

Information

European
Investment
Bank



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Review of the EIB's development over the past six years

The Board of Governors of the European Investment Bank, composed of the Finance Ministers of the nine Member States of the EEC, held its annual meeting in Luxembourg on 23 June 1976, under the chairmanship of the Governor for the United Kingdom, Mr Denis Healey, Chancellor of the Exchequer. The Governors approved the Bank's Annual Report for 1975 which shows that, for the first time, the EIB's lending operations in a single year have surpassed 1000 million units of account (u.a.)

Also on the agenda was the appointment of the Management Committee of the Bank for the next statutory period of six years. On a proposal from the Board of Directors, the appointments were renewed of Mr Yves Le Portz, President, and Messrs Sjoerd Boomstra, Horst-Otto Steffe and Sir Raymond Bell, Vice-Presidents; Dr Giorgio Bombassei Frascani de Vettor was appointed Vice-President, replacing Prof. Luca Rosania (see p. 8).

The occasion was taken by the President, on behalf of the Management Committee, to present to the Governors a review of the EIB's development over the past six-year period. Following are extracts from his address.

Mr Chairman, Gentlemen,

The presentation of the report on the activities of the European Investment Bank in 1975, which the Board of Directors is submitting for your approval today, marks the end of the term of office of the Management Committee which you appointed in 1970, nearly six years ago.

Because of the special nature of the occasion, instead of dwelling on the activity of the Bank during 1975 alone, I should like also to review briefly the whole of the six-year period now ended.

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As regards the Bank's activity in 1975, I shall confine myself to reviewing only the salient features.

The total amount of loan contracts signed last year - 1 006 million u.a. - remained at more or less the same level as in the previous year - 996m u.a. Some three quarters of the financing provided in the Community went to the less favoured regions; thus it was largely concentrated in Italy, mainly in the Mezzogiorno, the United Kingdom and Ireland, and, to a lesser extent, France, while appreciably smaller amounts

went to Denmark and Belgium. Because of the low interest rates obtaining in Germany, the Netherlands and Luxembourg, no financing was provided in these three countries.

One important effect of the economic recession was that financing provided for industry, which in previous years had accounted on average for 35% of the Bank's total financing within the Community, corresponded in 1975 to only 15% of the total, slightly more than half going to the private sector. Nevertheless, financing from the Bank's resources in favour of small and medium-scale industrial ventures remained at a high level, comprising 129 allocations for a total amount of 63m u.a., or one third of total Bank lending to industry.

Financing in favour of infrastructure - 779m u.a. - was increased, mainly in the energy sector - 328m u.a. - and in what is a new field for the Bank, the large «special projects» aimed at developing the regions of the Italian Mezzogiorno - 92m u.a.

Loans granted outside the Community - 89m u.a. - made up 9 % of

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the total for the year. As funds provided for under the Yaoundé Convention were exhausted, the Bank's activity was concentrated in Turkey - 35m u.a. - and, especially, Greece - 47m u.a. - where the Bank committed the entire balance of the loans provided for under the 1961 financial protocol which was reactivated at the end of 1974.

As regards future activity, the two most significant events were, in February, the signature of the Lomé Convention with 46 African, Caribbean and Pacific States, and, in the autumn, the decision you took to make a contribution to restoring the Portuguese economy by providing emergency aid of 150m u.a. in the form of loans from the Bank, carrying interest subsidies financed by the Community and backed by its guarantee.

The 75% increase in the Bank's subscribed capital, authorised by your decision of last July, has enabled the Bank to continue to pursue its expansion and facilitated its treasury operations. The salient features of these operations in 1975 were borrowing on the capital markets of the same order - 831m u.a. - as in the previous year, a slight reduction in the rate of interest on loans granted by the Bank - from 10.5 % in January to 9.5% during the second half of the year - together with an increase in operating income from 49.3m u.a. to 54.9m u.a. Taking into account book profits and losses due to movements in exchange rates, net income of 59.4m u.a. was recorded, compared with 36.3m u.a. for the previous year. The Board of Directors proposes that with your approval 20m u.a. of this amount be appropriated to the statutory reserve and the remainder to the Bank's other reserves.

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A review of the last six years taken together will provide a better picture of the way the Bank's activity has evolved than examination of an isolated year which was in certain respects atypical.

These six years saw the enlargement of the Community through the accession of the United Kingdom, Denmark and Ireland, while the scope of its activity was also extended by the conclusion or negotiation of important cooperation agreements with the developing countries; they also saw our coun-

tries buffeted by inflation, the energy crisis and economic recession.

Throughout this period, in formulating its proposals to the Board of Directors and the Board of Governors, the Management Committee was guided by three principal aims:

- to continue expanding the Bank's activity in pursuance of the tasks defined for it by the Treaty of Rome;
- in keeping with these tasks, to shape its activity to conform to the evolving pattern of Community priorities;
- to maintain and strengthen the financial structure of the Bank.

1. There is no need to underline again the scale of the financial effort which will be required to reduce the disparities existing between the Community's less favoured regions and the others, to diversify the sources of Member Countries' energy supplies, and to provide aid to countries linked to the Community by cooperation agreements concerned with development.

The very scale of the effort obliged us to expand the financing provided by the Bank in line with the directives laid down by your Board.

From 1969 to 1975, the amount of loans and guarantees signed each year tripled from 321.8m u.a. to 1006.5m u.a.

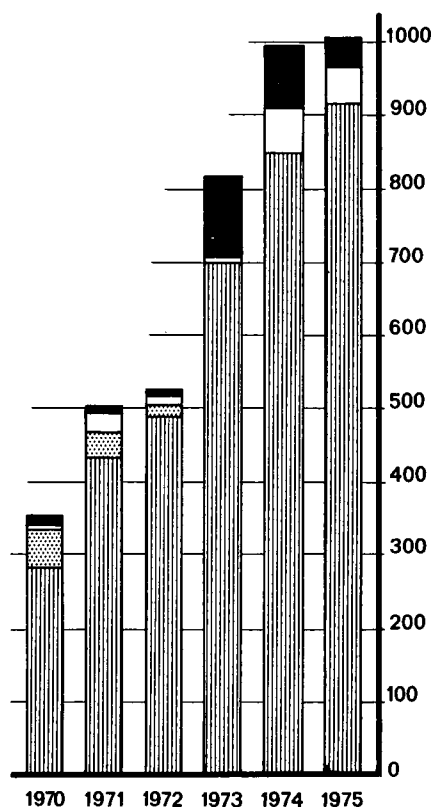
It has of course to be remembered that this upward trend coincided with the enlargement of the Community from six to nine Member Countries, as well as with serious inflation which brings the average annual rate of growth in the Bank's activity in real terms to around 10 %. If proper account is taken of these two factors, then the average annual rate of growth in this activity in real terms, related to the original Community of Six, becomes around 4%. Although, when reduced to its true proportions in this way, actual growth presents a more modest picture than that suggested by the bare figures, it nevertheless represents a steady and appreciable increase.

2. The lines along which the Bank's operations have evolved reflect the changing pattern of the Community's priorities. In full accordance with the provisions of the Treaty of Rome consistent priority has been given to those regions facing difficulties: during the six years under review, more than 2700m u.a., or nearly three quarters of total financing provided in Member Countries, was taken up by loans to these regions. Although the greatest volume of lending was in fact in the Italian Mezzogiorno, the amount of financing for projects of regional interest in the United Kingdom and in Ireland has gradually risen since 1973 towards a level comparable with that achieved in the Mezzogiorno.

In all the less favoured regions, the Bank has increased its contributions to directly productive investments, especially in industry, in both the public and the private sectors. The proportion of financing within the Community represented by such loans - approximately 35% for the six years concerned - remained practically the same as in previous years; but in absolute figures they totalled 1 300m u.a. in 6 years compared with 400m u.a. for the preceding 12 years. Global loan allocations in favour of small and medium-scale industrial ventures rose from 7m u.a. in 1970 to 21m u.a. in 1972 and 63m u.a. in 1975.

The growth of Bank financing for projects calculated to improve Com-

Annual activities 1970-1975
(million u.a.)



Ordinary loans of direct interest to the Community
 Loans on mandate and guarantees in the Community
 Ordinary loans in Associated Countries
 Special operations in Associated Countries

munity energy supplies has been equally important: in contrast to the beginning of the period when such loans were almost negligible, from 1973 to 1975 they accounted for more than one-third of total Bank financing within the Community.

On the other hand, improvements already achieved with the aid of Bank financing in trunk road and rail communications benefiting the Community as a whole have resulted in a gradual reduction in the Bank's further participation in such investments.

During the period 1970-1975 the Bank made its first contributions to the financing of large-scale anti-pollution projects; this is an area where the demand for the Bank's participation can certainly be expected to grow in the future.

Loans granted in the Associated Countries from the Bank's own resources - 158m u.a. - or financed from budgetary resources - 266m u.a. - accounted for 4% and 6% respectively of the Bank's activity during these years. As a result of delays in ratifying financial agreements and protocols and lengthy transitional periods involved, the volume of these operations outside the Community varied considerably from one year to another: in extreme cases the annual amounts increased almost ten-fold, from 16m u.a. in 1970 to 147m u.a. in 1974, falling again to 89m u.a. in 1975.

In Greece, Turkey and the Associated African States, Madagascar and Mauritius, where the Bank provided financing during this period, it attached the same importance as it always has within the Community to financing investments likely to have the effect of directly increasing the national product and employment.

In Africa, because of the volume of grant aid provided from the European Development Fund, calculated to ensure an equitable distribution of Community aid, the Bank's loans were concentrated mainly in countries possessing a sound basis for industrial development, such as the Ivory Coast, Zaïre and Cameroon. A new formula likely to be increasingly employed, that is the provision of risk capital in support of new industrial ventures, was introduced there on an experimental basis.

3. The Bank's balance sheet total rose from 1800m u.a. at the end of 1969 to nearly 5500m u.a. at the end of 1975, while the amount of loans and guarantees outstanding

increased from 1140m u.a. to 4550m u.a. during the same period. The fact that the Bank was able to develop its activities in this way is due to the periodical expansion of its own funds, which served to preserve the sound financial structure established by its first officials.

Three times, in April 1971, in January 1973, on the accession of the new Member Countries, and again in July 1975, your Board has taken decisions raising the Bank's subscribed capital from 1000m u.a. to 3543750000 u.a. and its paid-up capital from 250000000 u.a. to 556875000 u.a.

At the same time annual net income rose from 14m u.a. in 1969 to nearly 60m u.a. in 1975, so that between the end of 1969 and the end of 1975 total statutory and other reserves increased from 109m u.a. to 345m u.a., and total own funds from 359m u.a. to 902m u.a., including the amounts still to be received for the latest increase in capital.

The Management Committee has always attached great importance to obtaining the best guarantees for the Bank's loans and the Member Countries have always backed its loans with suitable security wherever necessary. The structure of its balance sheet, together with the care taken in selecting projects to be financed, has enabled the Bank to maintain its first-class credit rating on the capital markets and secured its access to all the important financial markets of the world to which it has resorted for ever-increasing sums; the annual amount of funds raised on the capital markets rose without difficulty from 146m u.a. in 1969 to 831m u.a. in 1975. Thanks to the positive response of the markets to the Bank's issues it has retained its ability to offer borrowers favourable financial terms.

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It would be wrong to conclude this swift review of the activities of the European Investment Bank without also mentioning some of the questions occupying its attention today.

1. The scope of the Bank's activity to be financed from its own resources during the coming years was defined by your Board on 15 March last. The directive emerging from your deliberations on that day was to maintain and, if possible, to increase in real terms the Bank's activity in the Member Countries with-

out this necessitating any increase in the Bank's capital resources before 1979-1980; a ceiling of 800m u.a. was fixed for the Bank's operations financed from its own resources outside the Community under new agreements or decisions in addition to commitments already entered into for the Lomé Convention States and the OCT (400m u.a.), emergency aid to Portugal (150m u.a.) and the agreements with the Maghreb Countries (Algeria, Morocco and Tunisia) and Malta (183m u.a.). This brings the Bank's possible financing outside the Community to a total amount of 1533m u.a. to be spread over a period beginning in 1976 and which may extend one or two years beyond 1980.

Hitherto the Bank has been able to meet requests for financing from its own resources on the basis of its own appraisal of the project submitted to it and without the need to apply a ceiling. In the light of the precise directives which I have just outlined, the position could be quite different in the coming years. In this new context our activity must be guided more than ever by concern for the quality of projects, their conformity with Community priorities, and the need to ensure the necessary apportionment of Bank lending between its different objectives.

2. The use of budgetary resources has played an important role in the Bank's activity outside the Community since this source of financing has so far accounted for appreciably more than half the amount of operations appraised and managed by the Bank in the Associated Countries.

The wide spread of Community financing operations between a relatively large number of countries, which is doubtless inevitable, their relatively small annual amount in comparison with the investment programmes of the countries concerned, and the fact that the full benefits of these operations cannot be realised without the support of co-financing provided by other public lenders and banks, or of technical aid operations, are all factors which argue in favour of the adoption of flexible procedures enabling the Bank to apply without undue complication the budgetary resources entrusted to its management. Particular consideration should be given to this question when arrangements to include credits for aid to non-member countries in the Community budget are discussed.

The Bank should also give very careful consideration to plans now being prepared which will have the effect of creating new forms of Community credits in favour of specific sectors and should, where necessary, ensure that the banking functions which these involve are properly assured.

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Mr Chairman, Gentlemen,

I should not like to conclude my remarks on the past activity and present problems of our Bank without recalling the contribution of those former colleagues who guided the European Investment Bank through its early years, the first members of the Board of Governors and of the Board of Directors, our predecessors Pietro CAMPILLI and Paride FORMENTINI, the other members of the Management Committee, as well as the managers and members of the Bank's staff. It is in their sure appraisal of the future of our Institution and of the conditions necessary for its success that lies the secret of the vitality of the European Investment Bank and of its capacity to adapt to the

needs of our Community. With your permission I should like to take this opportunity, on behalf of my colleagues on the Management Com-

mittee and myself, to pay a special tribute to them and to reiterate our sincere thanks to those present today.

In Memoriam Paride Formentini



It is with the deepest sorrow that the European Investment Bank has to announce the death in Luxembourg on 22 June 1976 of its Honorary President, Cavaliere del Lavoro, Paride Formentini.

Born in Cremona in 1899, Dr. Formentini held high office in a number of Italian institutions: Deputy Director-General of the Istituto Mobiliare Italiano (1932), Director-General of STET (1934), Director-General of FINMARE (1937), Special Commissioner at the Istituto Mobiliare Italiano (1944), Deputy Director-General (1947) and subsequently Director-General (1948) of the Banca d'Italia. It was in 1959 that he became President of the European Investment Bank, succeeding Pietro Campilli, and he remained in office until 1970.

The early years of the EIB bore the imprint of Dr. Formentini's vigorous personality, and it owes a special debt to his leadership for the position it occupies as an institution today.

He will be sadly missed by friends and former colleagues alike.

Helping to finance high speed railways

As smoother, more rapid communications between Member Countries and the opening up of many fairly isolated regions were preconditions for the binding together of the Community and for its future economic advancement, the European Investment Bank, with its mission under the Treaty of Rome of aiding the «balanced and steady development of the Common Market», has over the years devoted a relatively large share of its resources to improving transport links.

Road, rail, water and aviation projects have attrac-

Lending for railway developments has accounted for 221.8 million u.a., the majority of which has been provided for electrification, permanent way and signalling works, permitting an increase in traffic capacity and faster services on a number of major lines in Italy, France and Germany (including the Genoa-Modane-Chambery line between Italy and France; the Bolzano-Brenner railway, linking Italy with countries north of the Alps; the Tyrrhenian line, a main communication with Calabria and Sicily, and the Moselle line, linking the Saar-Lorraine-Luxembourg economic region and the Rhine-Ruhr area).

Important though these operations were, the purpose of this ar-

ted finance from the EIB totalling 962.8 million u.a., (*) or about 18 % of the Bank's lending within the Community.

This sum has been fairly evenly divided between investments designed primarily to improve communications between different Member Countries and others whose main benefit lies at a regional level, although a distinction is often not clear-cut, many projects serving both Community and regional objectives.

ticle is to venture a brief look ahead to developments which are helping to shape tomorrow's railways, for the Bank has twice helped to finance advanced technology projects which involve rail travel at between 200 and 250 kph and which could lead to yet higher speeds.

The benefits of high speed rail travel must be measured not only in terms of convenience or by the clear economic advantages which should stem from shortening the effective distance between major cities / industrial centres and less developed, remoter regions.

Railway services at higher speeds become very much more competitive with air and road travel, representing a more efficient use of ener-

gy resources, which is in itself an important factor.

There is a further aspect to be taken into consideration: the development of new technologies within the Community. In the case of the two projects the Bank has helped to finance, the promoters - Société Nationale de Chemins de Fer Français (SNCF) and British Rail - are attracting considerable interest and here appear to be two instances of technology developed within the Community being well to the forefront of world progress in their fields.

The projects concerned are the introduction by SNCF of gas turbine trains on important inter-regional routes (France is at present the only country where such trains are

in regular service) and the construction by British Rail of a revolutionary new kind of train, the Advanced Passenger Train (APT), lightweight, very streamlined and incorporating many original features.

The Bank intervened with a FF 50 million (9 million u.a.) loan to SNCF to help purchase 17 Rames à Turbines à Gaz (RTG) to run between Lyon and Bordeaux (639 km), Lyon – Nantes (653 km) and Lyon – Strasbourg (488 km), each of which is an important cross-country line although in each case the traffic level had not been sufficiently high to justify costly investment in electrification.

The trains were developed from a first experimental series of gas turbine units introduced on the Paris-Caen-Cherbourg line in 1970 and which had proved themselves from the points of view of reliability, speed and comfort.

At the present time the RTGs are capable of a maximum speed of around 200 kph but a third generation of rapid trains (TGVs-Trains à Grande Vitesse) based partially on the RTGs, are also being planned for by SNCF for its new Paris-Lyon route; these could operate at speeds up to around 300 kph.

The RTGs put into operation on the three lines feature two engine units (total power 2 300 HP per train set). They seat 280 in first and second class compartments in high comfort thanks largely to new designs of motor and carrying bogies which permit smooth running, particularly at high speeds, with vibration almost eliminated. Internal and external sound levels are appreciably lower than on conventional trains.

Apart from the considerable gain in comfort, the shorter journey times taken by these trains have made it possible for SNCF to effect some improvements to their timetables, with better national and international connections.

From a wider viewpoint – and here lies the EIB's main interest in the project – the trains make an important contribution to cross-country communications between the Rhône-Alpes and the Massif Central and the Atlantic seaboard, regions which are disadvantaged by their relative remoteness from the major centres of economic activity. Via the Lyon-Strasbourg route the trains also help to strengthen the great artery of circulation linking the Rhône and Rhine valleys.

Regional considerations were the main reason for the Bank providing

a loan of £ 11.6 million (19.7 million u.a.) to the British Railways Board in April this year to help finance construction of the first three passenger-carrying Advanced Passenger Trains, which will be brought into service in 1978 on the West Coast London-Glasgow main line.

In layman's terms these trains could be described as resembling a long aircraft fuselage on bogies, which is not coincidental as the construction and streamlining borrows much from aviation technology.

The APT embodies highly original solutions to problems posed by high speed rail travel and is the end product of a programme of research into the dynamics of rail vehicles, both passenger and freight, which first began in 1964. A mixed team of engineers and scientists was drawn together from industry, the universities and the railways to concentrate on the problems of railway vehicle stability and eventually to come up with new designs permitting very high speeds, but on existing track and without incurring high running costs. The requirement to run on existing track is particularly important, for while a number of variants of high speed trains have been or are being developed (such as those in operation in Japan and the third generation TGVs planned by SNCF) most depend on the costly laying of new track, eliminating severe curves.

The research team looked instead to developing a much improved bogie and suspension system giving very stable running and improved guidance on curves. Experimental work on a passenger train, the APT-E (experimental) began in 1971, after testing of certain equipment on freight wagons.

The APT-E was designed for research and development and to prove concepts but functionally it is a close approximation to the first production APTs which the Bank is helping to finance.

In their normal composition, these will be formed of two power cars, positioned in the middle of 12 trailers; they will carry almost 600 passengers and be capable of running at up to 250 kph, with a remarkable ability for taking curves at high speed.

This would normally present problems in terms of comfort, given the centrifugal forces involved, but the APT will be equipped with a system which tilts carriages inwards on bends to counteract these forces and in fact the carriages can move

as much as 9° either side of the centre line without passengers experiencing any sensation.

Due to its low weight and special aerodynamic design the APT only requires the same energy at 250 kph as a conventional train at 160 kph and as far as noise is concerned, even at full speed it should make no greater disturbance than present day trains at around 150 kph.

The potential in service was amply demonstrated by a test run of the APT-E in October last year, when it covered a 159 kilometre run from London to Leicester in 58 minutes, averaging over 160 kph. on a line noted for its sharp curves which severely restrict the speed of conventional trains. On this run, with no alteration to track or signalling, nearly 30 minutes was cut from the time taken by normal service trains.

On the London-Glasgow run, also noted for its very sharp curves, the first three passenger carrying APT will be running initially at speeds of up to 200 kph. The time for the journey will be four hours compared with the fastest time of 5 hours by conventional trains, again with no alteration to track.

While destined first for operation on the West Coast main line serving such places as Birmingham, Manchester, Liverpool and Glasgow, their introduction is also planned on other inter-city routes, for which a non-electric version may have to be developed.

The research and development which went into the APT-E totalled £ 10 million and initial investment in setting up a production line and maintenance facilities, preparing production drawings and building the first three passenger-carrying APT will come to a further £ 25 million.

The development of a new kind of train is a very costly venture, but evidence from railway operators all over the world has shown that the only way in which railways can arrest their gradual decline in relative importance as a means of transport since the war is by introducing higher speeds and improved services. The sums made available by the EIB for the RTG and APT projects have helped to meet at least part of the high level of investments required in the pursuit of these aims by two of Europe's largest railway operators.

(*) Figures as at 20 July 1976.

The European Investment Bank and small and medium-scale industry in the Community

The European Investment Bank's main function is to contribute towards financing investments which promote the development of less-advanced regions and create new activities in old industrial areas.

The balanced development of a region's economy depends normally on both large industrial complexes and smaller-scale units: together they form an industrial

fabric made up of production facilities of all sizes and serving different sectors.

Small and medium-sized industrial ventures play a particularly important role as they tend to create a larger number of jobs for a specific capital outlay and their very diversity, alongside larger production units, widens the spread of economic development.

These considerations have led the Bank, when providing finance for investments in the productive sector, to give steady support to small and medium-scale ventures in addition to large-scale projects. This policy stems from the Bank's concern to ensure that maximum benefit is derived from its operations in the less favoured areas of the Community.

During its early years, the EIB granted an appreciable number of direct loans of relatively low individual amounts – between 0.2 and 2 million units of account – for small and medium-scale industrial projects. However, the number of these operations soon grew to the point where it would have been difficult for the Bank to cope with any further increase under its normal appraisal and financing procedures.

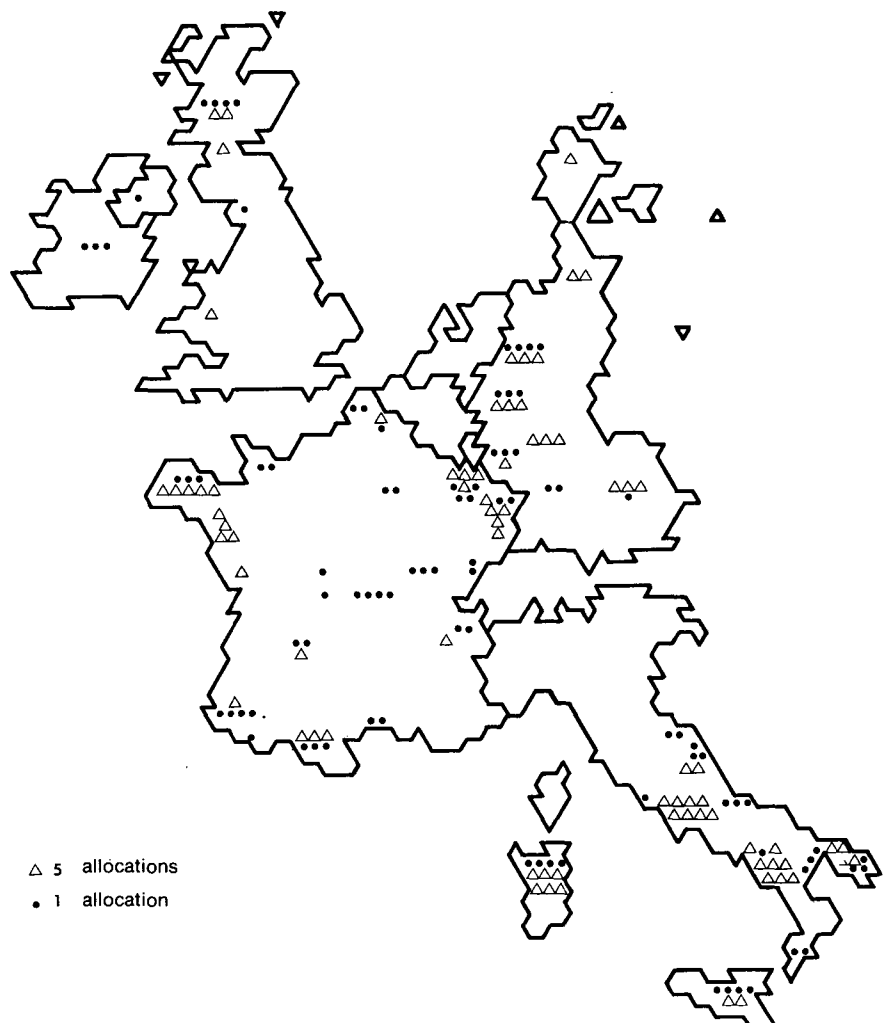
This is why, in 1968, the EIB devised «global loans», a system through which it can, with the collaboration of financing institutions in the various Member Countries, help to finance a larger number of small and medium-sized ventures.

These global loans are granted to banks or financing institutions which then, acting on their own proposals, but subject to the EIB's approval in each case, on-lend the proceeds in sub-loans of varying amounts. The purpose of the formula is to allow the Bank to contribute to the financing of investments which, although presenting economic benefits and meeting the Bank's normal criteria for lending, are nonetheless of too modest a size to merit an individual loan.

Global loans granted to intermediary institutions up to the end of 1975 varied between 2 and 30 million u.a.

The allocations made to the ultimate beneficiaries i.e. the promoters of small and medium-scale ventures,

Regional breakdown of allocations made from EIB global loans up until 31 December 1975



ranged from 0.1 to 2.0 million u.a., the average being 0.5 million.

Between 1968 and 1975, it was possible to conclude 32 global loans totalling 342.8 million u.a. with intermediary institutions in all the Member States except the Benelux countries. Certain of these institutions, such as Crédit National and Crédit Hôtelier in France, Istituto Mobiliare Italiano, the Industrial and Commercial Finance Corporation in the United Kingdom, Industriekreditbank in Germany and Finansieringsinstituttet for Industri og Håndværk in Denmark, have considerable assets and operate on a nationwide basis. The activities of others, such as Credito Industriale Sardo, Istituto per lo Sviluppo Economico dell'Italia Meridionale (ISVEIMER) and Istituto Regionale per il Finanziamento alle Industrie in Sicilia (IRFIS) in Italy, various «sociétés de développement régional» in France and the Directorate for Regional Development in Denmark are of a more regional nature. They share in common, however, a wide experience in financing small and medium-sized industry.

Over the period 1969-1975, 468 ventures attracted credit amounting to 215 million u.a.

A total of 176 of these projects were in Italy and they accounted for 97.8 million u.a., or almost half the total financing involved. They were located in the Mezzogiorno, particularly Campania (41 ventures for 30 million u.a.), Latium (41 ventures, 23 million u.a.) and Sardinia (34 ventures, 15 million u.a.).

In France, 70.5 million u.a., or nearly one third of the total, went to 170 ventures situated mainly in the West (Brittany: 28 ventures for 11.5 million u.a. and Pays de la Loire: 20 ventures, 7.4 million u.a.), and in the East (Lorraine: 24 ventures, 13.3 million u.a. and Alsace: 27 ventures, 8.3 million u.a.).

In Germany, 88 allocations were approved for a total of 36.1 million u.a., mainly in North Rhine Westphalia, Lower Saxony, Schleswig Holstein, Hessen and Bavaria.

Intermediary institutions in the new Member Countries have taken increasing advantage of the global loan formula, particularly in the United Kingdom – 26 ventures benefited from credit amounting to 7.6 million u.a. in 1974 and 1975 (50 % of the funds went to projects in Scotland) – but also in Denmark and Ireland.

Whereas more than half the finance granted in the form of individual

loans for industrial projects has concerned basic industries (metal production and semi-processing, chemicals), allocations from global loans have benefited a wide range of processing industries. Mechanical engineering tops the list with 106 allocations and some 22 % of the funds involved, followed by foodstuffs (80 allocations and almost 19 % of the total), textiles and leather (about 50 allocations), construction materials and woodworking (about 30 each), paper and paper pulp, rubber and plastics, and electrical engineering (about 20 each).

Allocations from global loans generally go to the more labour-intensive industries and it is estimated that the different investments have created or should create between them some 30700 jobs, safeguarding a further 10500. The average capital outlay for each job created is put at 26000 u.a. at 1975 prices as against 96000 u.a. for industrial projects receiving individual loans.

The volume of global loans has gradually assumed considerable proportions, with 109.6 million u.a. made available in 1973 and 132.9 million u.a. in 1974. While there was a small amount (10.2 m u.a.) in 1975, this can be ascribed to the following factors:

– The general recession brought about a downturn in investment in the Community and, consequently, a fall in loans for industrial projects of all sizes, which accounted for only 15 % of finance provided by the EIB

in Member Countries in 1975, compared with an average of 35 % between 1958 and 1975.

– This downtrend naturally affected global loans, particularly as the large amount of such finance previously granted left the majority of intermediary institutions with ample scope for channelling funds into small and medium-sized ventures. Furthermore, intermediary institutions only approach the EIB for global loans when they are unable to raise sufficient funds on the right terms elsewhere, which is completely in accordance with the spirit in which the Bank was founded. In 1975, there was more than enough liquidity to satisfy the financing requirements of most of these institutions. In some countries, those institutions which assume the exchange risks attaching to floating currencies, were additionally hesitant to call on the EIB which disburses its loans in several currencies.

In spite of this unfavourable economic climate, Bank support for small and medium-scale industrial ventures was nevertheless maintained in 1975 with 129 allocations, for a total of 63.1 million u.a., far exceeding the 1970-1975 yearly average (75 allocations totalling 35 million u.a.) The credit from which small and medium-scale ventures actually benefited in 1975 represented one third of total Bank support for industry.

Taken as a whole, the global loan formula has proved a very effective

The table below shows the proportion of funds earmarked for small and medium-scale ventures in relation to total EIB lending to industry.

	1970	1971	1972	1973	1974	1975
a) Total EIB lending in the Community (million u.a.)	338.5	469.0	505.9	696.8	849.7	917.5
b) of which lending to industry as a whole:						
– number of operations	47	72	50	59	208	150
– amount (million u.a.)	161.2	249.9	150.4	192.7	247.0	191.0
c) global loan allocations for small and medium-scale ventures						
– number	14	44	36	39	186	129
– amount (million u.a.)	6.9	16.6	21.3	24.5	76.0	63.1
d) allocations for small and medium-scale ventures as % of total lending to industry (amount $\frac{c}{b}$)	4.3 %	6.6 %	14.2 %	12.7 %	30.8 %	33.0 %
e) Amount of global loans to intermediary institutions (million u.a.)	21.3	22.0	33.2	109.6	132.9	10.2

means of substantially stepping up the EIB's operations in favour of smaller ventures, but this does not imply that future developments on this front will be without problems.

The Bank is in fact faced with certain difficulties which it seems must be resolved before further progress can be made:

– A shortage of promoters of small and medium-sized projects is a structural feature of some of the most handicapped areas of the Community. Until ventures of this kind come to the fore or increase in number, the Bank has no option but to approve global loan allocations in these areas for projects which, although modest in scale, are implemented by branches or subsidiaries of larger firms.

– The international monetary situation is characterised by marked fluctuations in the exchange rates for certain currencies; this in turn means that global loan allocations very often carry an exchange risk considered excessive by recipients in some countries, especially those with a weaker currency where neither the Government nor the intermediary institution covers the risk.

– The raising of investment funds is far from being the only financial problem faced by small and medium-sized businesses. They may be handicapped, in particular, by a fragile financial structure, in which a major complication is the lack of sufficient risk capital, limiting their scope for obtaining credit.

It is scarcely a coincidence that the country where the EIB has managed the most easily to expand global loan operations and allocations in support of small and medium-sized ventures is Italy and especially the Mezzogiorno, where a whole range of aids has been introduced such as cover for exchange risks, interest subsidies and institutions specialising in the provision of risk capital. Measures have sometimes been taken in other Member Countries to spare final beneficiaries any exchange risk, which has naturally helped to develop operations.

It is in this way, and perhaps also by other methods, that it seems an increase in the scale of the EIB's operations in favour of smaller-scale investments must be sought. Meanwhile, the economic recovery which is now becoming evident in the Community should encourage investment bringing with it heavier calls on the global loan system.

New Appointments

At its meeting on June 23, the Board of Governors of the European Investment Bank appointed as Vice-President of the Bank and Member of the Management Committee, H.E. Dr. Giorgio Bombassei Frascani de Vettor. He replaced a retiring Member, Prof. Luca Rosania.



Dr. Bombassei, who is 66, has had a long and distinguished career in the Italian diplomatic service, some 25 years of which have been dedicated to building the new Europe and in most of the major negotiations concerned during this period he has played an active part. For nine years, up until April 1976, he was Italy's Permanent Representative to the European Communities.

He entered the diplomatic service in 1933 and held postings in Egypt, USA, France, USSR, Switzerland and Brazil.

From 1950 to 1953 he was Deputy Director-General of International Cooperation at the Ministry of Foreign Affairs, and in 1956 was Deputy Director-General of Political Affairs.

He served as Italy's Permanent Representative to the Council of Europe in Strasbourg from 1957 to 1961 and from 1961 until 1967 was Ambassador to Luxembourg and Permanent Member of the Italian Delegation to the European Coal and Steel Community. From 1965 until 1967 he was Ambassador to the Netherlands. In 1968 he was honoured with the title «Ambasciatore d'Italia». * * *

On the Board of Directors, Mr. Raymond Denucé, a Director of the Bank since its beginning, was obliged to submit his resignation for health reasons and he has been succeeded by Mr. Maurits Esselens, Director-General (Treasury), Ministry of Finance, Belgium, who was previously Alternate Director nominated by the Benelux countries.

UNIT OF ACCOUNT

Below are the values in national currencies of the European Unit of Account used by the Bank, as at 30 June 1976; these rates are applied for the following quarter in preparing financial statements and operational statistics of the Bank (see Information Bulletin No 4 for a full definition of the European Unit of Account):

DM	2.83513	Bfrs	43.7116
£	0.618268	Lfrs	43.7116
Ffrs	5.22189	Dkr	6.77311
Lit	925.592	£Ir	0.618268
Fl	3.01347	US \$	1.10112

Statistics summarising Bank activities in terms of Units of Account have been based on several different conversion rates applied since 1958. This, coupled with the effects of price trends, would suggest prudence in interpreting the significance of figures which relate to operations extending over many years.

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