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

**on the implementation of European Investment Bank loans for projects in central
and eastern European countries**

**(Poland, Hungary, the Czech Republic, the Slovak Republic, Romania, Bulgaria,
Latvia, Estonia, Lithuania and Albania)**

(1.1.1995 - 31.12.1995)

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1. Introduction

The present annual report on the activities of the European Investment Bank (EIB) in central and eastern Europe has been drawn up in accordance with Council Decision 93/696/EC of 13 December 1993 (OJ L 321 of 23 December 1993). It relates to the second year of implementation of the Council Decision and covers the period from 1 January to 31 December 1995.

2. Legal framework

The legal and institutional framework of the mandate given to the EIB in central and eastern Europe is laid down in the following decisions and documents:

- **Council Decision 93/696/EC of 13 December 1993** (OJ L 321 of 23 December 1993) granting a Community guarantee to the Bank against losses under loans for projects in central and eastern European countries. The guarantee is restricted to an overall loan ceiling of ECU 3 000 million over a period of three years, beginning on 23 December 1993. The guarantee covers in full any payments not received by the Bank but due under loans granted, in accordance with the usual criteria, in respect of investment projects carried out in the countries specified in the Decision.

(The loan guarantee ceiling includes the provisions laid down in respect of investments in Estonia, Latvia and Lithuania in Council Decision 93/166/EEC of 15 March 1993).

- **Decision by the EIB Board of Governors of 2 May 1994** authorizing the Bank to lend on the basis of the Council Decision of 13 December 1993.
- **Contract of guarantee signed by the Community and the EIB on 22 July and 12 August 1994.** This contract supersedes the guarantee contract relating to the Council Decision of 15 March 1993 mentioned above.

3. Activities of the EIB in central and eastern Europe in 1995

In 1995 the EIB signed 19 loan contracts in central and eastern Europe for an aggregate amount of ECU 973 million, compared with ECU 921 million in the previous year.

3.1 Geographical spread

Project activity is closely correlated to the pace of economic reform. Countries where reforms were undertaken earlier and are now at a more advanced stage continue to show a higher absorption of loans. Table 1 shows that loans signed in the Czech Republic, Hungary, Romania and Poland accounted for nearly 80% of total lending in 1995. The remaining lending was accounted for by Bulgaria, Albania (first-time lending), Lithuania and Estonia.

Table 1. Geographical distribution of EIB lending in 1995

Country	Number of loans	Total loan contracts signed (ECU m)
Czech Republic	3	260 (26.7%)
Hungary	2	200 (20.6%)
Romania	3	175 (18.0%)
Poland	2	140 (14.4%)
Slovak Republic	2	80 (8.2%)
Bulgaria	1	60 (6.2%)
Albania	3	34 (3.5%)
Lithuania	2	19 (2.0%)
Estonia	1	5 (.5%)
Aggregate	19	973 (100%)

3.2 Sectoral spread

The Bank's operations in central and eastern Europe have taken place in all economic sectors (Table 2). EIB loans have contributed to the implementation of various projects in infrastructure, which plays a key role in the implementation of the reforms, as well as to the support for industrial projects in particular SMEs.

Energy is the leading sector as regards infrastructures with four projects in three countries totalling ECU 290 million and representing almost 30% of total EIB lending in the area during 1995. Projects in this sector relate to the improvement of thermal power stations and the modernization of power production and transmission. Projects in the transport sector followed closely in importance with over 24% of total lending. Loans were signed in six countries for a total of ECU 238 million in support of seven projects for the upgrading of transport systems to European standards. Road and rail transport projects supported by the Bank form part of larger corridors of the

Trans-European Networks or of transit routes of vital interest to the Community and its transport policies. Projects in the **telecommunications** sector represented 13.4% of total EIB lending in 1995. Two loans for a total of ECU 130 million were signed for the expansion and modernization of the telecommunications network.

Support for the **industrial** sector (over 32%), where the main beneficiaries are small and medium-sized operations, accounts for the largest single share of the Bank's activities in central and eastern Europe during 1995. It should be borne in mind that EIB support for SMEs is channelled through appropriate financial intermediaries who have access to EIB funds either in the form of a *global loan* - line of credit contracted between the Bank and a specific financial institution - or in the form of an *APEX* loan - line of credit open to a number of qualified institutions within a particular country and usually channelled via the central bank. In all, loans signed in the industrial sector amounted to ECU 315 million, of which just over 82% are global loans.

Table 2. Breakdown by country and sector of EIB loans signed in 1995

Country	Total loan contracts signed (ECU m)	of which			
		Energy	Transport	Telecoms	Industry, other, mixed
Czech Rep.	260	200	60		
Hungary	200			50	150
Romania	175	60	35	80	
Poland	140		40		100
Slovak Rep.	80	30			50
Bulgaria	60		60		
Albania	34		29		5
Lithuania	19		14		5
Estonia	5				5
Aggregate	973 (100%)	290 (29.8%)	238 (24.5%)	130 (13.4%)	315 (32.4%)

Table 3 below gives details of the loan contracts signed during 1995. The list of all loans signed at 31 December 1995 under the current mandate is given in the Annex.

3.3 Monitoring

The Bank monitors investment throughout the implementation of the project and up to the end of the loan period. Disbursements are spread over rather long periods, a situation which is usual for infrastructure loans with long maturity periods (12 to 20 years) and is typical in the case of credit lines, where the disbursement takes place only after the decision to support the implementation of an individual investment has been taken.

As to the servicing of the loans, repayments have been punctual.

Table 3. EIB loans signed between 1 January and 31 December 1995 pursuant to the Council Decision of 13 December 1993 (93/696/EC)

COUNTRY	PROJECT	DESCRIPTION	AMOUNT OF LOAN (ECU m)	TOTAL COUNTRY (ECU m)
Albania	East-West road corridor	Rehabilitation and improvement of some 94 km of roads along the main East-West road corridor	24	34
	Ferry terminal at the Port of Durrës	Expansion of the existing ferry terminal at the Port of Durrës and priority repairs of quays and storage areas	5	
	APEX global loan	Financing of small and medium-sized industrial, agro-industrial, tourism and related services as well as projects promoting environmental protection and energy conservation	5	
Bulgaria	Transit roads II	Rehabilitation and reconstruction of some 900 km of main transit roads	60	60
Czech Republic	C'EZ I (Power Plant Improvements) - Tranche A	Installation of desulphurization equipment at six power stations	100	260
	C'EZ I (Power Plant Improvements) - Tranche B	Installation of desulphurization equipment at six power stations	100	
	Roads	Improvements to the road network	60	
Estonia	Estonian Investment Bank Global loan - Tranche B	Financing of small and medium-sized enterprises in industry, tourism and related services	5	5
Hungary	Financial sector global loan	Financing of industrial, infrastructure and tourism projects	150	200
	Telecommunications II - Tranche B	Expansion and modernization of the telecommunications network	50	

<u>COUNTRY</u>	<u>PROJECT</u>	<u>DESCRIPTION</u>	<u>AMOUNT OF LOAN (ECU m)</u>	<u>TOTAL COUNTRY (ECU m)</u>
Lithuania	Port of Klaipeda	Construction of a small container terminal and improvements to the roll-on/roll-off terminal	14	19
	Lithuanian Development Bank Global loan	Financing of small and medium-sized enterprises in industry, tourism and related services	5	
Poland	Financial sector Global Loan	Financing of small and medium-scale investments in industry, infrastructure and tourism	100	140
	Railways III	Rehabilitation and upgrading of the first section of the Warsaw-Terespol TEN railway line	40	
Romania	Telecommunications	Expansion and modernization of the telecommunications network	80	175
	Heat and power rehabilitation	Rehabilitation and modernization of heat and power production and electricity transmission and distribution facilities	60	
	Constanta Port rehabilitation	Repair of storm and accident damage to, and completion of, breakwaters	35	
Slovak Republic	State Bank and global loan II	Financing of term credit operations in industry, tourism and related services, environmental protection and energy conservation	50	80
	SPP gaz transmission	Modernization and extension of the Slovak international gas transit and domestic networks	30	
TOTAL			973	973

4. The Bank's objectives and priorities

The Bank assists those central and eastern European countries whose long-term goal is to prepare themselves for EU membership, by helping them create the economic framework necessary to qualify for membership. The examples of Greece, Portugal and Spain provide a historic parallel. The EIB started its lending activity many years before those countries finally joined the Community and helped them to meet the conditions for membership.

The EIB's role is, above all, that of a catalyst in the difficult task of mobilizing financing packages for major infrastructure projects. This is very much in keeping with its specific character as a provider of complementary finance, i.e. as a Bank which steps in when funds from the commercial sector are unavailable or insufficient.

The EIB is particularly involved in the extension to the countries of central and eastern Europe of the Trans-European Networks in roads and railways, on the basis of the road and rail corridors defined by the Pan-European Conference of Transport Ministers as development priorities for the medium term.

5. Cooperation with other institutions

The Bank's activities in the countries of central and eastern Europe are conducted within the framework of the EU programme to help those countries to prepare for accession to the Union, in particular by financing investment aimed at integrating the infrastructure (transport, telecommunications, energy, environment) of the countries concerned with that of the EU and by assisting SMEs. Whenever possible, co-financing is established with other institutions, in particular to meet the above objectives. The Bank's activities thus form part of a concerted approach that is being pursued in close cooperation with the Commission and, as appropriate, with the international financial institutions working in the area.

The Bank cooperates closely with the Commission, in particular with PHARE. In addition to frequent PHARE assistance during the pre-investment phase (studies and technical assistance support), the Bank and PHARE have co-financed during the reference period a rail project in Poland, a roads project in the Czech Republic, road and port development projects in Albania, an energy project in Romania and a port development in Lithuania.

Of the international financial institutions, the EIB works closely with the EBRD and the World Bank. Together, they finance some of the projects that have been undertaken in the area, with a view to maximizing the impact of their activities to the benefit of the countries concerned. During the reference period,

the EIB co-financed with the EBRD and the World Bank a project in the energy sector in Romania.

The share of the different financing sources in projects financed by the EIB is shown below.

Table 4. Share of PHARE and international financial institutions in projects financed by the EIB during 1995

(ECU m)

Country	EIB	EBRD	IBRD	Other ¹	PHARE	TOTAL
Albania	34	2		2	31	69
Bulgaria	60			61	12	133
Czech Rep.	260			280	10	550
Estonia	5			5		10
Hungary	200			840		1040
Lithuania	19			36	5	60
Poland	140			23	20	183
Romania	175	183	160	176	15	709
Slovak Rep.	80			73		153
TOTAL	973 (33%)	185 (7%)	160 (6%)	1496 (51%)	93 (3%)	2907 (100%)

¹ States, public bodies or other domestic financial sources, including own funds of borrower/promoter.

CENTRAL AND EASTERN EUROPE

EIB loans signed during the period 15.3.1993-31.12.1995 on the basis of the Council Decisions of 15 March 1993 (93/166/EC) and 13 December 1993 (93/696/EC)

COUNTRY	Date of signature	PROJECT	Amount of loan (ECU m)	COUNTRY TOTAL (ECU.m)
Albania	1995	East-West road corridor	24	34
	1995	Ferry terminal at the Port of Durrës	5	
	1995	APEX global loan	5	
Bulgaria	1994	Air traffic services - B	30	90
	1995	Transit roads II	60	
Czech Republic	1994	Berlin-Vienna rail corridor	125	515
	1994	Mero-IKL (D-CZ) pipeline	100	
	1994	Telecommunications I - B	30	
	1995	CEZ I (power plant improvements) - A	100	
	1995	CEZ I (power plant improvements) - B	100	
	1995	Roads	60	
Estonia	1993 (*)	Estonian Investment Bank global loan - Tranche A	5	52
	1994	Upgrading air traffic services	20	
	1994	Port of Muuga bulk terminal	15	
	1994	District heating rehabilitation	7	
	1995	Estonian Investment Bank global loan - Tranche B	5	
Hungary	1994	Telecommunications II	100	340
	1994	Municipal infrastructure global loan	40	
	1995	Financial sector global loan	150	
	1995	Telecommunications II - Tranche B	50	
Latvia	1993 (*)	Investment Bank of Latvia - Global loan	5	5
Lithuania	1994	Vilnius Airport	10	29
	1995	Port of Klaipeda	14	
	1995	Lithuanian Development Bank - Global loan	5	

COUNTRY	Date of signature	PROJECT	Amount of loan (ECU.m)	COUNTRY TOTAL (ECU m)
Poland	1994	Telecommunications II	150	473
	1994	Highways	125	
	1994	Warsaw sewerage treatment plant	45	
	1994	Export Development Bank global loan	13	
	1995	Financial sector global loan	100	
	1995	Railways III	40	
Romania	1994	Romgaz rehabilitation and modernization	50	241
	1994	Air traffic services - B	16	
	1995	Telecommunications	80	
	1995	Heat and power rehabilitation	60	
	1995	Constanta port rehabilitation	35	
Slovak Republic	1994	Telecommunications 1 -B	20	115
	1994	Air traffic services	15	
	1995	State Bank and global loan II	50	
	1995	SPP gaz transmission	30	
TOTAL			1894	1894

(*) Signed on the basis of Council Decision 93/166/EEC.

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