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Over 1 000 million units of account lent by the EIB in 1975

Following rapid growth over the previous two years, the European Investment Bank's lending activities in 1975 only slightly exceeded the 1974 level: 77 finance contracts were signed for a total of 1 006.5 million units of account (u.a.), compared with 996 m. u.a. in 1974. The funds were used mainly to finance investments furthering regional development within the EEC, infrastructure projects of interest to the Community as a whole or to several Member Countries and, to a lesser extent, to promote the economic development of countries associated with the EEC. The year saw the amount of loans and guarantees outstanding rise from 3 713·6 m. u.a. to 4 554·5 m. u.a., an increase of 22·6 %.

Most of the finance provided was for investments in Member Countries: 64 loans were signed for a total of 917·5 m. u.a., compared with 850 m.u.a. in 1974, an increase of around 8 %.

Lending to assist development in less favoured regions of Member Countries, mainly in Italy and the United Kingdom, continued to increase, reaching 670·6 m. u. a., or 73 % of all finance granted within the Community. This amount includes 195·5 m. u. a. to support projects which also fulfilled other criteria for the granting of an EIB loan as laid down in Article 130 of the Treaty of Rome, in particular the serving of a common European interest (such as improvements to the EEC's energy supplies and internal communications). The total of finance provided for projects of interest to the Community or to several Member Countries reached 438·8 m. u. a.

With the slackening pace of economic activity accompanied by a decline in the propensity of firms to invest, the EIB's lending to industry dropped to only 15 % of its loans in Member Countries, compared with 36 % in 1974.

For the same reasons only four global loans, totalling 10·2 m. u. a., were granted to intermediary financial institutions in 1975, although 129 allocations worth 63·1 m. u. a. were provided to support small or medium-scale ventures from global loans granted in previous years.

Taken together, the industrial investments which the Bank helped to finance will enable the direct creation of nearly 12 000 new jobs and will stabilise around 4 000 others.

Large-scale public investment programmes with the objectives of reflating the economy and meeting energy policy requirements were undertaken in several Member Countries and this led the Bank temporarily to increase its operations in support of infrastructure investments which received 85 % of finance it provided within the Community as against 64 % in 1974. In the energy sector, 328 m. u. a., or 36 % of finance granted within the Community, was provided for some 20 projects: nuclear power stations, a factory producing nuclear reactor plant, gas pipelines, various installations for the exploitation of hydrocarbon deposits and for the opening and development of coal mines. There was also a marked upturn in loans for transport infrastructure (139 m.), telecommunications (198 m.) and water supplies (115 m.).

There were few operations in the Associated Countries because of the gradual depletion of funds available under the second Financial Protocol with Turkey, the expiry of the second Yaoundé Convention and the fact that the Lomé Convention has yet to come into effect. However, the resumption of operations in Greece permitted commitment of the entire $ 56 m. balance of the amount provided for under the first EEC-Greece Financial Protocol.

Within the Community, a high concentration of loans in Italy and the United Kingdom

Finance provided within the **Community** amounted to 917·5 m. u. a., around 39 % of which went to Italy and 36·5 % to the United Kingdom, the two Member Countries with the most acute regional problems.

Loans to France accounted for 17 % of the total, whilst the remaining 7 % went to projects in Ireland, Denmark and Belgium.

The European Unit of Account used by the EIB

The Statute of the European Investment Bank defines the unit of account to be used by the Bank in terms of gold and lays down rules for the conversion between this unit and national currencies by reference to the gold parities communicated to the International Monetary Fund. Fundamental changes in the international monetary system in recent years have increasingly shown that the changing role of gold, and consequently of gold parities, was impeding application of these provisions of the Bank's Statute in the manner originally intended. Consequently, on 15 July 1974 the Board of Governors of the Bank decided it was necessary to amend the Statute to empower them, acting unanimously, to modify the definition of the unit of account to be used by the EIB and the method of conversion of this unit of account into national currencies and vice versa. The proposed amendment involved modifying the Treaty of Rome, of which the Statute forms an integral part, and on 10 July 1975, after receiving a favourable opinion from the Council of Ministers which had consulted the European Parliament and the Commission of the European Communities, the Ministers meeting in the conference of representatives of the Governments of the Member States approved the Treaty amending these provisions of the Bank's Statute ; this Treaty is at present being ratified by each of the nine Member States. As any amendment to the Statute is a lengthy process, the Board of Governors of the Bank decided at its meeting on 18 March 1975 to authorise the EIB to use a new system of conversion with effect from 30 December 1974 and until the amendment is ratified.

The new conversion rates applied by the Bank are the conversion rates between national currencies and the new European Unit of Account, which is equal to the sum of the following amounts of Member States' currencies :

DM	0·828	Lit	109·0	Lfrs	0·14
£	0·0885	Fl	0·286	Dkr	0·217
Ffrs	1·15	Bfrs	3·66	£ Ir	0·00759

The composition of this basket of currencies is such that at 28 June 1974, the sum of the component currencies would have been equal to the International Monetary Fund's Special Drawing Right when calculated on the same basis as the latter and hence the same as the Bank's statutory unit of account by virtue of the common gold content of the unit of account and the SDR, i.e. the equivalent at that date of US $ 1·20635.

The conversion rates between the new European Unit of Account and national currencies of Member States and other currencies used by the Bank for its operations, such as the US dollar and Swiss franc, are determined each working day by the Commission of the European Communities and published in the Official Journal.

In practice, the conversion rates adopted by the Bank for statistical purposes during each quarter are those obtaining on the last working day of the previous quarter and, in 1975, were as follows :

1 unit of account =	1st quarter	2nd quarter	3rd quarter	4th quarter
DM	3·01774	3·04474	3·02333	3·07061
£	0·534530	0·538633	0·583942	0·564620
Ffrs	5·57964	5·48706	5·18942	5·24197
Lit	815·517	821·313	809·278	793·118
Fl	3·13445	3·11230	3·13108	3·15973
Bfrs	45·4137	45·0405	45·2730	46·1746
Lfrs	45·4137	45·0405	45·2730	46·1746
Dkr	7·06637	7·09212	7·03769	7·17554
£ Ir	0·534530	0·538633	0·584093	0·564482

The relatively low interest rates obtaining in West Germany, the Netherlands and Luxembourg effectively prevented the granting of any loans in these countries.

In **Italy,** 26 loans were granted for a total of 358·8 m. u. a. (Lit 289 800 m), compared with 278 m u. a. (Lit 227 000 m) in 1974, a rise of 29 %.

As in previous years, the bulk of the loans was for investments of regional interest, chiefly in the mainland Mezzogiorno and Sicily. In Apulia and Basilicata, the EIB participated in certain 'special projects' undertaken by the Cassa per il Mezzogiorno to improve water supplies by constructing the Pertusillo aqueduct and exploiting the resources of the Sinni river. The Bank also provided finance for a 'special project' to reduce pollution in the Gulf of Naples and granted a loan for extending the gas distribution network to supply southern Italy with gas discovered off the coast of Calabria.

Several industrial projects were part-financed by the EIB, including, in the chemicals sector, extension of the ANIC S. p.A. complex at Gela, Sicily, the Montedison plants at Bussi (Abruzzi) and Brindisi (Apulia), and a pharmaceuticals factory in Latium. In the steel industry, two loans were granted for extending works belonging to the Finsider group near Naples (Campania) and Taranto (Apulia). The Bank also contributed towards financing the construction of a graphite-electrode plant in Campania, the extension of a factory in Apulia producing fluorescent tubes and vapour lamps, and the expansion of an industrial research centre in Latium.

Finally, the Bank granted almost 160 m u. a. for large-scale, infrastructure projects in northern Italy, most of which will serve a Community interest by improving road connections with other Member Countries (Fréjus tunnel, 'Tunnels Motorway') and by increasing energy resources. In this connection, large loans were made for constructing the Caorso nuclear power station near Piacenza (Emilia Romagna) and developing natural gas and petroleum deposits discovered by AGIP at Malossa in the Po valley.

Three loans went to improving telephone installations in Veneto/ Trentino — Alto Adige, Abruzzi and Molise, and Sicily.

Loans in the **United Kingdom** more than doubled, reaching 334·5 m u. a. (£ 186·5 m) compared with around 150 m u. a. (£ 79·9 m) in 1974 and 67 m u. a. (£ 32·9 m) in 1973, when the Bank commenced operations in that country.

All the loans were for projects in problem areas; principally because of the downturn in private investment, they went mainly towards development of infrastructure or to the nationalised industries. The improvement of energy supplies accounted for about 70 % of the finance provided, the projects including construction of the Hartlepool (north-east England) and Hunterston 'B' (Scotland) nuclear power stations, pipelines for conveying North Sea gas, mainly across Scotland, a petroleum harbour at Sullom Voe in the Shetland Islands, high voltage transmission lines, coal mining developments in Wales, Yorkshire and the Midlands and the construction for the British Railways Board of special rolling stock for hauling coal. The Bank also provided finance for improving water supplies in north-east England and for the modernisation and extension of the Welsh telephone network.

In the industrial sector, the Bank made a new loan to the British Steel Corporation, this time for modernising the BSC coatings complex at Shotton in Wales. It also part-financed construction of a glucose factory in Yorkshire, and a whisky bottling and blending plant and a typewriter factory, both in Scotland.

In **France** the Bank granted 158 m u.a. (Ffrs 845·7 m) as against 193·7 m u.a. (Ffrs 1 081 m) in 1974, mainly for infrastructure projects. These included improvements to the water supply system and telephone network in Brittany, the modernisation and strengthening of French international telecommunications, the extension of rail links in the south-west of the country and construction of the Verdun -Rheims section of the Paris-Lorraine-Germany motorway. A further loan was made for construction of the Bugey nuclear power station and the Bank also helped to finance a factory producing reactor vessels and steam generators for nuclear power stations and a project applying advanced technology for underwater welding of oil and gas pipelines. A global loan was granted to LORDEX" Société de Développement Régional" to support small and medium-scale industrial ventures in Lorraine.

In **Ireland,** two loans worth 37·7 m u.a. (£ Ir 22 m) were granted for extensions to the country's telephone network and for the construction of a cement works at Platin.

In **Denmark,** six loans totalling 17·7 m u.a. (Dkr 125·4 m) helped to finance two production platforms for the DAN oil field in the Danish sector of the North Sea, the extension of a factory producing electric motors in North Jutland and construction of an abattoir in south-east Jutland. In addition, three global loans were granted, two to the Danish Government, which on-lent the funds to the Regional Development Board for financing small and medium-scale industrial ventures, and the other to Finansieringsinstituttet for Industri og Handværk for supporting similar ventures. Together these three loans were worth 6.7 m u.a.

In **Belgium** a loan of 10.8 m u.a. (Bfrs 500 m) was made for a pipeline interconnected with the European natural gas transmission network.

Year of transition for operations in the Associated Countries

A total of 89 m u.a. was granted for operations in the **Associated Countries,** of which 48·9 m u.a. came from the Bank's own resources and 40·1 m. u.a. from special funds made available by Member States (for Turkey) or from the resources of the European Development Fund (for the AASMM).

Following reactivation of the Financial Protocol with **Greece,**

FINANCING GRANTED IN 1975
Breakdown by country

Country	Number	Amount (m. u.a.)	% of grand total	% Member Countries
Ordinary operations				
Member Countries				
Belgium	1	10.8	1.1	1.2
Denmark	6	17.7	1.8	1.9
France	11	158.0	15.7	17.2
Ireland	2	37.7	3.7	4.1
Italy	26	358.8	35.6	39.1
United Kingdom	18	334.5	33.2	36.5
Total	**64**	**917.5**	**91.1**	**100.0**
Associated Countries				
Greece	7	47.2	4.7	
AASMM				
Mauritius	1	1.7	0.2	
Total	**8**	**48.9**	**4.9**	
Ordinary operations total	**72**	**966.4**	**96.0**	
Special operations (1)				
Turkey	3	35.0	3.5	
AASMM — OCTD				
Netherlands Antilles	1	4.4	0.4	
Guadeloupe	1	0.7	0.1	
Total	**5**	**40.1**	**4.0**	
Grand total	**77**	**1 006.5**	**100.0**	

(1) Loans on special conditions financed from the resources of Member States (for Turkey) and from the European Development Fund (for the AASMM), the accounts for which are kept under the Bank's Special Section.

which had been suspended in 1967, the entire balance of funds provided under this Protocol was committed in the form of loans from the EIB's own resources totalling 47.2 m. u.a. The largest of these was to help to finance irrigation in the Serres plain, Eastern Macedonia ; the project is in a priority sector and as it offers only an indirect and long-term return a 3 % interest subsidy was granted, the cost being borne by the Member States which signed the Financial Protocol. The other loans went towards construction of factories producing textiles, aluminium products, electrical and telecommunications cables and a cement works. A global loan was made to the National Investment Bank for Industrial Development (NIBID) for promoting small and medium-scale industrial ventures.

In **Turkey,** three loans on special conditions totalling 35 m. u.a. were granted from resources provided by Member States for construction of the lignite-fired Elbistan power station and irrigation works in the Berdan valley and to the Industrial Credit and Investment Bank (SYKB) for financing small and medium-scale industrial ventures.

LOANS GRANTED WITHIN THE COMMUNITY IN 1975
Sectoral breakdown

Sector	Number	Amount (mi. u.a.)	% of total
Infrastructure	**39**	**779.3**	**84.9**
Energy	19	327.8	35.7
Nuclear power stations	*6*	*121.8*	*13.3*
Electricity transmission	*2*	*35.4*	*3.9*
Development of hydrocarbon resources	*4*	*52.4*	*5.7*
Coal mining	*1*	*13.4*	*1.4*
Pipelines	*6*	*104.8*	*11.4*
Water supply and distribution	7	115.0	12.5
Transport	6	138.8	15.1
Railways	*2*	*38.5*	*4.2*
Roads and bridges	*3*	*70.3*	*7.7*
Sea and inland waterways	*1*	*29.9*	*3.3*
Telecommunications	7	197.7	21.6
Agriculture, industry and services	**154 (1)**	**138.2**	**15.1**
Agriculture, forestry, fishing	3	1.3	0.1
Industry	150	135.3	14.7
Mining and quarrying	*1*	*0.6*	*0.1*
Metal production and semi-processing	*13*	*47.9*	*5.2*
Construction materials	*13*	*14.1*	*1.5*
Woodworking	*11*	5.0	*0.5*
Glass and ceramics	*3*	*2.2*	*0.2*
Chemicals	*13*	*36.5*	*4.0*
Metal working and mechanical engineering	*26*	*17.2*	*1.9*
Motor vehicles, transport equipment	*7*	*2.1*	*0.2*
Electrical engineering, electronics	*8*	*12.8*	*1.4*
Foodstuffs	*30*	*42.8*	*4.7*
Textiles and leather	*7*	*1.6*	*0.2*
Paper	*3*	*1.1*	*0.1*
Rubber processing	*8*	*2.6*	*0.3*
Other	*3*	*1.7*	*0.2*
Global loans	*4*	*-52.9 (2)*	*-5.8 (2)*
Services (Research and development)	1	1.6	0.2
Grand total	**193**	**917.5**	**100.0**

(1) including 129 allocations from global loans

(2) differences between global loans signed in 1975 (10.2 m) and allocations approved during the year and charged to global loans outstanding (63.1 m), the latter being included under the appropriate industrial sector heading.

In the **AASMM,** only one loan (1.7 m. u.a.), for a power station in Mauritius, was granted from the Bank's own resources. Two loans on special conditions from EDF resources were signed by the Bank, as agent for and on the mandate of the Community, for harbour installations at Pointe-à-Pitre in the French overseas department of Guadeloupe (0·7 m. u.a.) and for the extension of Curaçao airport in the Netherlands Antilles (4·4 m u.a.).

831 mua. raised and capital increased

The Bank raised most of the funds required to carry out its ordinary operations by borrowing on the financial markets a total of 830·7 m. u.a., of which 813·7. m. u.a. by the launching of 26 public or private issues on capital markets in Member Countries, Switzerland and the United States, and on the international market.

On 10 July 1975, the EIB's Board of Governors decided to increase the Bank's subscribed capital by 75 %, from 2 025 m. u.a. to 3 543·75 m. u.a. The paid-up capital will be increased in stages from 405 to 557 m. u.a.

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Interest rates

At its meeting on 10 February 1976 the Board of Directors of the European Investment Bank decided to reduce from 9½ % to 9 % the interest rate on loans of up to 8 years. For longer term loans the rate remains unchanged at 9½ %.

New Member of the Board of Directors

On the nomination of the United Kingdom, the Board of Governors of the European Investment Bank has appointed Mr Norman Jordan-Moss, Deputy Secretary, H.M. Treasury, to the Bank's Board of Directors. He replaces Mr Christopher Fogarty, to whose position at the Treasury he has succeeded.

EIB operations outside the Community

When the European Investment Bank was created in 1958 its task was defined under Article 130 of the Treaty of Rome as that of promoting through its financing operations 'the balanced and steady development of the Common Market in the interest of the Community'. This has remained the EIB's fundamental role, accounting for 87 % of its lending to date.

However, the Statute of the Bank — which forms an integral part of the Treaty of Rome — also provides that, on the recommendation of the Board of Directors, unanimously approved by the Board of Governors, loans may be granted for projects to be carried out outside Member States.

These powers, which have been invoked on two occasions to provide finance for projects of special importance for the EEC's energy supplies (the Trans-Austria Gasline and exploitation of the Ekofisk oilfield in Norwegian waters), have been applied principally to Bank lending in the context of development aid provided by the Community.

The Bank has played an important part in providing finance under the Association Agreements concluded by the Community with Greece, Turkey and the Associated African States, Madagascar and Mauritius — AASMM (the Yaoundé Conventions); and will be making an even larger contribution to the development of the 46 African, Caribbean and Pacific-ACP countries under the Lomé Convention signed in February 1975. More recently the Bank has been designated to implement the Community's offer of financial assistance to Portugal.

Thus it has had, since 1963, an essential role in putting the Community's political will to give development aid into practical effect and the geographical horizons of the EIB's financing operations will continue to widen as the Community assumes increasing responsibilities in helping to advance the economies of developing countries.

Finance contracts signed under existing agreements so far total 741.4 million u.a. (present equivalent $ 864 million). Looking ahead to the near future, the Lomé Convention will soon be coming into effect, involving a considerable extension of the EIB's operations. Co-operation agreements including financial aid will shortly be signed with the three Maghreb countries (Algeria, Morocco and Tunisia) and Malta; when the necessary ratification procedures are completed, the Bank will be called upon to commence financing operations in these countries involving substantial sums (see box on page 7).

The purpose of this article is to explain the different frameworks within which EIB operations outside the Community have been and are carried out.

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In broad terms, EIB lending outside the Community is funded in two different ways:

- from its own resources, i.e. mainly the sums raised by the Bank as part of its normal borrowing on the capital markets and also, for a minor part, the paid-up capital and reserves;
- from sums which are made available by the Member States.

Loans under the first category, 'ordinary operations', are provided on essentially the same terms as those granted within the Community. The basic interest rate thus closely follows the average rates on the markets where the EIB procures its own funds, the Bank itself acting on a non-profit-making basis and seeking only to cover its operating costs and set aside reasonable reserves. However, borrowers outside the Community frequently benefit from interest rebates, charged to the budgets of the Member States or of the Community, so that the effective interest rate is more favourable than would otherwise be possible.

Financings under the second category are known in the Bank's terminology as 'special operations'. With the funds coming from the budgets of the Member States, directly or indirectly, loans can be provided on much softer conditions, i.e. for very long terms, with extended grace periods, at low interest rates. The administrative costs incurred by the EIB as agent in handling these operations are covered by a management fee.

'Special operations' are not included in the Bank's balance sheet, separate accounts being maintained by the Special Section of the EIB, established for the purpose by decision of the Board of Governors in 1963. Because the Bank's own funds are not involved, these operations have no influence on the EIB's borrowing activities in the capital markets.

Up to now, the majority of lending outside the Community — 464.8 million u.a. or 63 % of the total — has come under the heading of special operations. The finance has been provided either directly by the Member States (most loans in Turkey, which account for about threequarters of all special operations to date), or from the Community's European Development Fund, which is made up of contributions from the Member States (certain operations in the AASMM and soon in the ACP countries).

Ordinary operations financed from the Bank's own resources at present total 276.6 million u.a. They account for all the Bank's activities in Greece, the majority of its operations in the AASMM, and a small part of the lending in Turkey. As all of the EIB's operations in Portugal and most of its lending under the Lomé Convention will come within this category, it is clear that in the future the Bank's activities outside the Community will to an increasing extent be based on finance provided from its own resources.

The Bank has managed to accept a steadily increasing role in channelling financial aid to developing countries which, generally speaking, face problems linked to their limited borrowing capacities. Important factors have been the quality of the projects which the Bank has helped to finance (adding up over the years to a solid portfolio of successful interventions) and the close working relationships between the EIB and the Governments of the countries concerned, enabling financing operations to progress as smoothly as those within the Community. Moreover, the Member States of the Community, directly or indirectly, have reinforced the customary security attaching to the EIB's lending operations by giving their own guarantee on all or part of the sums involved, this in addition to providing interest rebates on a substantial proportion of the loans.

The net result is that the EIB can devote part of its own resources to helping countries which, compared to the EEC, are relatively (Greece and Turkey) or much less developed (many of the African countries); can lend at interest rates that compare most favourably with those obtainable on the open markets, and can at the same time maintain its own position as a first-class borrower, which is in the interests of all.

Greece and Turkey

In terms of the volume of finance provided, Greece and Turkey are the two most important countries outside the EEC in which the Bank has conducted lending operations. The Financial Protocols annexed to the Association Agreements between the Community and these two countries, which govern the Bank's activities, are dissimilar since they reflected different assessments on the kind of aid needed to strengthen the Greek and Turkish economies, both in terms of creating essential infrastructure and of assisting industrial development.

In Greece the Financial Protocol which came into effect in 1962 made provision for the EIB to grant ordinary loans totalling up to $ 125 million entirely from its own resources. However, the Member States which signed the Protocol guaranteed all the Bank's lending operations and made provision for 3 % interest rebates to be granted, at the charge of their own budgets, on loans for certain types of infrastructure projects. Such rebates were to be applied on loans totalling up to a maximum of two-thirds of the $ 125 million.

In fact these ceilings have both been reached. The Bank has provided loans in Greece totalling the full $ 125 million, of which $ 83.3 million have benefitted from interest rebates. Further financing operations must now depend upon the outcome of negotiations between the Greek Government and the Community over a new Financial Protocol (1).

In the case of the EIB's lending in Turkey, the Member States themselves provided most of the finance from their own budgets and entrusted the Bank with the complete management of the funds from selection and appraisal of projects through to final loan decisions and subsequent loan administration.

The guiding principle was that all finance provided should help to increase the productivity of the Turkish economy and, in particular, to provide Turkey with a better economic infrastructure, higher agricultural output, and modern, efficiently run public or private undertakings in the industrial and service sectors.

The first EEC-Turkey Financial Protocol, which came into effect in 1964, made provision for loans on special conditions totalling up to the equivalent of 175 million u.a. The terms on which loans could be granted were up to 30 years, with a maximum grace period of 7 years, with the interest rates specified as not less than 3 % for infrastructure projects showing an indirect or long-term return, and 4 1/2% for industrial projects showing a normal return. The second Financial Protocol, which followed in 1973, enabled the Bank to continue its special operations in Turkey with a further 195 million u.a. (2), again made available directly by the Member States. The terms on which loans could be advanced by the Bank remained similar, although the minimum rate of interest on loans for infrastructure projects was reduced to 2 1/2% and the maximum grace period increased to 8 years. Loans for industrial projects provided under both Protocols are granted to the Turkish Government and passed on to the project promoters at internal market rates.

The second protocol also opened up the possibility for the Bank to provide loans from its own resources, guaranteed by the Member States, up to a maximum of 25 million u.a. (since granted) on the same terms and conditions as those it would normally apply within the EEC.

The aim of the Association Agreements between the Community and Greece and Turkey is to strengthen economic relationships within the perspective of these countries eventually joining the EEC as full members: the Bank's operations in these countries have thus to be seen against the background of the evolution of the Community itself.

The role of the Bank under the Yaoundé and Lomé Conventions is fashioned somewhat differently and must be viewed rather in the context of the Community's committment to provide financial aid to developing countries of the Third World.

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(1) A detailed review of the EIB's financing operations in Greece was included in issue nº 3 of the Information Bulletin published in November last year.

(2) This was raised to 242 million u.a. under a supplementary protocol signed in June 1973, following enlargement of the Community; this protocol is in the course of being ratified.

The Yaoundé Conventions

Under the first Yaoundé Convention and a subsequent decision of the Council of Ministers concerning Overseas Countries, Territories and Departments (OCTD), which are French and Dutch dependencies, an aid programme of 800 million u.a. was drawn up by the Community and came into operation in 1964. It comprised 680 million u.a. in grants and 50 million u.a. in 'soft loans', both from EDF resources, plus 70 million u.a. in ordinary loans from the EIB's own resources.

In the second Yaoundé Convention, which came into force in January 1971, the Community agreed on an aid programme totalling 918 million u.a. (3) By decision of the Council of Ministers a further 82 million u.a. was added to include aid for the OCTD, bringing the total to 1 000 million u.a.

Of this sum, 810 million u.a. was earmarked for outright grants to be paid from the European Development Fund. A further 90 million u.a. was made available from EDF resources as finance on special conditions (soft loans) and as contributions to the formation of risk capital, a new form of aid. From its own resources the EIB agreed to provide loans totalling up to 100 million u.a. It can be seen from these figures that slightly less than one fifth of the total financial aid was reimbursable.

The soft loans could be for a maximum duration of 40 years with a grace period of up to 10 years; the interest rates were not specified in the Conventions but have in practice ranged from 1 % to 3 %. The contributions to the formation of risk capital were devised as a means of helping to bolster the equity of enterprises, by acquiring a stake in their share capital for example. Such participations were to constitute a minority stake only and were to be transferred, preferably to nationals or institutions of the country concerned, at the earliest appropriate time.

Given the other Community financing media available, the ordinary loans, provided from the Bank's own resources, were intended to be concentrated on productive projects offering an adequate and assured profitability and situated in countries with an appropriate borrowing capacity. The lending conditions were to be essentially the same as those applied by the Bank to borrowers within the Community, except that provision was made for interest rebates, to be paid from the EDF grant allocation. For projects in the manufacturing and tourism industries the rebates could be 2 % or 3 %, according to certain criteria laid down in the Convention, with the provision for a further 2 % in the case of loans granted through a local development finance institution. Loans for projects falling outside these categories could also benefit from interest rebates, the rate depending on case-by-case evalution.

The co-operation agreements between the EEC and the Maghreb countries (Algeria, Morocco and Tunisia) and Malta involve a financial aid "package" of up to 365 m u.a., comprising 183 m u.a. in ordinary loans from the EIB's own funds, plus 121 m u.a. in loans on special conditions and 61 m u.a. in grants, both to be drawn from European Development Fund resources, divided as follows:

	ord. loans	spec. loans	grants
Algeria	70 m	19 m	25 m
Morocco	56 m	58 m	16 m
Tunisia	41 m	39 m	15 m
Malta	16 m	5 m	5 m

The loans from the EIB's own funds will, as a general rule, benefit from an interest rebate of 2% to be paid from the grant allocation. They will be guaranteed by the Member States under a global arrangement covering 30% of the total of finance provided by the Bank to the group of countries including Maghreb, Malta and the ACP.

The Member States complemented security on the Bank's loans by giving their own guarantee on the amount of finance provided by the Bank from its own resources over a threshold of 70 million u.a. and applicable to any individual risk or risks.

Under the framework of co-operation between the Commission of the European Communities and the EIB, the Bank was given primary responsibility for appraising demands for interest rebates and for contributions to the formation of risk capital, and any project relating to the industrial sector which might qualify for a loan on special conditions from EDF resources. The Commission remained primarily responsible for appraising other projects appearing eligible for loans on special conditions, with the Bank giving an opinion on the financial aspects.

The contracts for special loans are signed jointly by the Commission and the EIB. The Bank manages the loans — and also contributions to the formation of risk capital — on behalf of and on the mandate of the Community, the accounts for both types of operation being kept under the Special Section.

The Lomé Convention

The experience of financing operations under the two Yaoundé Conventions helped to shape the framework of the Lomé Convention. When it comes into force, on 1 April, this agreement will involve the Bank until 1980 in a very wide extension of its activities outside the Community.

The Convention was concluded with almost all the African states plus developing countries in the Indian Ocean, the Caribbean and Pacific, and provides for the Community to grant financial aid totalling 3 390 million u.a., as follows (in million u.a.):

- EDF resources from the budgets of Member States
  - grants 2 100
  - special loans 430
  - risk capital assistance 95
  - stabilisation of export earnings 375
- EIB loans from its own resources 390

(3) *Following an Association Agreement, signed in May 1972, concerning the accession of Mauritius to the second Yaoundé Convention, provision was made for an additional 5 million u.a. to be drawn from EDF resources.*

Of the 3 390 million u.a., the Bank will be responsible for making available up to 585 million u.a. This is made up of the 390 million u.a. in loans from its own resources, normally to be provided with an interest rebate of 3 %, for which 100 million u.a. is set aside from the EDF grant allocation, and the 95 million u.a. of risk capital assistance, to be provided through the Special Section. Under a corollary to the Convention, yet to be approved by the Council of Ministers, a further 160 million u.a. is foreseen as aid for the Overseas Countries, Territories and Departments, this figure to include, as far as the Bank is concerned, 10 million u.a. in loans from its own resources (also benefitting from interest rebates) and 5 million u.a. in risk capital assistance drawn from EDF resources.

The EIB's loans from its own resources will be directed primarily towards the financing of projects in the industrial, mining and tourism sectors, subject to similar conditions concerning a satisfactory and assured rate of return as were previously applied under the Yaoundé Conventions and taking into account in each case the economic and financial position of the ACP country concerned. Grants and special loans on soft terms from EDF resources will be mainly used to finance agriculture, infrastructure and social projects with a lower or more indirect return. In contrast with the procedure adopted under the two Yaoundé Conventions, demands for special loans will be appraised and approved exclusively by the Commission, the Bank intervening only in the collection of debt service on the Community's behalf.

On the other hand, the Bank will have the entire responsibility for handling both the interest rebates and risk capital assistance to be drawn from EDF resources.

The risk capital assistance may be used either as a direct contribution towards increasing the equity capital of an enterprise or to provide quasi-capital assistance in the form of subordinated loans (repayable only after senior loans have been paid off) or conditional loans (repayable only after fulfilment of certain conditions, indicating that a project has overcome teething problems and has reached a certain level of profitability). These forms of aid, which may be combined with ordinary loans, are particularly suited to helping enterprises in the industrial, mining and tourism sectors, being the main role given to the Bank under the Lomé Convention.

The usual security required by the Bank for its loans will be supplemented by a guarantee from the Member States in an amount equivalent to 30 % of the total finance provided by the Bank from its own resources and applicable to any individual risk or risks.

The Lomé Convention comes into effect on 1 April 1976. The exact nature of the EIB's operations in the ACP countries are explained more fully in an information brochure newly published by the Bank.

Portugal

In October last year, after discussions with the Bank, the Council of the European Communities offered up to 150 million u.a. in the form of EIB loans as 'exceptional emergency aid' to help the Portuguese economy at a time of particular difficulties, pending consideration of a long-term Financial Protocol.

As explained more fully in issue nº 3 of the Information Bulletin, in November last year, these loans will be granted entirely from the EIB's own resources but they will benefit from a 3 % interest rebate paid for directly from the Community budget.

This is a quite exceptional measure decided upon to avoid delays which would otherwise occur if each individual Member State had to make separate budgetary provision for the sums involved. For the same reasons of expediency the Community is itself to guarantee all loans granted by the Bank in Portugal under the emergency aid programme.

*   *   *

EIB operations outside the Community cannot be assessed in isolation. Loans by the Bank cover only part of the cost of any given project. They must always be co-ordinated with funds provided by the promoter and other sources. These may often include grants or loans from Member Countries, the European Development Fund, or from other development agencies, national and international: the EIB has, for example, financed a number of projects in Turkey and in AASMM countries in association with the World Bank and aid agencies of Member Countries.

It is also appropriate to underline that whatever the complexities of the EIB's operations outside the Community, the basic aim is simple: to advance the economies of developing countries and thereby raise the living standards of their peoples. The finance made available by and through the Bank has helped to ease the balance of payments difficulties faced by many Third World Countries, which constitute a brake upon their progress, and has contributed to new fixed investments totalling around 4 200 million u.a. ($ 4 900 million equivalent). As many as 70 000 permanent jobs have been directly created; in addition, infrastructure projects which the Bank has helped to finance, such as irrigation schemes, have made a considerable impact on the livelihoods of a far greater number of people.

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