

European Investment Bank

Information

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Den europæiske Investeringsbank
Europäische Investitionsbank
Ευρωπαϊκή Τράπεζα Έπενδύσεων
Banque Européenne d'Investissement
Banca Europea per gli Investimenti
Europese Investeringsbank

No 30 · May 1982

ISSN 0250-3891

Environmental protection and EIB finance

Planting new forests in Ireland, setting up special installations on the Atlantic and Mediterranean coasts of France to deal with pollution from oil tankers, moving factories out of the congested centre of an old town in Tuscany, Italy, to better working conditions on a new industrial zone outside, numerous sewage treatment works in Denmark, Greece, Ireland, Italy and the United Kingdom which reduce or avoid river and coastal pollution, an incineration plant in Denmark to heat homes by burning industrial, domestic and agricultural refuse which otherwise would be dumped in pits or out at sea . . . examples of projects which the European Investment Bank has

helped to finance, with common to all of them the idea of safeguarding the environment.

Clean air and water, peace and quiet, protection for flora and fauna, good living and working conditions — in other words, the quality of life — are factors which have their own weight in the EIB's financing operations. As a European Community institution, the Bank must take into account the public interest, not only calculations of financial return and other banking criteria.

This article takes a brief look at an aspect of the Bank's work which has grown in interest along with public awareness of environmental problems.

In this issue

Environmental protection	p. 1-7
The EIB's general approach	p. 2-4
Basic environmental considerations in project appraisal	p. 2
Special problems linked to operations outside the EEC	p. 4-6
List of investments financed	p. 4-5
Financing smaller businesses in the ACP and OCT	p. 8-12
The global loan technique	p. 9-10
Economic impact of investments financed	p. 10-11
Local investors	p. 12

The Treaty of Rome, which came into force on 1 January 1958, establishing the European Economic Community and the European Investment Bank, made no direct reference to an environmental policy.

The Member States of the new Community did affirm, however, that the "essential objective of their efforts" would be the "constant improvement of the living and working conditions of their peoples", which can be taken as implicitly including a recognition of environmental values.

Article 130 of the Treaty went on to define the EIB's basic task as financing capital investment projects which promote the Community's "balanced and steady development". To this end, the Bank makes long-term loans (or guarantees loans) for investment which

— helps development of the Community's economically weaker regions and so reduces regional disparities;

— serves a common interest of several Member Countries or the Community as a whole; or

— assists industrial modernisation and conversion.

The EIB has also provided development finance in some 60 other countries — mainly in the "Third World" — which have negotiated cooperation agreements with the Community.

In carrying out these operations, the EIB has always felt that concern for the quality of life is as well part of balanced development as material prosperity.

Its basic standpoint is that economic growth must take place **within** a framework of respect for the environment, and that these two aims should be regarded as compatible, not conflicting.

This view was put into a clearer context when the Community decided, ten years ago, to strengthen the Treaty of Rome's original but rather vague intentions by the adoption of a specific environmental protection policy.

Meeting in Paris in October 1972, the EEC leaders declared that economic expansion was not an end

in itself and that "it should result in the improvement in the quality of life as well as in standards of living. As befits the genius of Europe, particular attention will be given to intangible values and to protecting the environment so that progress may really be put at the service of mankind".

A first EEC environmental action programme was adopted by the Council of Ministers in November 1973, setting out water, air and other environmental quality objectives. A second programme followed in 1977 and currently a third programme, continuing through 1986, is before the Council for decision⁽¹⁾.

The EIB's work has a direct link with environmental protection in several ways:

— the Bank's standard procedure in appraising projects which it is asked to finance includes an evaluation of likely consequences for the environment, identification of potential problems and how to avoid them;

— when a loan is approved, the finance documents are drawn up to include a precise technical annex which, amongst other aspects, means that borrowers are contractually bound to carry out measures for environmental protection, as specified;

— the Bank will always extend finance to include anti-pollution and other environment-related fixed investment necessary for industrial or other development projects meeting its lending criteria;

— the EIB also finances specific environmental protection projects.

Project appraisals

Members of the Bank's own Technical Advisory Service — engineers specialising in the various industrial sectors and other branches of the economy — study each project's possible impact on the environment. Main points covered are listed alongside.

The EIB has no role, of course, in the broad political choice of investment priorities (e.g. the arguments for investment in rail as against road,

(1) The background to and broad aims of the Community's action programmes are outlined in the "The European Community and environmental protection" published by the Commission of the European Communities (ISSN 0379-3133)

Basic environmental considerations in project appraisal

What aspects of the environment will be altered by the project? Of these changes, which will improve and which degrade the environment?

What irreversible changes may be caused? (disappearance of animal or vegetable species; impairment of the particular characteristics of, for instance, a valley etc.)

Economically speaking, what measures may it be possible to adopt to lessen the deleterious environmental effects or to enhance any beneficial ones?

How are the relative environmental costs and benefits spread between the various specific interest groups affected?

What kind of general strategy should be applied in assessing environmental effects?

Project planning options: environmental parameters to be checked

Quality of water

Dissolved oxygen. Biological oxygen demand. Total organic carbon. Biomass. Phosphates. Nitrates. Salinity. Specific toxins. Temperature. pH. Suspended solids. Bacteria. Viruses. Parasites. Turbidity, colour/smell. Surface appearance (débris, oily film).

Quantity of water

Flow rate. Seasonal variations. Flooding.

Quality of soil

Soil erosion. Sedimentation. Beach protection. Elimination of solid waste. Derelict sites not reinstated following construction. Acidification. Leaching. Alkalisiation. Fertility.

Quality of air

Oxides of sulphur. Oxides of nitrogen. Other volatile substances (hydrocarbons, fluorides). Carbon monoxide. Solid and fine particles.

Aquatic ecosystems

Breeding. Migration. Preservation of the natural and genetic heritage, especially of rare and endangered species and systems.

Terrestrial ecosystems

Breeding. Migration. Preservation of the natural and genetic heritage including rare and endangered species and systems. Introduction of new, appropriate systems. Crop rotation.

Undesirable and/or irreversible change

Salinity. Poisoning. Eutrophication.

Vulnerability to natural hazards

Earthquakes. Tidal waves. Typhoons. Hurricanes. Geological faults (dams etc.)

Aesthetic aspects

Disappearance of rare and prized landscape. Historical, cultural and archaeological sites.

Microclimate

Incidence of frost, icing, fog. Temperature variations. Increased humidity.

Auditory nuisances

Worksites. Industry. Power stations. Traffic.

nuclear as against other power stations, etc). Nor is it a regulatory agency with any sanctions apart from that of refusing to grant a loan.

The environmental appraisal which it makes is designed basically to ensure that projects comply fully with measures or guidelines adopted at national, Community or international levels and meet the relevant authorities' demands on environmental safeguards.

In line with one of the underlying principles of Community environmental policy, the Bank attaches utmost importance to the prevention of pollution or nuisances at source rather than subsequently trying to counteract their effects.

During appraisals, the EIB's Technical Advisers draw the promoters' attention to potential risks and, to this extent, they frequently have some influence on shaping a project, as reconsideration may lead to improved environmental protection measures. This may be a matter of detail or a major change, as for instance completely re-siting a dam project to avoid flooding a valley of exceptional beauty or changing the proposed site of a pulp mill to preserve an archaeological site.

The Bank would not finance a project which failed to meet necessary environmental standards and threatened harm to the environment, however promising the economic/financial characteristics might appear.

Contractual obligations

Following from the project appraisal, loan contracts include a schedule giving a detailed technical description of the equipment to be financed, specifying it by type and expected performance (e.g. in an industrial project with potential effluent problems, the loan contract would specify the kind of treatment installations necessary, the treatment capacity which must be assured and the degree of purity to be achieved).

The contract includes appropriate provisions for monitoring the implementation of the project and the borrower must be able to account at every stage for expenditure. After completion and start-up of operation, the Bank's practice is to carry out an internal examination compar-

ing the results with the main objectives identified during the project appraisal. This also covers environmental aspects; Technical Advisers may check that, once in operation, the project effectively meets the standards of air and water quality etc. set in the technical annex to the loan contract.

Finance for environmental protection component of projects

The EIB finances investment which, under the terms of the Bank's Statute, must be considered as contributing to an increase in economic productivity. This criterion is applied to anti-pollution installations or

other environment-related investment forming an integral part of projects eligible for financing.

EIB loans are frequently extended to cover purification, treatment systems, etc. directly linked to industrial production.

As part of agricultural projects, the Bank may finance investment such as tree planting, pasture improvement and water course regulation to control erosion, drainage to prevent long-term salinisation problems from irrigation and, in certain cases, measures to protect wildlife, such as construction of fishways and inclusion of spawning areas when water courses are modified.

Disposal or recycling of industrial and other waste is a field of clear environmental interest and one which has involved the EIB in several ways.

In Ferrara in Emilia Romagna, Northern Italy, a company was faced with an acute problem of how to dispose of large amounts of pollutant effluent left over from the process of distilling ethyl alcohol from fermented molasses. An EIB loan helped to pay for installations to concentrate the waste into a sludge, which is then dehydrated and burned in a special furnace. In this way not only is a pollution problem solved but the factory effectively uses its own waste to meet a large share of its energy requirements.

In France, at Brest in Brittany and Fos-sur-Mer, near Marseille, the Bank helped to finance installations for the rinsing of oil tankers. One of the principal aims was to deal with the problem of ships discharging contaminated water at sea when cleaning out ballast tanks. The effluent which comes from the rinsing operations goes through a storage and separation process, which enables recovery of the "waste" oil in significant quantities (the equipment at Brest — which can also treat polluted sand and gravel from beaches — has the capacity to recover up to 50 000 tonnes of oil per year).

On the same theme of energy from waste, the Bank has helped to finance an incineration plant at Videbaek in Central Jutland, Denmark. This is equipped to burn domestic, industrial and agricultural refuse which otherwise would have to be thrown into pits or dumped out to sea. The steam heat generated by the plant is fed into a district heating system and will make a useful contribution to meeting energy needs and reducing dependence upon oil imports.

In the North of England, at Grimsby, EIB funds have gone into facilities for processing domestic and industrial waste into fuel for use by industry. The plant will handle some 70 000 tonnes of waste per year, separating out ferrous metals, then pulverising the refuse into fine particles which are compacted into solid fuel. This can be burned together with coal in suitable industrial furnaces. The plant — one of the first industrial sized facilities of the kind in Europe — will avoid the need to haul rubbish long distances for dumping (pits close to the town are already full) and should lead to energy savings in the order of 10 000 tonnes of oil equivalent per year.

Another example of using waste to good effect is afforded by two factories in West Jutland, Denmark; they take difficult-to-dispose-of dairy effluent (lactoserum) — which was beginning to cause serious environmental problems in the region — to make protein concentrates for dietary food and animal feedstuffs, and products for chemical industry applications. See EIB-Information No 27, published in November 1981, for more details.

Loans may also cover aesthetic aspects, for example the planting of trees and shrubs to hide a visually unattractive activity.

Sewerage/sewage treatment

Financing of infrastructure to help regional development has included substantial support for investment in water supply and sewerage schemes, principally to serve industry; in many cases the new sewage treatment facilities are linked directly to improved river water quality and/or reduced coastal pollution. In the latter context, a number of these projects have called for oceanographic studies on pollution which the Bank has helped to finance.

Environmental protection projects

The EIB can lend for specific environmental protection projects if they qualify under the Bank's "common interest" criterion, i.e. present a clear benefit to two or more Member Countries or the Community as a whole and/or be seen as exemplary action, promoting the Community's policy on environmental protection.

Examples of projects financed include facilities to treat chemical industry effluent before discharge into the Rhine, conforming with the aims of the International Commission for the Protection of the Rhine against Pollution; sewerage schemes in Denmark, Greece and Italy financed to help further the pollution control objectives set out in the Helsinki Convention on protecting the Baltic and the Barcelona Convention on protecting the Mediterranean; installations on the Atlantic and Mediterranean coasts of France to deal with contaminated water from oil tankers; plant to counter atmospheric pollution (dust and grit) from steelworks in Germany; facilities to burn waste from an alcohol distillery in Italy (cutting fuel oil requirements as well as dealing with a serious pollution problem).

Environmental considerations in lending outside the Community

The EIB's lending outside the Community accounts for a modest share of its total operations (about 15%) but has nonetheless embraced a wide range of investment in some 60 countries to date.

EIB finance for projects involving environmental protection

Below are listed projects which the EIB has helped to finance in the Community, from 1973 to end-April 1982, which have a direct link with environmental protection. The amounts of the loans are given in both ECU and national currencies, at conversion rates ruling at the time of contract signatures.

Asterisks in the right hand column indicate projects which qualified for financing under the Bank's "common interest" criterion because they presented clear environmental benefits to two or more Member Countries and/or could be seen as exemplary action, promoting Community policy on environmental protection.

Other projects were financed mainly to assist regional development. Most of them concern investment in sewerage and sewage treatment plant, often as part of larger schemes including water supplies and/or other infrastructure works.

As additional information, the amount lent in each country for energy conservation investment is indicated in italics.

	MECUs	M Dkr
DENMARK		
Power stations		
Anti-pollution equipment (fly-ash separation) for coal-fired power stations at Asnaes and Kyndby, West Zealand (1977)	4.4	31.2
Rubbish incinerator		
Incinerator plant at Videbaek, Central Jutland, to heat homes from the combustion of industrial, domestic and agricultural refuse (1981)	0.7	5.6
Sewage		
Extension of sewerage system and construction of treatment works to serve the Kalundborg area, West Zealand; project furthers aims of Helsinki Convention on protection of the Baltic (1981)	1.9	15.0*
<i>Energy conservation</i>	94.1	733.7
GERMANY		
Industry		
Construction of purification plant for treating effluent from chemical works at Ludwigshafen and Frankenthal, Rhineland-Palatinate; Project promoting objectives of the International Commission for the Protection of the Rhine against Pollution (1974)	16.6	50.0*
Plant for removing dust from fumes at a steelworks at Hüttental-Geisweid, North Rhine-Westphalia (1973)	1.4	4.5*
GREECE		
Sewage		
Layout and extension of sewerage systems at Ioannina (Epirus), Larissa (Thessaly), Kastoria and Ptolemais (Western Macedonia) to deal with industrial effluent and household sewage and protect lakes and rivers from pollution. As the rivers flow into the Mediterranean, the project contributes to attaining the Barcelona Convention objectives (1981)	13.9	850.0*
Industrial zone development at Komotini (Thrace), Kavala (Macedonia), Volos (Thessaly), Patras (Peloponnese), Heraklion (Crete) mainly to encourage decentralisation of industry away from the congested Athens-Piraeus conurbations; part of the investment linked to effluent treatment facilities (1981)	11.3	700.0
Construction of centralised sewerage collection system plus treatment and purification plant at Halkis on the island of Evia (1980 — financed before Greece's Community membership under the second financial protocol to the EEC-Greece Association Agreement)	5.5	333.6
<i>Energy conservation</i>	9.8	610.0
FRANCE		
Oil tankers		
Installations for treating ballast water from oil tankers and cleaning oil-polluted sand from beaches, Brest, Brittany (1979)	5.0	29.0*
Installations for treating oil-tanker ballast water at Fos-sur-Mer, Provence-Côte d'Azur; project furthering aims of the Barcelona Convention on protection of the Mediterranean (1977)	2.7	15.0*
IRELAND		
Sewage		
Improved sewerage systems and sewage treatment facilities, plus water supply schemes, in		
Greater Dublin area (1978, 1979; three loans including one loan — 24.7 MECUs/IR£ 16.5 million — from New Community Instrument resources ⁽¹⁾)	69.6	46.5
East — South East (1979, 1980, 1981; three loans)	34.2	23.0
Midlands and North East (1980, 1981; two loans)	24.8	16.8

The conditions on which the Bank conducts these operations are defined by the agreements or Conventions between the different countries and the Community.

As far as environmental protection is concerned, the Bank's approach explained above also applies, *mutatis mutandis*, to investment projects in non-EEC countries (with the exception that, so far, no loans have been provided for environmental protection projects as such).

Experience has shown, however, that there are certain specific problems outside the Community:

a) in many countries environmental standards may be missing or incomplete;

b) the strong social and political pressures to speed up economic growth may carry the risk of sacrificing longer term and perhaps less tangible benefits of environmental protection;

c) in most developing countries there is limited local experience in examining environmental problems in depth.

The Bank's technical appraisal takes on added importance in these circumstances, particularly in formulating suggestions on how to overcome potential problems. Most of the EIB's financing operations in developing countries are carried out in conjunction with aid from other multilateral organisations, such as the World Bank, and bilateral agencies from Community Member Countries and others. Cooperation between the agencies ensures harmony of views on environmental matters on any given project.

Reference to criteria based on typical standards used for corresponding types of project and technology in European countries is useful but only up to a point. There may be cases where European standards are effectively not strict enough (e.g. effluent impurities tolerated in a temperate climate, where rivers and streams are normally guaranteed of a certain flow of diluting fresh water, may be hazardous in the dry season in an African country). Conversely, other standards could be felt too restrictive (e.g. controls on gas and smoke emission, drawn up with concentrated pollution from dense industrial regions in mind, may represent a technical and finan-

South West (1980, 1981: two loans)	23.5	16.0
Mayo — Sligo (1979, 1980, 1981: three loans)	20.8	14.0
Mid West — South West (1979, 1980: two loans)	17.6	11.7
Galway (1979)	6.4	4.3
<i>Energy conservation</i>	4.5	3.0
ITALY		billion
Industry		Lit
Restructuring of pharmaceuticals (antibiotics) factory at Torre Annunziata, Campania, with investment in pollution control equipment to enable the plant to comply with environmental legislation (1981)	6.5	8.2*
Installations at distillery in Ferrara, Emilia Romagna, enabling the combustion of sludge left over from the production process (1981)	2.4	3.0*
Restructuring of steel plate mill at the Taranto, Apulia, iron and steel complex, with dust removal equipment, waste water treatment plant, noise suppression equipment (1977)	30.1	30.0
Installations at steelworks in Bagnoli, Naples, to reduce water and atmospheric pollution and improve working conditions through sound-proofing and dust extraction (1976)	6.3	5.0
Restructuring of a zinc foundry at Crotona, Calabria, with new equipment to deal with gas and effluent pollution (1976)	3.3	3.2
Relocation of textiles industry companies to a new industrial zone outside Prato, Tuscany, so as to ease congestion and pollution problems in the city itself and provide better, more efficient working conditions (1980)	5.1	6.0*
Sewage		
Measures to reduce pollution in the Gulf of Naples: construction of sewers and treatment plant for domestic waste water and industrial effluent (1975, 1976: two loans)	45.3	36.0
Industrial zone layout or improvements in the Mezzogiorno, with investment concerning sewerage systems, sewage treatment works, plant for recycling waste water for re-use by industry or for irrigation. Amongst the locations are: Syracuse and Gela, Sicily; Naples, Avellino and Battipaglia, Campania; Frosinone, Lazio; Sangro, Avenino and Chieti, Abruzzi. (1976, 1980, 1981: eight loans including one loan — 11.9 M ECUs/Lit 15 billion — from New Community Instrument resources ⁽¹⁾)	180.8	206.2
Rebuilding of sewerage systems and sewage treatment facilities in areas of Basilicata and Campania hit by the November 1980 earthquakes, plus rebuilding of water supply systems (1981, 1982: two loans including one loan — 26.1 M ECUs/Lit 35 billion — from New Community Instrument resources ⁽¹⁾)	37.6	50.0
Basic infrastructure necessary for new housing zones in earthquake areas, with part of the project concerning the sewerage facilities (1981: loan from New Community Instrument resources ⁽¹⁾)	155.2	195.0
<i>Energy conservation</i>	225.6	274.0
UNITED KINGDOM		M £
Rubbish processing		
Plant at Grimsby, Humberside, to process industrial or domestic refuse for use as an industrial fuel; part of a larger infrastructure development project (1982)	7.2	4.0
Sewage		
Improved sewerage systems and sewage treatment facilities, plus water supply schemes, in		
Yorkshire & Humberside/East Midlands (1978, 1979, 1980, 1981, 1982: twelve loans)	156.1	97.7
North-West England (1978, 1979, 1980, 1981, 1982: six loans)	154.8	95.4
Tyneside (1978, 1979, 1980: four loans)	79.0	52.3
South-West (1976, 1977, 1980, 1981: four loans)	31.0	18.5
Teesside (1977: two loans)	23.0	15.0
Wales (1977, 1978, 1980: five loans)	45.3	29.3
Scotland (1977, 1979, 1980, 1981: fourteen loans including one loan — 25.9 M ECUs/£ 16.3M — from New Community Instrument resources ⁽¹⁾); some of these projects also included other infrastructure development.	226.6	139.0
<i>Energy conservation</i>	33.3	20.5

(1) New Community Instrument

The Commission of the European Communities has been authorised by the Council of the European Communities to borrow funds in the name of the EEC, up to limits specified by the Council, for the purpose of promoting investment in the Community. The Commission decides on the eligibility of each project for a loan within guidelines laid down by the Council. The EIB examines the loan applications in accordance with its customary criteria; in the name of the Community decides on the loans to be granted and the terms, and administers the loans. So far, the main applications for NCI loans have been to finance energy projects helping to reduce the Community's oil import dependence and infrastructure investment improving conditions for regional development.

cial burden to a young enterprise struggling to establish itself in an underdeveloped country).

Such factors dictate a pragmatic approach in the appraisal; safeguards must be ensured — in particular proper care for renewable resources, such as forests — but, if possible, without limiting development potential in countries which might well feel their worst environmental problems for the foreseeable future are poverty and hunger.

General comments

Environmental protection begins and ends where?

The environment has been defined as "the combination of elements whose complex inter-relationships make up the settings, the surroundings and the conditions of life of the individual and of the society, as they are present or as they are felt".

This short statement of the EIB's own attitude and action perhaps errs on the side of the conventional, with comment limited basically to prevention of, or remedies to, physical or aesthetic pollution.

For the sake of completeness it could nonetheless be said that the EIB's work is related to the environment in other ways, less easy to quantify.

The Bank's main task under the Treaty of Rome — regional development — clearly overlaps with environmental policy, to the extent that better spatial distribution of people and economic activity is bound up with improvement in the quality of life. The 10 Community countries represent one of the most heavily populated regions of the world with 75% concentrated in cities, under attack from noise, dirt, congestion, etc.

Seen from this angle, many of the projects which the EIB finances can be said to have an environmental impact.

New industrial zones and factory estates, offering modern, efficient working conditions, are one way to attract industry away from the old congested areas and encourage a smoother regional development. The Bank has helped to finance many such projects in Greece, Ireland, Italy and the United Kingdom.

A means of spreading development more satisfactorily lies with helping small and medium-scale ventures which, generally speaking, can be inserted into the local surroundings without much disturbance. To do this, the EIB makes global loans, i.e. it opens lines of credit to banks or other finance bodies working at regional or national levels which use the funds to make a series of loans for investments which would be too small for the EIB to deal with directly. Over the last five years roughly a third of the Bank's financing in the productive sector has gone to small/medium-scale ventures in Belgium, Greece, Denmark, Ireland, Italy and the United Kingdom.

Similarly, small scale activity is at the heart of EIB financing in agricul-

ture. The Bank has helped to set up or expand irrigation and land improvement schemes in areas of France, Greece, Ireland and Italy⁽¹⁾ and its constant aim has been to ensure that these benefit the greatest number of small, family farms, giving them a wider range of profitable crop options; no big monoculture estate projects have been financed. Improvement in rural incomes and living standards have their part to play in slowing down the rural exodus (eleven million farmers and agricultural workers in the Community left the land from 1958 to 1980, adding to problems of urban congestion).

(1) A review of EIB financing for agricultural development was published in EIB-Information No. 27, November 1981.

Wood consumption is rising fast all over the world and there are many examples of forestland being recklessly spoliated at unacceptable ecological cost.

But meeting demand for timber, paper pulp and paper need not conflict with environmental considerations if geared to a responsible, long-view management plan.

A case in point is the development of forestry resources along the coast of Southern Turkey. Turkey has been associated with the European Community since 1963 and financial protocols to the association agreement provide for EIB financing to help the country's economic progress. Forestry development is one of the areas in which the EIB has been involved, together with the World Bank.

The EIB has lent some 50 million ECUs towards an integrated industrial complex comprising a saw mill and paper mill at Silifke, and for the development of forests in the Antalya, Mersin, Adana and Kahramanmaraş conservancies to supply the mills.

For Turkey, the project is of significant importance, due to provide some 6 200 jobs in total and to help save about 40 million ECUs per year (1979 prices) in foreign exchange which would otherwise have to be spent on the import of linerboard and kraft paper.

But before the project could get underway there was detailed examination of various environmental factors.

Firstly, the proposed location of the mills themselves was switched — at the cost of appreciable delays to the scheme — because the site initially selected would have damaged the visual environment in a zone of exceptional beauty and great archaeological interest.

Much of the forest land was found to be badly maintained, or not cared for at all, and over-mature and dying. Tree cover was down to 10% in many areas with erosion a clear problem.

In conjunction with the authorities, a forestry management plan was worked out which represents a considerable effort to protect the environment. This involves planting and tending to stop erosion, the creation of recreational centres for tourism and provides for an overall systematic approach of replanting different species at the same rhythm as cutting (almost 100 000 ha in the 1976-1981 period). Apart from this, the plan includes the planting of new forests over a five year span on some 30 000 hectares of worn-out scrub land and also pasture improvement.

Particular attention has been paid to the mills to ensure appropriate treatment of gaseous emissions and liquid effluent.

In regions where economic conditions are appropriate, forestry development projects can make a useful contribution to development, providing jobs in planting/logging operations and stimulating wood-working and other activities; they also serve to improve the environment, control land erosion and provide healthy recreational facilities. Loans have been provided for forestry development in Ireland and Greece, and outside the EEC in Portugal and Turkey; it could be that further loans will be directed to such activity, subject to the presentation of suitable projects (e.g. there has been much talk in Italy on reestablishing the forests which in ancient times covered much of the Apennines). All forestry projects financed by the EIB include the obligation on the part of the promoter to reforest after felling, i.e. to renew the resource.

Several transport projects financed for regional development purposes also present clear environmental advantages. Recently, the EIB backed electrification of Dublin's suburban railway services which should win back from the roads a significant number of commuters and ease the city's serious traffic congestion problems. High speed trains introduced on long distance routes in France and the United Kingdom — and new sleeping cars built for the British Rail network — should also replace a certain amount of inter-city road and air traffic.

Another point which can be mentioned briefly is energy-saving. Under the "common interest" criterion, the Bank supports Community energy objectives by financing a range of investment aimed at cutting dependence upon oil imports. Fairly substantial amounts have gone to reducing or rationalising consumption in industry and to development of district heating systems.

As energy production is a source of various types of pollution and nuisance, activity aimed at slowing down consumption growth may be seen in a general way as helping to protect the environment. There may indeed be more specific benefits. For example, as part of a project for restructuring cementworks in Northern and Central Italy to move away from oil-firing, mainly by using coal,

Environmental protection also means adopting measures to safeguard or improve the man-made environment.

Much can be achieved by local initiative and an example of this is given by the Commune and local industrialists at Prato, near Florence, Tuscany.

Prato counts about 7 000 textiles concerns, most of them small firms, often craft industries, working under contract. Their haphazard implantation in residential areas over the years has generated noise, smoke and congestion nuisances.

These difficulties are compounded by a problem of water supplies. Large quantities are used for processing waste wool and fabric and by drawing upon underground reserves the average water table level has fallen drastically. Moreover, effluent from these activities also constitutes a pollution risk for the groundwater and rivers.

As a step towards rationalising the industry, local firms cooperated with the Commune in planning a 150 ha industrial zone at Macrolotto, which is being backed with EIB funds.

Seen from the industrial side, the new zone offers the modern facilities which are vitally necessary to remain competitive.

From an environmental viewpoint, there will be improved working conditions for about 8 000 people, inhabitants of the town will be less exposed to noise, dirt etc., all liquid effluent from firms in the zone will be treated and part of it recycled for industrial uses to save good quality groundwater.

Finally, there are plans for using space vacated by firms in the town for constructing housing, shops and laying out green areas.

equipment was also installed to enable the combustion of refinery, chemical and industrial waste, so helping to reduce pollution problems at the same time.

It is not easy to sum up the EIB's activities concerning environmental protection in a statistical manner, as much depends on the definition.

The list given on pages 4-5, covering the period 1973 to end-April 1982, is therefore intended as an indication of the Bank's involvement rather than a precise guide.

From this, it will be seen that 55 million ECUs have gone to specific environmental protection projects, financed for their European importance or exemplary character, as already described on page 4.

In addition, details are given of other investments not financed for environmental protection reasons but nonetheless linked to the objective to greater or lesser degrees. This mainly concerns sewerage and sewage treatment facilities in regional

development areas, often financed as part of larger projects covering water supplies and other infrastructure development. In total these various investments account for loans worth some 1 380 million ECUs, although in many cases only a proportion of the loan finance — varying from 10 to 70% — can be fairly ascribed to environmental protection.

If rationalising or reducing energy consumption is also to be considered as environmental protection, then a further 370 million ECUs can be added.

These figures do not take into account the proportion of Bank loans going to environmental protection equipment or measures ancillary to investment in other fields (e.g. drainage systems to prevent salinisation problems from irrigation, safeguards in nuclear plant, measures to control risks of air or water contamination in oil and gasfield development). Such measures often account for 10% or more of the new fixed investment costs of projects financed by the Bank.

EIB lending via development finance companies

The figures speak for themselves: some 76m ECUs lent in support of 163 small and medium-scale industrial and tourism ventures involving capital investment totalling more than 300m ECUs and in turn generating employment for over 10 000 workers in a wide range of productive activities, with the emphasis on manufacturing. Such has been the impact of EIB financing for the promotion of smaller business in many of the African, Caribbean and Pacific-ACP countries (17 so far) and in two overseas territories.

This support is based on "global loans" i.e. basically lines of credit which the EIB opens to development finance companies (dfcs) in the countries concerned which use the funds for their own lending. Such operations have become a valuable counterpart to the loans which the EIB makes direct for large-scale investments. Since activation of the first Lomé Convention, global loans have set the tone for cooperation between development finance companies in the ACP and the European Investment Bank on a steadily

EIB lending is instrumental in implementing capital investment in all sectors of the economy geared, directly or indirectly, to increasing economic productivity. However, under the Yaoundé and Lomé Conventions⁽¹⁾, the dictates of practicality led to a progressive division of responsibilities and sectors between the Bank and the Commission of the European Communities (European Development Fund — EDF), with the upshot that the EIB has come to focus its activities more specifically on industry, agricultural processing, mining, tourism, infrastructure and energy. The growth in Community development aid under the first Lomé Convention led to a clear definition of respective responsibilities so as to achieve better matching between local requirements and what the two sources of development aid had to offer.

The same spirit of practicality was brought to bear on working out the types of financing to be deployed. Since 1964, the EDF has been drawn on to provide interest subsidies for loans from the EIB's own resources which consist mainly of the proceeds of its borrowings on the capital markets; the subsidy has become a standard, adaptable element of EIB lending with the result that the overseas borrower pays no more than 8% interest.

The EDF is also tapped to mobilise risk capital operations in the form of equity participations or quasi-capital assistance through conditional or subordinated loans⁽¹⁾, the advantage

here being that conditions attached to financing from budgetary resources are not dependent upon capital market borrowing costs. Sometimes mounted in tandem with a loan from the Bank's own resources, risk capital operations can be flexibly suited to the needs of individual ACP States as regards any constraints in terms of borrowing capacity, public finances, the general state of the economy or even risk factors attaching to the capital investment project in question.

The tendency has therefore been for the EIB to make increased use of this type of financing in support of industry, which accounted for 49.1% of total Bank lending under the first and second Yaoundé Conventions and 67.5% under the first Lomé Convention, not to mention funds made available for feasibility studies. At the same time, the EIB looked closely at the possibility of advancing funds to the smaller business sector.

This was a field in which the Bank had already gained experience within the EEC, since 1968, and it also recognised the particular significance of small and medium-sized enterprises in developing countries. Needless to say, industry is not going to take great strides forward unless a number of major undertakings are set up or given fresh impetus, so the Bank earmarks its direct loan facilities first and foremost for financing in this area, the general rule being, that for practical and administrative reasons, direct loans

developing basis. The added weight lent to the volume and range of such operations under the second Lomé Convention is a clear sign of the intention to adapt Community aid and EIB support in a realistic fashion to the ACP States' most pressing needs. The amount of finance made available in a wide number of countries in different parts of the world is proof enough of the demand for such assistance.

Apart from the 76 million ECUs effectively on-lent for investments through dfcs, a further 40 million ECUs is currently being committed under ongoing global loans, the normal practice being for the credit to be allocated over a number of months. The aggregate amount made available by the EIB under finance contracts signed up to 31 March 1982 inclusive is therefore 116m ECUs; an additional 4m ECUs has been committed as equity participations in dfcs.

The continuing contacts with the dfcs plus the number of operations approved so far by the EIB's Board of Directors augur well for further operations.

are limited to a minimum of one million ECUs. The other side of the coin is that, especially in the present economic climate, large industrial plants are highly capital-intensive and generate relatively less job opportunities than small business. Indeed, in terms of capital investment per job created, the larger projects may have as much as five times more capital ploughed into them than smaller ones.

There can, of course, be a balance between the two extremes which works to the benefit of the economy. Small firms are a more direct means of laying the optimum foundation for industrial development and are better suited to specific requirements and a narrower range of outlets; they are also generally better equipped for maintenance and repair work and for training skilled workers and local professional personnel needed to run important industries.

They offer the advantage of being able to adapt to the different needs of often limited markets, especially in certain very small ACP States, and/or markets far from the main commercial centres.

Small businesses also make a valuable contribution in increasing the extent to which local entrepreneurial skills and domestic capital, both private and public, are brought to-

(1) For fuller details of the history of Bank financing operations in the ACP and OCT since the First Yaoundé Convention, see EIB-Information No 25 (May 1981) and brochure entitled "Financing under the Second Lomé Convention", both publications free on request from the Bank.

gether to finance productive investment. Where the EIB comes into the picture is in assisting smaller businesses in overcoming the frequent problems encountered in funding their capital investment requirements, especially the foreign exchange component. The global loan facility is particularly well designed to cater for these needs.

Global loans: cooperation between the EIB and the dfcs

Global loans are basically lines of credit extended to dfcs which, acting as intermediaries, onlend the proceeds, in varying individual amounts, mostly in support of industrial or agricultural processing investment but also for tourism, mining and quarrying.

In this way the EIB's financial resources as the European Community's development financing institution, with the best possible access to the world's capital markets, are harnessed to the operational resources of the dfcs in the countries concerned who are in touch with people on the spot and directly able to respond to national development priorities.

The first Lomé Convention heralded the introduction of this financing facility in the ACP and OCT, a convention which, side-by-side with expanded resources made available, gave the Bank a greater part to play than before as well as more specific responsibilities. The first dfc to contract a global loan with the EIB was Development Finance Company of Kenya Ltd in 1976.

The recipient dfcs are responsible for selecting ventures on the basis of their own evaluation of clients' applications, although they take as a yardstick the EIB's customary appraisal procedures, which are comparable to those applied by major development financing institutions which operate on borrowed funds. The intermediary dfc submits projects to the Bank on a case-by-case basis, so that the EIB has the final say on dossiers put forward. Once the go ahead has been given to the dfc, which, contractually speaking, is still the EIB's borrower, thereafter the operation is monitored throughout by the dfc.

Originally, the EIB provided global loans only from its own resources but one of the innovations brought

Second Lomé Convention: Community aid

Financial aid provided for under the second Lomé Convention and the Decision on the Overseas Countries and Territories runs to 5 621m ECUs, of which 4 255m ECUs is managed by the Commission and 1 366m ECUs by the European Investment Bank.

The resources managed by the Commission are drawn from Member States' budgetary funds and comprise 2 862m ECUs in grant aid, 545m ECUs in loans on special conditions, 566m ECUs in transfers for the stabilisation of export earnings (STABEX) and 282m ECUs in the form of a special financing facility for mineral products (SYSMIN).

The EIB is authorised to make up to 700m ECUs available in loans from its own resources, i.e. mainly the proceeds of its borrowings on the capital markets.

It is also responsible for managing part of Member States' budgetary funds (175m ECUs) earmarked for providing interest subsidies on loans from the EIB's own resources, and it manages risk capital (291m ECUs) provided from budgetary funds.

A declaration annexed to the Convention provides for the possibility of the Bank committing additional financing, of up to 200m ECUs, in the form of loans from its own resources towards mining and energy projects of mutual interest to the Community and to the ACP States concerned. These loans do not qualify for subsidies and have to be authorised individually by the Bank's Board of Governors.

in under the second Lomé Convention was to make global loans also from risk capital resources. This added an element of fine-tuning to the facility by using budgetary funds to make up financing packages suited to a variety of economic purposes and needs. A global loan funded from risk capital can, for example, be given over to supporting investment requiring financing on concessionary terms and conditions, such as conditional or subordinated loans with repayment tailored to the particular situation of the dfc concerned and the general economic context. It is an especially appropriate means of financing in countries with a fairly low borrowing capacity or in the case of capital projects showing an indirect or long-term return. It should also be noted that global loans of this kind can help the dfc to finance feasibility studies or equity participations.

Another form of risk capital assistance is where the EIB acquires a shareholding in a dfc on behalf of the Community, a stake which it disposes of at the appropriate moment⁽¹⁾; the EIB can also draw on risk capital to subscribe to a dfc's bond issue with a view to enabling it to expand its activities. Yet again, the Bank may make a conditional loan to the State to cover all or part of its stake in a dfc. Although this can be considered as an individual direct EIB loan, an operation of this sort nevertheless constitutes a further

means of providing dfcs with greater scope for expansion in financing small and medium-scale investments. The Kingdom of Tonga, for example, attracted a loan in October 1981 for 500 000 ECUs to help the State increase its holding in the Tonga Development Bank.

In other words, risk capital can be deployed in a versatile way to cover the gamut of dfc activities and frequently financing packages consist of a mix of facilities.

In order to provide a fitting counterpoint to operations mounted in sectors for which the Commission (EDF) is responsible, the EIB prescribes a lower limit of 20 000 ECUs per venture for individual credits authorised under global loans. Hence the Bank concentrates on financing smaller industrial concerns, whereas the EDF looks after the needs of sectors such as handicrafts, agriculture, trade and "social" housing which generally call for far smaller individual amounts. The Commission also helps with technical assistance and training of professional staff.

⁽¹⁾ Equity participations have been acquired in: Banque Nationale de Développement Economique (Burundi), Lesotho National Development Corporation, National Industrial Development Corporation of Swaziland, Société Financière de Développement (Zaire), Development-Bank of Zambia, Caribbean Investment Corporation, Société de Crédit et de Développement de l'Océanie and Société Immobilière et de Crédit de la Nouvelle Calédonie.

Promising results

At first, the Bank took a pragmatic approach to global loan financing in the ACP States and the OCT. There had to be a running-in period because of the novelty of the facility, as had been the case years before when it had been introduced in EEC Member Countries. A further consideration was that dfcs likely to cooperate with the EIB in this way did not all pursue the same activities, cater for the same markets, command the same resources or have the same demands to satisfy. Notwithstanding this diversity, if not complexity, global loans have had a substantial and growing success over the years: at 31 March 1982, they accounted for 18% of total subsidised lending from the EIB's own resources plus risk capital assistance mobilised under the two Lomé Conventions. Similarly, almost 25% of financing provided for investment in industry and tourism had been made available via global loans.

Even greater provision has been made for risk capital under the second Lomé Convention to the point where it accounts for virtually half of total financing to the dfcs as opposed to less than 10% under the first Lomé Convention. This shift of emphasis also reflects the trend towards financing industry and tourism in the most underprivileged countries where smaller businesses are often the only ones possible. The provision of risk capital assistance has likewise helped dfcs to acquire stakes in firms or even to fund feasibility studies which might eventually lead to projects eligible for EIB financing, either through an individual loan or in the form of a credit from a global loan facility.

At 31 March 1982, the EIB had mounted 38 operations totalling 119.9 m ECUs (including 4m for equity participations) with 24 dfcs in the ACP and OCT (17 in Africa, four in the Caribbean and three in the Pacific), three of these being regional dfcs (one in West Africa and two in the Caribbean). Through these operations the EIB has been able to channel finance towards capital investment in 17 ACP States (14 African, two Caribbean, one Pacific) and in two French Pacific OCT.

This capital investment has totalled 76.4m ECUs deployed in 163 ventures in the ACP and OCT; 142 credits (69.2m ECUs) have come from

EIB financing for smaller businesses channelled via development finance companies in the ACP States and OCT under the Lomé conventions

Global loans and equity participations (situation at 31 March 1982; in million ECUs)

COUNTRY		EIB's own resources*		Risk capital resources		Total
		Global loans	Global loans	Equity participations	%	
Africa		76.50	14.50	3.53	96.53	80.5
Burundi	Banque Nationale de Développement Economique (BNDE)	—	0.50	—	0.50	0.4
Comoros	Banque de Développement des Comores (BDC)	—	—	0.17	0.17	0.1
Ivory Coast		7.00	—	—	7.00	5.8
	Crédit de Côte-d'Ivoire (CCI)	(3.50)				
	Compagnie Financière de Côte d'Ivoire (COFINCI)	(3.50)				
Kenya		12.00	—	—	12.00	10.0
	Development Finance Company of Kenya Ltd (DFCK)	(2.00+5.00)				
	Industrial Development Bank (IDB)	(5.00)				
Lesotho	Lesotho National Development Corporation (LNDC)	—	3.00	—	3.00	2.5
Liberia	Liberian Bank for Development and Investment (LBDI)	2.50	—	0.29	2.79	2.3
Malawi	Investment and Development Bank of Malawi Ltd (INDEBANK)	8.00	—	—	8.00	6.7
		(3.00+5.00)				
Mauritius	Development Bank of Mauritius (DBM)	3.00	—	—	3.00	2.5
Nigeria	Nigerian Industrial Development Bank (NIDB)	25.00	—	—	25.00	20.9
Seychelles	Development Bank of Seychelles (DBS)	—	—	0.58	0.58	0.5
Swaziland	National Industrial Development Corporation of Swaziland (NIDCS)	2.00	1.00	—	3.00	2.5
Tanzania	Tanganyika Development Finance Company Ltd (TDFL)	5.00	2.50	—	7.50	6.3
Zaire	Société Financière de Développement (SOFIDE)	—	6.00	0.14	6.14	5.1
				(0.10+0.04)		
Zambia	Development Bank of Zambia (DBZ)	9.00	1.50	0.55	11.05	9.2
		(6.50+2.50)				
Regional	Banque Ouest Africaine de Développement (BOAD)	5.00	—	1.80	6.80	5.7
Caribbean		19.50	—	—	19.50	16.3
Barbados	Barbados Development Bank (BDB)	6.50	—	—	6.50	5.4
		(2.50+4.00)				
Trinidad and Tobago	Trinidad and Tobago Development Finance Company Ltd (TTDFC)	10.00	—	—	10.00	8.4
		(5.00+5.00)				
Regional	Caribbean Development Bank (CDB)	3.00	—	—	3.00	2.5
Pacific		—	0.50	0.50	1.00	0.8
Tonga	Tonga Development Bank (TDB)	—	0.50	0.50(1)	1.00	0.8
TOTAL ACP		98.0	15.0	4.03	117.03	97.6
OCT		—	2.85	—	2.85	2.4
Caribbean (Regional)	Caribbean Investment Corporation (CIC)	—	1.00	—	1.00	0.85
New Caledonia	Société Immobilière de Crédit de la Nouvelle-Calédonie (SICNC)	—	1.00	—	1.00	0.85
French Polynesia	Société de Crédit et de Développement de l'Océanie (SOCREDO)	—	0.85	—	0.85	0.7
Total ACP & OCT		98.0	17.85	4.03	119.88	100.0

* carrying interest subsidies paid from EDF resources
(1) Loan to State for increasing its shareholding in the dfc.

the EIB's own resources and 21 (7.2m ECUs) from risk capital. 78.3% of the funds went to Africa (11 countries), 20% to the Caribbean (5 countries) and 1.7% to the Pacific.

86% of global loans from the Bank's own resources have been concentrated on ten ACP States; four of these States belong to the higher per capita income and six to the middle per capita income class. On the other hand, four-fifths of risk capital assistance has been directed towards four low income ACP States, and the remaining fifth has gone to three middle income States. This shows the complementarity of the two different resources and how the risk capital operations accommodate the requirements of those countries listed as poorest.

There are some ACP and OCT in which global loans have accounted for a significant portion, or, even as much as 100%, of EIB financing: Burundi, the Comoros, Lesotho, Malawi, Seychelles, Tanzania, Barbados, Trinidad and Tobago, Tonga, New Caledonia and French Polynesia, most of which offer scant scope for direct loans from the Bank, mainly because of market size or the level of their development.

Some 80% of operations concern English-speaking ACP States where there is a deep-rooted tradition of specialist dfcs actively engaged in financing industrial investment: the dfcs in these states often make a greater contribution than their counterparts in the French-speaking ACP to gross fixed capital formation in industry and tourism. Whereas Commonwealth country dfcs generally specialise in productive investment projects conducive to economic development, and have staff qualified to carry out economic appraisals, the financing institutions in the French-speaking states tend either to offer a whole range of banking services such as real estate, consumer and farm credit, or to operate as subsidiaries of foreign deposit banks. Furthermore, EIB lending is less appealing in franc zone countries by virtue of the fact that for many years there have been relatively favourable terms available through the national banking systems and, because a large proportion of capital expenditure tends to be in francs, foreign exchange requirements are less substantial.

An increased role for dfcs

The EIB has done its best to acquaint dfcs with its project appraisal methods. This transfer of know-how shows through in terms of helping to build up the reputation of dfcs and to give them a greater role within the national economy, the growth of which partly depends upon the backing of efficient and ably run dfcs.

To encourage the establishment of dfcs in the ACP States, the EIB can deploy risk capital to finance feasibility studies on setting up new bodies of this type which might then partner the Bank in its operations. In the Comoros, 10 000 ECUs was invested in such a feasibility study in 1980 which led to the creation a year later of the Comoros Development Bank. The operation was rounded off by a risk-capital financed equity participation for 170 000 ECUs.

Financing provided for a wide range of industries

78% of the amount taken up from global loans has gone to manufacturing industry. The list of recipients is headed by enterprises in the food-stuffs sector (almost 23% of the amount) where 28 credit allocations went in support of ventures in Nigeria, Kenya, Ivory Coast, Zambia, Liberia, Trinidad and Tobago and Malawi. The paper and pulp industries were the next largest beneficiaries (13.2%) with 17 credits, mainly in Nigeria, Guyana and Kenya, followed by: the chemicals industry (7.7% — eight credits) in Malawi and Nigeria in particular; metalworking and mechanical en-

gineering (6.8% — 12 credits) in Ivory Coast, Kenya and Liberia; rubber and plastics processing (6.3% — 15 credits), chiefly in Nigeria, Ivory Coast, Kenya and Malawi; the textiles and leather industries (5.7% — 15 credits), for the most part in Nigeria, Mauritius and Tanzania; glass and ceramics (4.8% — four credits) in Nigeria, Trinidad and Tobago and Burundi; and the wood-working, electrical engineering and transport equipment industries.

Funds also went in support of metal production and semi-processing (5.7% — ten credits), construction materials (5.2% — eight credits), including brick factories in Nigeria and Barbados and production of pre-fabricated housing units in Trinidad and Tobago. Prominent among mining and quarrying schemes financed (3.2% — six credits) was the working of limestone and marble quarries also in Trinidad and Tobago. A further 17 credits were committed in favour of tourism (5.6%), principally in the Caribbean, Kenya and French Polynesia. This brief rundown of the range of capital investment financed gives some idea of the breadth of cooperation between the EIB and the dfcs.

A distinguishing feature of over 75% of ventures financed is that they are geared chiefly towards import substitution, although some (12%) are also designed to export on a limited scale. The fact is that most ACP States, especially those in Africa, are not nearly so well placed as, for example, countries in South-East Asia, from the point of view of setting up labour-intensive export industries. In those few cases (6%) where ventures are mainly export-oriented, the products concerned are either the natural forte of that

Sectoral breakdown of capital investment financed
(Situation at 31 March 1982)

Sector	Credit allocations		Capital investment		Jobs created	Cost per job created (ECUs)	
	No	Amount m ECUs	%	m ECUs			%
Mining and quarrying	6	2.47	3.2	7.29	2.4	186	39 200
Metal production and semi-processing	10	4.34	5.7	17.98	6.0	792	22 700
Construction materials	8	4.00	5.2	23.88	7.9	489	48 800
Foodstuffs	28	17.38	22.8	59.77	19.8	2 252	26 500
Sundry manufacturing ind.	89	42.35	55.5	161.01	53.3	6 697	24 000
Tourism	17	4.28	5.6	13.38	4.4	365	36 700
Miscellaneous	5	1.56	2.0	18.54	6.2	—	—
Total	163	76.38	100.0	301.86	100.0	10 781	28 000

country or have become acknowledged leaders in that country's export trade over the years, e.g. the timber industry in Liberia and Zaire.

Capital investment in industry aimed at making the most of local resources such as farm produce and quarry output accounts for 5% of ventures financed and tends to be directed towards the local, import-substitute market. As for tourism projects (10.5%), these have a favourable impact on the balance of payments given their recognised contribution towards exploiting hitherto neglected or inadequately utilised natural potential.

The minimum and maximum amounts made available as global loan credits are laid down in each finance contract and depend upon the activities of the particular dfc concerned, the requirements of the individual country and the nature of the capital investment to be financed. Taking the ACP and OCT as a whole, the average amount works out at 470 000 ECUs, although the figure varies widely between one country and the next; the average for Nigeria, for example, comes to 1.17m ECUs, whereas for Mauritius it is 200 000. The same applies to the statistics for the average capital cost of ventures financed, i.e. 1.85m ECUs, with differences here ranging as widely as from 4.3m ECUs in Nigeria to 480 000 ECUs in Mauritius. Credit allocations have averaged around 25% of the cost of the investment for which they were earmarked. It should be noted in passing that, generally speaking, the Bank will not finance more than 50% of capital investment cost, whether through a direct loan or a global loan credit.

Local investors

Clearly most of the funds for the ventures concerned have been put up by national promoters: 83% of investment costs, breaking down in round figures as to 72% funded by the private sector, 11% by the public sector. Projects financed through global loans tend generally to attract greater participation by national investors. Indeed, without this facility it would not be so straightforward for the EIB to assist local entrepreneurs in the ACP States with direct financing for industrial ventures, hampered as these firms often are by their limited size and resources.

One of the advantages of the global loan facility is that it offers them credit on attractive terms and conditions and provides them with foreign exchange needed for purchasing equipment abroad.

Global loan credit mobilised in the ACP and OCT was estimated to have contributed towards capital investment totalling more than 300m ECUs at 31 March 1981. Over the 5-year period during which the EIB has been operating the global loan facility in the ACP States credit allocated in 17 of these countries is calculated to have represented some 5.5% of annual gross fixed capital formation in industry. The equivalent contribution for Caribbean States amounts to 17%.

The capital investment financed should lead to the direct creation of about 10 800 jobs. For the period end 1976-81, the average cost per job created works out at 28 000 ECUs, a figure which varies more in relation to the location of the venture financed (i.e. from 9 000-10 000 ECUs in Malawi and Mauritius to as much as 45 000-55 000 ECUs in the Ivory Coast and Nigeria) than in relation to the sector concerned (from 24 500 ECUs for manufacturing ventures to 49 000 ECUs for (construction materials).

As for the ventures financed, these are more labour-intensive than industrial and tourism projects attracting direct loans from the EIB, where, mining and energy projects excepted, the cost per job created over the period 1976-81 works out at 50 000 to 55 000 ECUs. Projects in this latter category are, of course, bigger and of a different kind to those financed via global loans; they frequently have spin-off effects in other sectors of the economy and result in the establishment or expansion of new small-scale ventures downstream.

Investments financed through global loans generally yield an economic rate of return in the region of 15%-25%, which is higher than the average ERR obtaining for projects receiving direct loan finance from the EIB.

The ratio of capital investment input to direct annual value added in 1981 is estimated at the favourable rate of 2.6 for ventures funded through global loan credits as opposed to 3.8 for projects financed by direct loans. Despite the fact that ventures mounted with the assistance of global loan allocations make a more

effective contribution to generating direct additional value added, larger projects often exert a greater, albeit indirect, influence on economic growth. The truth of the matter is that the two types of capital investment are complementary and help in their own way in promoting the economic development of the Lomé Convention States.

ECU

Below are the values in national currencies of the ECU, as at 31 March 1982; these rates are applied the present quarter in preparing financial statements and operational statistics of the Bank:

DM	2.40088	Lfrs	45.3008
£	0.558308	Dkr	8.19137
Ffrs	6.21543	Dr	62.5573
Lit	1 315.39	IR£	0.692302
FI	2.66331	US\$	0.995185
Bfrs	45.3008		

Statistics summarising Bank activities have been based on several different conversion rates applied since 1958 first to the unit of account, then the ECU. 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.

The composition and hence value of the ECU is the same as that of the unit of account used previously.

EIB-INFORMATION is published periodically by the European Investment Bank in seven different languages (Danish, Dutch, English, French, German, Greek and Italian).

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Printed in Luxembourg by éditpress
luxembourg, 44, r. du canal, Esch/Alzette