for other possible similar operations.

– EUR 185 million financing granted in Tunisia, under the Mediterranean Partnership Facility II, to finance the capacity expansion of one of the priority energy TENs, namely Transmed gas pipeline connecting Algeria to Italy via Tunisia.

– EUR 190 million lent under the Pre-Accession Facility for the modernisation and expansion of the national gas transmission system in Croatia.

Altogether, the EIB support for energy projects outside the EU in 2007 consisted of 7 operations amounting to total lending of EUR 1.35 billion.

The contribution of EIB lending activity per geographical region can be found in section 2.4 in the Annex.

2.9. Cooperation with International Financing Institutions

During 2007, the EIB actively pursued its policy to enhance the effectiveness of its operations by further reinforcing and developing its operational partnerships with other International Financial Institutions (IFIs). Cooperation has continued to be an integral part of EIB's activities, ranging from dialogue on institutional matters to cooperation on operational lending and co-financing, to mutual consultation on horizontal topics and thematic issues. (A list of projects co-financed with other IFIs in the regions covered by the external lending mandate is included in section 2.11 in the Annex).

Council Decision 2006/1016/EC invites the EIB to further enhance coordination and cooperation with IFIs and with European bilateral institutions where relevant. The objectives are to maximize synergies, to ensure reasonable risk sharing and coherent sector and project conditionality. This includes strengthening coordination between the institutions, establishment of clear sector conditionality criteria, increased use of co-financing of projects, participation in global initiatives such as those promoting aid coordination and efficiency.

Regular meetings at senior management as well as at field level took place and the EIB also seeks to increase the number of jointly appraised and co-financed projects with other IFIs.

A number of Memoranda of Understanding have facilitated cooperation between the Bank and other IFIs, gradually covering more regions outside the EU. In this context, the EIB has participated in several working groups together with the Commission and with other IFIs, notably for coordination in Pre-Accession countries, as well as in Neighbourhood and Partner countries.

In the Pre-Accession region, the EIB has participated, together with the Commission and other IFIs, in the work of the newly founded IFI-Advisory Group (which succeeds the Infrastructure Steering Group) and related working groups on transport, energy, environment and social sectors.

Together with the Commission, the EBRD and the CEB, the EIB is actively involved in the Infrastructure Project Facility (IPF) to channel EC funds for technical assistance in support of priority infrastructure projects in the Pre-Accession countries, primarily focusing on potential candidate countries. This is part of the Western Balkans Infrastructure Initiative, which will also include a Complementary Grant Financing Mechanism and a Lending Facility to be implemented by the end of 2008, and the broader Western Balkans Investment Framework to be developed by 2010.

Within the framework of the European Neighbourhood Policy, a Memorandum of Understanding for Eastern Europe, Southern Caucasus, Russia and Central Asia was signed in July 2007 (replacing a previous agreement signed in 2000) between the co-signatories Commission, EIB, EBRD, Black Sea Trade and Development Bank (BSTDB), CEB, International Bank for Reconstruction and Development (IBRD), International Finance Corporation (IFC) and NIB.

The Tripartite Agreement between the Commission, the EBRD and the EIB, signed at the end of 2006, for operational cooperation activities in Eastern Europe, Southern Caucasus, Russia and Central Asia, has started to be implemented in 2007, with a close dialogue between the three institutions and the establishment of a joint pipeline. The EIB and the EBRD are also closely associated in other initiatives and partnerships (e.g. Joint Assistance to Support Projects in European Regions (JASPERS) technical assistance initiative in the framework of EU regional policy).

In the Mediterranean region, a reinforced dialogue with the World Bank (WB) has been re-launched, with bilateral meetings taking place at end 2007. This dialogue may be extended in the future to European bilateral institutions (Kreditanstalt für Wiederaufbau (KfW), Agence française de Développement (AfD)) with whom the EIB has a long established cooperation in the region. In addition, the IFC has joined the EIB, the Commission and the IBRD in the strategic partnership for cooperation in the Middle East and North Africa / Southern Mediterranean region.

In the Eastern and Southern Neighbourhood region, the EIB is among the eligible Finance Institutions which participate in the Neighbourhood Investment Facility (NIF) to provide EC grant support to investment projects in the neighbourhood region.

A new Memorandum of Understanding was signed in 2007 between the EIB and the Asian Development Bank (ADB) to promote collaboration in the Asia and Pacific region.

Furthermore, during 2007 the EIB has entered into formal collaborations with other IFIs in the environmental field: the Multilateral Carbon Credit Fund (MCCF) with the EBRD, the Carbon Fund for Europe (CFE) set up with the World Bank and the EIB-KfW Carbon Program. Finally, during the 2007 EIB Forum in Ljubljana, the Post-2012 Carbon Credit Fund was launched, being the direct result of on-going cooperation in the field of climate change between the EIB and three leading European national financing institutions, namely Instituto de Crédito Oficial (ICO), KfW and the NIB.

The EIB will continue its active involvement in the Northern Dimension Environmental Partnership (NDEP) Steering Committee (including also Russia, the Commission, EBRD, NIB and the World Bank) to co-ordinate and accelerate the implementation of important environmental and nuclear safety projects in the Northern Dimension region.

Last but not least, it is recalled that EIB, EBRD, CEB, NIB and NEFCO remained committed to the terms of the European Principles for the Environment (EPE) Agreement, strongly supported by the Commission.

It shall be noted that the EIB participates in several working groups and committees together with other IFIs on thematic issues, including, inter alia: environment, social issues, risk management, ex-post evaluation, internal audit, legal affairs, planning budget and control, financial control, trust funds, funding issues, treasury issues, human resources.

In addition, the EIB:

- Participates in the annual meeting of Heads of Multilateral Development Banks and the broader meeting of Heads of Multilateral Finance Institutions (including the Commission).
- Attends the annual meetings of EBRD, WB, African Development Bank (AfDB), ADB, Inter-American Development Bank (IADB).

- Participates, together with WB, IMF and Commission to the Luxembourg group (annual meeting), focusing on cooperation in the Mediterranean.
- Is a member of the Long Term Lenders Club.
- Is a member, together with EDFI members, KfW and AfD, of INTERACT informal network meeting annually.
- Regularly participates in various conferences and events organised by other IFIs, notably by the EBRD, World Bank, AfDB, ADB, NIB, BSTDB and CEB

2.10. List of projects signed under mandate in 2007 co-financed with other IFIs

EUR million

Region (mandate)	Country	Project	Project cost	EIB loan signed in 2007	Multilateral Financial Institutions	European Bilateral Financial Institutions	Other[6]
ALA IV	Panama	Improvement of sanitation and environmental conditions in Panama City through construction of sewerage network, collectors, interceptor and wastewater treatment plant	210	27	32		151
ENP/MED	Egypt	Construction of two natural gas-fired combined-cycle power generation units in El Atf and Sidi Krir	753	130	81		542
ENP/MED	Morocco	Construction of Fez - Taza section of toll motorway linking Fez to Oujda	517	180	172		165
ENP/MED	Morocco	Construction of hydro-powered electricity projects and setting up of an automated network management system.	381	150	75	76	80
RUS/WNIS	Republic of Moldova	Rehabilitation of trunk road network along main east-west and north-south routes	100	30	42		28
RUS/WNIS	Ukraine	Rehabilitation of the final section of the 4-lane M-06 highway between Kiev and Brody, with a length of 427 km, on Pan-European Corridor III.	505	200	200		105
SEN	Bosnia and Herzegovina	Rehabilitation of hydropower plants and distribution facilities	213	103	60	47	3

6 Including i.a. further EIB financing signed or to be signed, borrower own funds, financing by non-European bilateral financial institutions or commercial banks.

Region (mandate)	Country	Project	Project cost	EIB loan signed in 2007	Multilate-ral Financial Instituti-ons	European Bilateral Financial Instituti-ons	Other[6]
SEN	Bosnia and Herzegovi-na	Rehabilitation of pavement of number of sections of main and regional road network	100	50	48		2
SEN	Serbia	Rehabilitation of E70/E75 motorway crossing Belgrade and of R251 ring road	77	33	25		19
SEN	Serbia	Rehabilitation of roads and bridges throughout Serbia	145	33	12	3	98
SEN	Turkey	Construction of first line of modern tramway system in Antalya	122	41	41		40
SEN+Pre-Acc.	Turkey	Construction of high-speed railway line between Istanbul and Ankara	2 566	437		322	1 807
Pre-Acc.	Serbia	Construction of 47 km bypass, of which 27 km of motorway and 20 km of road, on Pan-European Transport Corridor X, west and south of Belgrade	137	60	55		22
Pre-Acc.	Albania	Construction of new expressway between Levan and Vlorë	63	26	22		15
			5 888	**1 500**	**865**	**448**	**3 077**

2.11. Cooperation with the Commission

The EIB and the Commission have close institutional and operational links. While the Commission is responsible for the preparation, development and implementation of EU policies, the role of the EIB, as a policy-driven EU financing institution, is to support – through long-term lending – investment projects furthering the EU policy objectives. Only a joint approach can deliver greater efficiency and visibility for the EU and satisfactory leverage of EU budget funds through EIB loans.

Existing formal EC-EIB cooperation includes, *inter alia*, a consultation procedure in accordance with Article 21 of the Bank's Statute, whereby all applications for loans are submitted to the Commission for an opinion on the conformity of the investment concerned with EU policies, before the financing is approved by the EIB Board of Directors.

Also, under the terms of the Bank's Statute, the Commission nominates a member to the Bank's Board of Directors.

In addition to formal cooperation, information between the EIB and the Commission is exchanged, *inter alia*, during the early preparation phase of Annual Action Programmes with a view to including references to EIB activities in the regions concerned. Furthermore, when preparing its Corporate Operational Plan, which covers a three-year planning perspective and is updated annually on a rolling basis, the EIB tailors its operational lending priorities to reflect EU policy developments.

Council Decision 2006/1016/EC invites the Commission and the EIB to strengthen the consistency of EIB actions with EU policies, mainly through a regular and systematic dialogue and early consultation on policies, strategies and project pipelines. To this end, the EIB and the Commission signed a Memorandum of Understanding defining the terms and conditions of this strengthened cooperation, on 26 May 2008. A Steering Group set up under the Memorandum of Understanding will monitor its implementation.

With a view to enhancing the coherence of overall EU support in the regions covered by the external lending mandate, opportunities are sought to combine EIB financing with EU budgetary resources as appropriate, through, inter alia, the Instrument for Pre-Accesssion Assistance (IPA), the European Neighbourhood and Partnership Instrument, the Instrument for Stability and, for South Africa, the Development and Cooperation Instrument.
In 2007, the Commission and the EIB cooperated in establishing the EU's Neighbourhood Investment Facility, which will mobilise additional funding for infrastructure projects mainly in the energy, transport and environment sectors in the entire area of the European Neighbourhood Policy by providing grant support for lending operations of public European financial institutions. The facility is open to contributions from all EU Member States so that resources from the Community budget and of the EU countries and public financial institutions will be pooled and better streamlined for the benefit of partner countries. Close coordination between the Commission and the EIB is also taking place in the context of EU financial instruments in support of the Western Balkans under the IPA.Moreover, for the benefit of the Mediterranean region, the EIB manages EU budgetary resources in three domains: technical assistance, risk capital and interest subsidies attributed to selected EIB loans.

In 2007, 24 technical assistance operations with an overall value of EUR 17.5 million were contracted in the Mediterranean under the **FEMIP TA Support Fund**. Over 84% of these were allocated to the infrastructure, environment, water and wastewater sectors, reflecting, to a large extent, the traditional areas of EIB activity in the region. Support to the financial sector absorbed 10% of technical assistance funds in 2007, while human capital (the health sector) received 7%.

In this framework, it is noteworthy to mention EIB's active contribution to the Commission's Horizon 2020 initiative to reduce the level of pollution in the Mediterranean Sea. A study committed in 2007 focuses on identifying 3-5 of the most regionally polluting industrial and/or municipal sources and creating a pipeline of investment projects, in close collaboration with the Commission, the World Bank and the United Nations Environment Programme (UNEP) / Mediterranean Action Plan (MAP).

The **FEMIP Trust Fund** (FTF), with a financial envelope of EUR 34.5 million funded by contributions of 15 Member States and the Commission, provides resources to upstream technical assistance and risk capital operations in certain priority sectors in order to foster private sector development in the region. In 2007, the FTF Assembly of Donors approved 5 new operations for a total volume of EUR 0.75 million.

A first EUR 2 million risk capital operation was signed under FTF in 2007. The EIB initiated and promoted the first privately managed start-up fund in Tunisia. This investment fund is focused on innovative Tunisian companies that are in the process of being set up or have been established for less than five years.

As the main provider of risk capital in the Mediterranean, the EIB continued its active support to the development of the nascent private equity industry in the region.

In 2007, the EIB signed seven **risk capital operations under MEDA II** for a total commitment of EUR 46.5 million. The MEDA-mandate being now fully depleted, future risk capital operations will be carried out under the ENP instrument through multi-annual budget contributions as well as through additional resources which are expected to be provided from reflows on previous operations.

Three broad trends emerge from the 2007 risk capital operations:

1. Increased geographical coverage: in line with the recommendations made by the Member States through the FEMIP Committee of April last year, the reach of 2007 risk capital operations was broadened to include Lebanon for the first time (2 operations). Also, a direct operation in support of the modernization and expansion of a family-owned fruit juice producer was performed in Algeria, despite the difficult environment.

2. Regional integration: a total of 63% of operations were regional initiatives that are not only good for private sector development, but can also be front runners in terms of policy objectives.

3. Innovation: the 2007 operations included several innovative features or "firsts" in terms of investment policy.

The risk capital operations signed in 2007 included an EUR 8 million equity participation in a fund investing in minority shares of private SMEs in the Mediterranean region, including Morocco and Tunisia. The fund displays several innovative features such as investing in leveraged buy-outs in Morocco, thereby supporting a niche not fully covered by other funds in the country. In Tunisia, the fund supports companies aimed at a listing on the Tunisian alternative market. This initiative, implemented at the end of 2007, is strongly supported by the Tunisian government as an opportunity to substantially increase the capitalisation of the stock market.

The EIB also supported the first move in private equity of a major Lebanese commercial bank by taking a EUR 7.5 million participation in a multi-sector investment fund. This operation is accompanied by technical assistance that will contribute towards developing local governance and documentation standards in line with best international practices.

Furthermore, the EIB made a (EUR 2 million) local currency loan to the Tunisian microfinance association to realise its growth objectives by financing itself on the local market, which will help the sustainability of the institution in the long run. The loan will allow the granting of more than 50,000 micro credits that will contribute, inter alia, to job creation in local SMEs. EIB participation in this operation is also likely to play a significant catalyst role with local investors.

One credit line, signed in 2007 to assist Lebanese SMEs with reconstruction efforts, is accompanied by an EC **interest rate subsidy**. Table 2.20 lists the programmes which are still under way and the amount of interest subsidy paid during the years under review.

In support of South Africa, the EIB continued assisting the Commission in the implementation of a dedicated EU-funded (EUR 50 million) second **Risk Capital Facility for South African SMEs** that provides employment opportunities to historically disadvantaged persons.

Furthermore, work is underway to appraise the feasibility and operating modalities of another programme sponsored and financed by the Commission with the objective to support diverse investments with a high development impact in South Africa.

2.12. Contribution of EIB lending activity per geographical region

2.12.1. Asia and Latin America

Mandate-specific core objectives	**Number of operations**
Support for EU presence in ALA (European FDI, transfer of European technology or know-how)	4
Support of environmental sustainability (including climate change mitigation)	2
Support for energy security projects[7]	-
Total number of operations signed in 2007	**5 ***
Total EIB financing (EUR million)	**425**

To ensure that the EIB can better support the EU's cooperation strategy in ALA, the sectoral and geographical coverage of the new mandate was broadened. In particular, new areas of EIB intervention in ALA now include projects that contribute to environmental sustainability, including climate change mitigation, or to the energy security of the EU. Furthermore, the Bank should expand the range of countries benefiting from EIB financing, including the less prosperous countries. The EIB also continues to support the EU's presence in the countries concerned through foreign direct investment and the transfer of technology and know-how.

EU presence in ALA was supported by all mandate operations signed in 2007 except one. This one project with a public borrower provides, in turn, significant support to the environmental sustainability objective by improving public water and sanitation infrastructure in Panama. It will improve the quality of life for local residents, in particular in poor areas that so far have not been served with sanitation services, reduce sanitary and health hazards, and develop tourism and fishing activities in the region. Furthermore, the technical assistance provided in support of this project aims at promoting water demand management measures and improving the efficiency of water networks in Panama City, thereby having a demonstration effect on the rest of the country. The project conditionality will contribute to the implementation of major institutional reforms necessary to guarantee the financial sustainability of the sector.

Another operation contributing to environmental sustainability, and supporting also European presence in ALA, was signed in Philippines. The project components financed by the EIB are part of a comprehensive investment programme for the expansion and improvement of water supply and distribution network in East Zone of Manila, which counts some 5 million customers. This project will improve the quality of life and reduce health risks of more than 600 000 people who will benefit from the safe water supply services provided by the project. Positive environmental effects also result from the more efficient use of existing water resources, particularly through the upgrading and extension of existing facilities and the

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7 To be noted that these tables take into account only mandate operations, and do not therefore include operations signed under the EIB own risk facilities without the support of the Community Guarantee.

* The numbers above cannot be added, as a single operation may contribute to several objectives.

reduction of water losses. Part of the extension of the coverage of water services focuses on deprived communities through "Water for the Poor Communities" projects, thus further contributing to the water Millennium Development Goals in the Philippines.

2.12.2. *Eastern Europe, Southern Caucasus and Russia*

Mandate-specific core objectives	**Number of operations**
Support for project with significant interest to the EU in transport, energy, telecommunications and environmental infrastructure	2
Support for projects extending major Trans European Network axes	2
Support for project with cross-border implications for one or more Member States	2
Support for major project favouring regional integration through increased connectivity	2
Support for environmental projects in Russia, within the framework of the Northern Dimension Environmental Partnership	-
Support for strategic energy supply and energy transport projects	-
Close cooperation with the EBRD	2
Total number of operations signed in 2007	**2** [8]
Total EIB financing (EUR million)	**230**

EIB financing operations in Eastern Europe, the Southern Caucasus and Russia are carried out in close cooperation with the EBRD according to the terms set out in a tripartite Memorandum of Understanding between the European Commission, the EIB and the EBRD, which aims to bring together the expertise, capacity and comparative advantages of each participant for the successful implementation of the European Neighbourhood Policy and the EU-Russia Strategic Partnership.

The 2007-2013 General Mandate expands the EIB's activities to include the Southern Caucasus. Consequently, Framework Agreements were signed by the EIB with Georgia in 2007 and Armenia in early 2008. Negotiations with Azerbaijan are still on-going.

In the first half of 2007, the EIB signed (under the 2004-2007 Russia/WNIS mandate) its first loans in Ukraine and in the republic of Moldova. Both loans support the extension of Trans-European transport Network axes. In the republic of Moldova, the EUR 30 million loan will improve road connections of the Pan European Corridor IX (Moscow-Kiev-Bucharest) linking the capital Chisinau to the western border of the EU. In Ukraine, EUR 200 million was lent for the rehabilitation of the major route, the Pan-European Corridor III, linking the capital of Ukraine with Hungary, Slovakia and Poland.

[8] The numbers above cannot be added as a single operation and may contribute to several objectives.

Both projects will contribute to eliminating road bottlenecks and improving the quality and security of existing infrastructure. These financings will have a direct impact in terms of closer connectivity, harmonisation and integration between the enlarged EU and its Eastern Neighbours, with the ultimate goal of building an area of prosperity, stability and security.

2.12.3. Mediterranean Partner Countries

Mandate-specific core objectives	**Number of operations**
Support for enabling environment for private sector through strengthening of economic and social infrastructure	6
Direct support for private sector, SMEs or micro-finance[9]	6
Protection of environment/energy security of supply	2
Total number of operations signed in 2007	**9** [10]
Total EIB financing (EUR million)	**1 205**

More than half (52%) of the lending volume signed in the Mediterranean under the new mandate provides support to the private sector in the form of credit lines channelled through local financial intermediaries in Jordan, Lebanon, Syria and Tunisia. This type of operation, frequently supported by grant-funded technical assistance, also frequently contributes to the reform of the financial sector and the strengthening of the economic infrastructure.

As part of the EIB pledge made at the Paris III conference to underpin the Lebanese recovery and reconstruction programme, credit lines to SMEs for a total of EUR 295 million were signed in Lebanon. Quick support from the Lebanese government, in conjunction with the commercial banks and IFIs including the EIB, significantly increase the chances that companies decide to re-invest in Lebanon and restart operations after suffering large losses as a result of the recent conflict. In cooperation with the central bank of Lebanon, FEMIP technical assistance is provided to strengthen the financial intermediaries' approach to credit analysis and structuring of long-term loans under the targeted SME reconstruction facility. Additionally, the EIB increased its direct cooperation with leading Lebanese financial institutions in the form of "stand-alone" credit lines, in contrast to the traditional state-guaranteed form of operations.

Another EUR 200 million credit line was signed in Tunisia in order to continue to provide, through selected financial intermediaries, long-term finance to local SMEs. This operation fosters a more diversified market economy that will benefit all the country's sectors of activity by encouraging enterprises to undertake the necessary investment. It will also help Tunisian companies to adjust to the intensified competition arising from a liberalised economy and progressive implementation of the free trade area with the European Union.

9 To be noted that further support for the private sector was provided by risk capital operations funded by the Community budget as well as one EUR 185 million operation signed under the Mediterranean Partnership Facility II. Including these, the proportion of financing in support of the private sector reached 68% of total EIB financing in the Mediterranean in 2007.

10 The numbers above cannot be added as a single operation may contribute to several objectives.

One loan was made directly with a private sector company to support an Israeli PPP project in the water sector. This project, consisting of the construction of a reverse osmosis seawater desalination plant, also supports the objectives of protecting and improving the quality of the environment and protecting human health through the provision of drinking water. Quality and quantity of water is indeed considered to be one of the most serious environmental problems currently facing the region.

The general lending priority of energy security of supply is supported in the Mediterranean region by two projects with total financing of EUR 280 million. In Morocco, the EIB finances the expansion and optimisation of the use of renewable energy, namely hydropower. This project helps also to address the impacts of climate change by promoting energy efficiency and reducing air pollution. The other operation consists of the construction of two modern natural gas-fired combined-cycle power plants, producing electricity at a competitive cost and with a relatively low environmental impact, to meet growing demand in Egypt.

2.12.4. *Pre-Accession Countries*

Mandate-specific core objectives (aligned with the objectives for EIB lending within the EU)	**Number of operations**
Implementation of the Innovation 2010 Initiative (i2i)	1
Extension of Trans-European Networks (TENs)	5
Support for SMEs	6
Environmental Protection and Sustainable Communities	4
Support to Sustainable, Competitive and Secure Energy	1
Total number of operations signed in 2007	**16** [11]
Total EIB financing (EUR million)	**1 750**

EIB financing in Pre-Accession countries supports the countries' preparation for accession to the EU. This driving principle is reflected in the lending objectives which – in addition to covering the external lending objectives set out in Council Decision 2006/1016/EC – are aligned with the objectives for EIB lending within the EU. Furthermore, EIB activity in the Pre-Accession countries reflects the priorities established in the Accession and European Partnerships, in the Stabilisation and Association agreements and in negotiations with the EU.

Pre-Accession countries' private sector led economic growth was supported by a total of EUR 420 million in credit lines in Turkey, Bosnia-Herzegovina and Kosovo. The latter was the first EIB loan in this part of the Western Balkans. The expected benefits of most of the credit lines include support for the development of the countries' financial system and of the SME sector, improved competitiveness of the industry, contribution to environmental protection and to the rational use of energy, improvement of infrastructure of local and regional interest.

[11] The numbers above cannot be added as a single operation may contribute to several objectives.

The extension and development of Trans-European transport Networks in the region was supported by 5 projects for a total EIB lending of EUR 199 million. A loan of EUR 60 million went to the construction of a motorway bypass for the Serbian capital Belgrade. The project will help to increase transport safety and capacity in Serbia, which is on the crossroads of the crucial trans-European corridors in the Western Balkans. Another loan in Serbia went to the rehabilitation of Belgrade's Gazela Bridge. The project is co-financed with the EBRD and the European Agency for Reconstruction. Other projects extending TENs included road rehabilitation programmes both in Serbia and in Bosnia-Herzegovina and the construction of an expressway between Levan and Vlorë in Albania.

More than three quarters (EUR 1.33 billion) of total lending to Pre-Accession countries under mandate was absorbed by Turkey. Almost half of this volume went to large transport infrastructure projects, namely for the construction and rehabilitation of rail infrastructure. Two of these supported sustainable urban public transport, in Izmir and in Antalya, while one project concerns the construction of Turkey's first high-speed train line along the Istanbul-Ankara corridor. The latter is implemented in parallel to assistance of the Commission in the context of the Turkish Rail Sector Re-Structuring and Strengthening Project, which aims at establishing the legislative and institutional framework of the Turkish rail sector in accordance with the EU rules and regulations. Each of these transport projects encompasses significant environmental benefits.

The Innovation 2010 Initiative, namely research, development and innovation programmes, was supported by one EUR 400 million loan in Turkey. Programmes eligible under this loan comprise the key areas for promoting science and technology in Turkey and range from academic research programmes to R&D facilities programmes such as laboratories and scientific equipment.

Environmental protection was the main lending objective of 42% of total lending under mandate in Pre-Accession countries. The projects financed include the above-mentioned public transport projects in Turkey and a renewable energy project in Bosnia-Herzegovina for the rehabilitation of hydropower plants and electric power distribution systems. This investment will result in better energy efficiency and increased quality and reliability of power supply in the country.

Bosnia-Herzegovina was the second recipient country in the region with 15% of lending under mandate, Serbia received 8%, followed by Albania (1%).

As explained in section 2.5, in 2007 the EIB Board of Governors authorised an additional indicative lending envelope of EUR 5.5 billion under the Pre-Accession Facility until 2010, which favours the objective set out in Council Decision 2006/1016/EC that financing to candidate countries should increasingly take place under the Pre-Accession Facility.

Moreover, in accordance with Recital 10 of Council decision 2006/1016/EC, the EIB seeks to encourage the institution building aspect, where relevant, in cooperation with the other IFIs active in the Pre-Accession region. In particular, as mentioned in section 2.9, the EIB was actively involved in the work of the IFI-Advisory Group and its four sectoral working groups covering transport, energy, environment and social sectors. Together with the Commission, the EBRD and the CEB, the EIB is also actively involved in the Infrastructure Project Facility (IPF) to channel EC funds for technical assistance in support of priority infrastructure projects in Pre-Accession Countries.

2.12.5. South Africa

Mandate-specific core objectives	**Number of operations**
Support for infrastructure projects of public interest	1
Direct support for private sector, SMEs	1
Protection of environment/energy security of supply	-
Total number of operations signed in 2007	**2**
Total EIB financing (EUR million)	**113**

EIB financing in South Africa focuses on priority infrastructure investment programmes and the promotion of private sector growth.

In 2007, two loans were signed in South Africa. The first loan, EUR 25 million equivalent in ZAR, finances the expansion of a particle board and medium density fibreboard factory, to meet the strong growth in domestic demand arising from the furniture and construction sector. The operation directly supports private sector development and hence viable employment creation in one of the poorer provinces of the country.

The other loan, EUR 88 million equivalent in ZAR, is the second tranche of a larger EIB financing contribution foreseen for the construction of a high voltage power transmission interconnection between Johannesburg and Cape Town. This project will increase transmission capacity to meet the growing demand in the Western Cape and contribute to reducing transmission constraints in the Southern African Power Pool.

Although no signatures were made under the new lending mandate, 38% of the EUR 900 million regional ceiling had, by end-2007, been attributed to projects approved by the Board.

2.13. List of loans signed under the Community-supported mandates in 2007

2.13.1. Loans signed in Asia

– - under ALA III (2000-2007) mandate

Country	**Project Description**	**Loan amount (EUR million)**	**Political Risk Guarantee**
Philippines	Extension and upgrading of water supply and distribution infrastructure in Greater Manila	60.00	Yes
	Total Asia:	**60.00**	

2.13.2. Loans signed in Latin America

– - under ALA III (2000-2007) mandate

Country	**Project Description**	**Loan amount (EUR million)**	**Political Risk Guarantee**
Peru	Purchase and installation of systems for provision of telephony, high-speed internet, data transmission, cable and satellite pay-TV and VSAT services	60.00	Yes

– - under ALA IV (2007-2013) mandate

Brazil	Installation, commissioning and operation of GSM overlay network operating in 850 MHz frequency range in areas of Brazil covered by promoter in order to migrate from CDMA to GSM network	250.00	Yes
Panama	Improvement of sanitation and environmental conditions in Panama City through construction of sewerage network, collectors, interceptor and wastewater treatment plant	27.14	No
Uruguay	Expansion of private container terminal at port of Montevideo	27.97	Yes
	Total Latin America:	**365.11**	

2.14. Loans signed in the Eastern Europe, Southern Caucasus and Russia

– - under 2004-2007 (EUR 500 million) mandate

Country	Project Description	Loan amount (EUR million)	Political Risk Guarantee
Republic of Moldova,	Rehabilitation of trunk road network along main east-west and north-south routes	30.00	No
Ukraine	Rehabilitation of the final section of the 4-lane M-06 highway between Kiev and Brody, with a length of 427 km, on Pan-European Corridor III. This highway represents the most important arterial route of Ukraine to the European Union.	200.00	No
	Total E. Europe, S. Caucasus and Russia:	**230.00**	

2.15. Loans signed in the Mediterranean Partner Countries

– - under ENP-MED (2007-2013) mandate

Country	Project Description	Loan amount (EUR million)	Political Risk Guarantee
Egypt	Construction of two natural gas-fired combined-cycle power generation units in El Atf and Sidi Krir	130.00	No
Israel	Construction and operation of desalination plant in Hadera on Mediterranean coast (about 50 km north of Tel Aviv)	120.00	Yes
Jordan	Financing for small and medium-scale ventures	50.00	Yes
Lebanon	Financing of small and medium-scale projects	195.00	Yes
	Financing, through Banque de Liban, of investment aimed at supporting SMEs affected by recent conflict	100.00	No
Morocco	Construction of Fez - Taza section of toll motorway linking Fez to Oujda	180.00	No
	Construction of hydro-powered electricity projects and setting up of an automated network management system	150.00	No
Syria	Co-financing of investment projects implemented by private sector SMEs	80.00	No
Tunisia	Financing of small and medium-scale projects	200.00	No
	Total Mediterranean:	**1 205.00**	

2.16. Loans signed in the Pre-Accession Countries

– - under the South-Eastern Neighbours (2000-2007) mandate

Country	Project Description	Loan amount (EUR million)	Political Risk Guarantee
Bosnia-Herzegovina	Rehabilitation of hydropower plants and distribution facilities	103.00	No
	Financing for small and medium-scale ventures	75.00	Yes
	Financing for small and medium-scale ventures	10.00	Yes
	Financing for small and medium-scale ventures	5.00	Yes
	Rehabilitation of pavement of number of sections of main and regional road network	50.00	No
	Financing of small and medium-scale infrastructure schemes	20.00	Yes
Serbia	Rehabilitation of E70/E75 motorway crossing Belgrade and of R251 ring road	33.00	No
	Financing for small and medium-scale ventures (in Kosovo)	10.00	Yes
	Rehabilitation of roads and bridges throughout country	33.00	No
Turkey	Construction of first line of modern tramway system in Antalya	40.50	No
	Construction of high-speed railway line between Istanbul and Ankara	132.36	No
	Upgrading of 80 km section of suburban railway network to surface metro linking Izmir centre to Aliaga (north) and Cumoavasi (south)	150.00	No
	Strengthening of Turkey's science and research capabilities	400.00	No
	Financing of small and medium-scale ventures	300.00	No

– - under the Pre-Accession (2007-2013) mandate

Country	Project Description	Loan amount (EUR million)	Political Risk Guarantee
Albania	Construction of new expressway between Levan and Vlorë	23.00	No
Serbia	Construction of 47 km bypass, of which 27 km of motorway and 20 km of road, on Pan-European Transport Corridor X, west and south of Belgrade	60.00	No
Turkey	Construction of high-speed railway line between Istanbul and Ankara	304.86	No
	Total Pre-Accession Countries:	**1 749.72**	

2.17. Loans signed in South Africa

– - under the RSA (2000-2007) mandate

Country	Project Description	Loan amount (EUR million)	Political Risk Guarantee
South Africa	Construction of high voltage power transmission interconnection between Johannesburg and Cape Town	88.00	No
	Expansion of a particle board and medium density fibreboard factory in White River	25.00	Yes
	Total South Africa:	**113.00**	

2.18. EIB lending in ACP/OCT in 2007 (including funding from own resources and by EDF) [12]

2.18.1. Breakdown by region (EUR million)

	EIB Own resources	EDF resources	Total
ACP/OCT total	**432**	**325**	**756**
Africa	432	254	**686**
Regional - Africa		8	**8**
West Africa & Sahel	128		**128**
Central & East Africa		222	**222**
Southern Africa & Indian Ocean	304	25	**328**
Caribbean		56	**56**
Pacific		2	**2**
OCT		10	**10**
Regional ACP		3	**3**

12 Amounts stated in this section rounded to the nearest EUR million.

2.18.2. Breakdown by sector (EUR million)

	Energy	Telecom	Water, sewerage	Industry & Services	Credit lines	Total
ACP/OCT total	**99**	**15**	**42**	**511**	**90**	**756**
Africa	99	15	42	462	68	**686**
Regional - Africa				8		**8**
West Africa & Sahel			28	100		**128**
Central & East Africa	99			55	68	**222**
Southern Africa & Indian Ocean		15	14	299		**328**
Caribbean				46	10	**56**
Pacific					2	**2**
OCT					10	**10**
Regional ACP				3		**3**

2.19. Interest subsidies paid under the various Community mechanisms from 1995 to 2007

ECU/EUR million

	EC-subsidies		**EIB-subsidies**			
Financial year	**Natural disasters**	**Trans-European Networks**	**EDF**	**MEDA**	**BOSNIA**	**FYROM**
1995	6.1	25.0	28.1	15.2		
1996	4.3	18.0	28.6	22.4		
1997	4.0	37.0	56.9	48.2		
1998	2.8	20.0	24.5	30.3		2.7
1999	2.2	71.0	27.1	29.2		4.0
2000	1.7	54.0	18.7	17.4		1.1
2001	1.3	15.0	14.5	26.6		2.3
2002	0.9	14.3	19.9	19.1	1.0	2.5
2003	0.6	4.0	7.75	29.65		
2004	0.3	13.26 (1)	9.0	23.98	2.76	1.31
2005	0.2		0.39	21.95	5.5	
2006	0.1		2.45	20.80	0.63	
2007			2.20	10.90		

(1) Revised figure.