European Investment Bank

Information

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The European Investment Bank and the EEC's cooperation with Mediterranean countries

Fifteen cementworks in Spain are being converted from oil to coal-firing, reducing the country's oil import dependence by close to a million tonnes per year. In Portugal, the modernisation and expansion of almost 100 small and medium-scale industrial and tourism enterprises should create an estimated 4 600 jobs. A new hydro-electric power station in Turkey will lead to a saving on oil imports worth some 350 million ECUs per year at current prices. Small oasis towns in southern Algeria should see their chances for development improved through receiving adequate electricity supplies. Factory estates are being built to provide modern, efficient working conditions for new industrial activity growing up in Jordan. Three of Morocco's main ports are being expanded. Meat and dairy food production will be stepped up on farms in Tunisia to reduce the country's food deficit. Dredging works and improved ship repair facilities should help to increase Egypt's income from the Suez Canal.

All are examples of projects which the European Investment Bank has helped to finance in the Mediterranean region.

As the European Community's long-term investment financing institution, the EIB has been called upon to play a steadily more prominent role in the shaping of closer patterns of cooperation between the EEC and its neighbour countries to the South.

Currently, the Bank's lending activity extends beyond the Community to 14 countries in the Mediterranean region: six European countries — Portugal, Spain, Turkey, Yugoslavia, Malta and Cyprus; Algeria, Morocco, Tunisia (the Maghreb); Egypt, Jordan, the Lebanon and Syria (the Mashreq), and Israel[1]. At 30 September 1982, the EIB had made available a total of 1 686.5 million ECUs, with the major share of this — 1 122.8 million ECUs — concentrated in roughly the last five years, i.e. since the beginning of 1978.

The various investments supported — in industry, agriculture, energy production and transmission, road, rail, sea and air transport, and other spheres — represent, or will represent when fully completed, a total of around 10 billion ECUs in capital formation. They also involve the direct creation of some 50 000 jobs, mainly in industry and agriculture.

This lending has been carried out under the terms of specific agreements — for the most part financial protocols annexed to broader cooperation arrangements — negotiated between each of the countries and the European Community.

Links are particularly close with three of the countries — Portugal and Spain, both negotiating EEC membership, and Turkey which has long been associated to the Community with the perspective of also, eventually, becoming member. But the agreements with all 14 countries have one broad aim in common: the weaving of a stronger fabric of economic cooperation between the Community and its southern neighbours — 500 million people in all. Of course, it must be stated that the financial assistance provided by the Community covers only a small part of most countries' development needs. However, used carefully and concentrated on key investment, it contributes to building more prosperity in the region, hopefully encouraging greater stability.

The financial cooperation is now undergoing a substantial renewal. Financial protocols with most of the countries have expired and new ones are presently awaiting ratification. This makes it a useful moment at which to take a look at the EIB's

[1] Portugal, with its long Atlantic seaboard, is not, geographically at least, truly Mediterranean, but by culture and trade may be so considered; neither is Jordan, strictly speaking, a Mediterranean country. However, both have always been included in the Community's general approach on Mediterranean relations.

In this issue

Mediterranean finance agreements — key data

The following table summarises the loan and grant aid provisions in the cooperation arrangements between the EEC and Mediterranean countries.

All the agreements listed there, going back to 1964, provide for a total of 4 250 million ECUs, over half — 2 358 million — represented by loans from the European Investment Bank's own resources (i.e. basically funds which the Bank raises on the capital markets).

Agreements currently in force, or negotiated but not yet ratified, total 2 396 million ECUs, of which 60% — 1 461 million ECUs — is foreseen in the form of loans from the EIB's own resources.

In reading this table, it should be borne in mind that the EIB also deploys part of the Community budgetary funds earmarked for development in Mediterranean countries: some of the grant aid is used for paying interest subsidies which are available on most of the loans from the Bank's own resources; loans on special conditions are granted either by the Bank, acting as agent under Community mandate, or by the Commission of the European Communities, according to a division of responsibilities agreed essentially on a sectoral basis.

in million ECUs

		Total assistance	of which loans from EIB's own resources	budgetary funds: loans on special conditions	budgetary funds: grant aid
European countries					
Portugal	Exceptional financial aid to help Portugal at a time of "particular economic difficulties" (1975-1977)	180	150(*)	—	30
	Financial protocol (1978-1981)	230	200(*)	—	30
	Pre-accession aid, within the framework of EEC membership negotiations (1981 up to Portugal's accession).	275	150(*)	—	125
		685	500	—	185
Spain	Pre-accession aid, within the framework of EEC membership negotiations (1981 up to accession)	200	200	—	—
Turkey	Association agreement signed 12.9.1963				
	1st financial protocol (1964-1969)	175	—	175	—
	2nd financial protocol (1973-1976)	220	25	195	—
	3rd financial protocol (1979-1981)	310	90	220	—
	4th financial protocol (not yet ratified: expiry foreseen 31.10.1986)	600	225	325	50
		1 305	340	915	50
Yugoslavia	Interim lending arrangements following Declaration of Belgrade (1976-1978)	50	50	—	—
	Financial protocol (1. 7. 1980-30.6.1985)	200	200	—	—
		250	250	—	—
Cyprus	*Financial protocol (1.1.1979-31.12.1983)*	30	20(*)	4	6
Malta	Financial protocol (1.11.1978-31.10.1983)	26	16(*)	5	5
Sub-total European countries		*2 496*	*1 326*	*924*	*246*
Maghreb					
Algeria	1st financial protocol (1978-1981)	114	70(*)	19	25
	2nd financial protocol (not yet ratified: expiry foreseen 31.10.1986)	151	107(*)	16	28
		265	177	35	53
Morocco	1st financial protocol (1978-1981)	130	56(*)	58	16
	2nd financial protocol (not yet ratified: expiry foreseen 31.10.1986)	199	90(*)	42	67
		329	146	100	83
Tunisia	1st financial protocol (1978-1981)	95	41(*)	39	15
	2nd financial protocol (not yet ratified: expiry foreseen 31.10.1986)	139	78(*)	24	37
		234	119	63	52
Mashreq					
Egypt	1st financial protocol (1978-1981)	170	93(*)	14	63
	2nd financial protocol (not yet ratified: expiry foreseen 31.10.1986)	276	150(*)	50	76
		446	243	64	139
Jordan	1st financial protocol (1978-1981)	40	18(*)	4	18
	2nd financial protocol (not yet ratified: expiry foreseen 31.10.1986)	63	37(*)	7	19
		103	55	11	37
the Lebanon	1st financial protocol (1978-1981)	30	20(*)	2	8
	1st Emergency aid (1977-1978)	20	20	—	—
	2nd financial protocol (not yet ratified: expiry foreseen 31.10.1986)	50	34	5	11
	2nd Emergency aid (1982)	50	50	—	—
		150	124	7	19
Syria	1st financial protocol (1978-1981)	60	34(*)	7	19
	2nd financial protocol (not yet ratified: expiry foreseen 31.10.1986)	97	64(*)	11	22
		157	98	18	41
Sub-total Maghreb + Mashreq		*1 684*	*962*	*298*	*424*
Israel	1st financial protocol (1978-1981)	30	30	—	—
	2nd financial protocol (not yet ratified: expiry foreseen 31.10.1986)	40	40	—	—
		70	70	—	—
TOTAL MEDITERRANEAN		4 250	2 358	1 222	670

(*) Indicates provision for subsidies on EIB loans, paid from the grant aid activities in the Mediterranean region.

Various facets of these operations will be covered in the following pages — the forms of finance provided in the different countries, how the Bank chooses the projects it finances and on what basis, cooperation with other development agencies . . .

But the starting point must be to trace the steps which have led the EEC to assume an active role in the Mediterranean region's development.

Background

Outward looking

In creating the European Economic Community, the Member Countries were not seeking cooperation with each other to the exclusion of wider interests.

Just as they recognised the need to break away from a restrictive, national dimension to their own development, so they also saw that even the new Community could not be a self-sufficient entity, turned in upon itself. It would need to take an outward-looking stance. Membership was to be open to other democratic states in Europe, if they so wished, and from the beginning the Community expressed its aim of helping to promote economic and social development in overseas countries enjoying special links with Member Countries.

Today — almost 25 years on — the EEC has grown from six to 10 Member States, with a further two presently negotiating membership. It is the globe's major trading unit and the developing world's principal economic partner and biggest source of aid, part extended by the Community as such, part by Member States under their own, bilateral arrangements.

Cooperation dealt with on a Community basis provides for many forms of assistance and embraces preferential trading measures, technical, industrial and commercial help, in some cases export stabilisation payments, and **investment finance,** which is the EIB's field. The main weight of these policies is concentrated on two groups of countries [1] which are seen as meriting priority action:

— the African, Caribbean and Pacific (ACP) countries which have signed the Lomé Conventions (see EIB-Information No. 25, April 1981);

— countries in the **Mediterranean region.**

As Europe's crossroads with Africa and Asia, the Mediterranean is self-evidently a region of extreme importance for the EEC.

The Community is by far the largest demographic and economic entity in the zone. The creation of the EEC, with France and Italy among the Members, gave a direct Mediterranean presence to all of the original "Six". The subsequent enlargements to the Community — Denmark, Ireland and the United Kingdom in 1973, then Greece in 1981 — mean that presence has been extended to 10 countries sharing a common market now running from the Aegean to the Baltic and the Irish Sea. Spain and Portugal's membership will push the centre of gravity further to the South, with five out of the 12 EEC countries at the entry to the Mediterranean or occupying most of the northern shore, and accounting for more than half of the Community's total population.

Solidarity between the Community and its Mediterranean neighbours springs naturally from intertwined cultures and shared histories but economic factors of mutual interest are the bedrock of cooperation.

For the EEC, substantial gains would be derived from sustained development in an area which already constitutes a sizeable market for its products, with considerable potential for expansion. The 14 Mediterranean countries with which the EEC currently has cooperation agreements account for 20.2% of the EEC 10's exports (4.6% to Spain and Portugal, 15.6% to the other countries). This can be compared, for example, with the United States market at 14.7% of exports or the Eastern bloc at 5.8%.[2] Also, for a Community which imports about 90% of its raw materials, the importance of the Mediterranean as a key route for fuel and other essential supplies was heavily underscored in the oil crisis.

The other side of the equation is that the Community represents the biggest market in the region (over 270 million people, or 320 million people when Spain and Portugal join) and hence for most Mediterranean countries an actual or potentially major outlet for exports. The EEC is also the closest source of industrial and technical assistance.

Steps and aims in building up cooperation

Mediterranean cooperation is easy to identify as an aim but the effort to promote it has been a lengthy process.

No single, overall structure governs Community action, but rather a succession of agreements negotiated over the past 20 plus years, with different aspects of cooperation predominant.

With Greece first, then Portugal and Spain at present, cooperation has to be seen mainly in the context of helping the countries tackle certain adaptation problems in their economies to pave the way for Community membership.

In Turkey, there is a blend of motives. The Community's aid is both assistance for a developing country and a means to further the close association between Turkey and the EEC, which also implies preparation for eventual membership.

[1] Individual EEC Member Countries have bilateral aid programmes which, apart from Lomé and Mediterranean countries, also extend aid to many developing countries in Asia and Latin America.

[2] Figures for 1981: source Eurostat

ECU

The ECU is made up of the sum of the following amounts: DM 0.828, £ 0.0885, Ffrs 1.15, Lit 109, Fl 0.286, Bfrs 3.66, Lfrs 0.14, Dkr 0.217, IR£ 0.00759.

At 30 September 1982, the values of the ECU in the various currencies of EEC Member Countries and in the Mediterranean Countries mentioned in this bulletin were as follows:

DM	2.35365	Bfrs	45.6409
£	0.549768	Lfrs	45.6409
Ffrs	6.64257	Dkr	8.23109
Lit	1 323.77	Dr	66.7793
Fl	2.57309	IR£	0.690606

Portugal: 82.22 escudos; Spain: 106.11 pesetas; Turkey: 164.48 liras; Yugoslavia: 48.80 Yugoslav dinars; Cyprus: 0.46 Cyprus pounds; Malta: 0.39 Malta pounds; Algeria: 4.38 Algerian dinars; Morocco: 5.81 dirhams; Egypt: 0.65 Egyptian pound; Tunisia: 0.59 tunisian Dinars; Jordan: 0.33 Jordan dinars; Lebanon: 4.01 Lebanese pounds; Syria: 3.65 Syrian pounds; Israel: 27.04 shekels; — 0.93 US$.

With many of the countries along the southern and eastern shores of the Mediterranean, Community action falls more into the classic mould of development aid, although it forms part of a wider approach also.

Then there are other elements: for example, where the Community has wanted to express solidarity with countries faced with particular economic difficulties threatening their stability — this was especially the case with Portugal immediately after restoration of democracy, and the Lebanon; Yugoslavia's geographical position has led to an accent on developing facilities of joint interest to that country and the EEC...

Building up cooperation in the region consists, therefore, of different approaches, but all interlinked and serving one broad aim.

The first major steps were the signature of the association agreements with Greece in 1961 (see page 5) and Turkey in 1963. There were also several commercial agreements with other countries, some of a more concessionary nature, others on a looser, non-preferential basis.

Enlargement of the Community in 1973 stimulated fresh movement, with the Community declaring its intention to establish a framework of cooperation to cover all Mediterranean littoral countries wishing to maintain or develop special ties with the EEC (keeping at the same time the special association arrangements with Greece and Turkey).

Broad aims were worked out in 1972 so that the Community was ready upon enlargement the following year to enter into discussions.

The process was called an "overall Mediterranean approach", often referred to as the Community's "Mediterranean policy". This is perhaps slightly misleading as it gives an idea of comprehensive negotiations whereas, in fact, the various cooperation agreements were discussed and signed with the countries individually, over different timespans, and the final provisions as to trade concessions, financial assistance etc. were adapted to the economic situation of each country. However, the end result was to extend a framework of cooperation to most of the developing countries along the Southern and Eastern shores (the Maghreb and Mashreq), plus Cyprus, Malta and Israel.

With the addition of agreements with Portugal, Spain and Yugoslavia only two Mediterranean littoral countries — Albania and Libya — have not at present negotiated cooperation arrangements with the EEC.

Financial aspects of the various agreements are detailed later on and are summarised in the list on page 2.

Now, with Portugal and Spain preparing for EEC membership, the Community countries are at the point of having to work out a new phase of cooperation. The Commission of the European Communities has submitted to the Council of Ministers a detailed paper calling for discussion on relaunching a Mediterranean policy for the enlarged Community.

The EIB's role

The Community's financial cooperation with the Mediterranean countries is channelled by the European Investment Bank and the Commission of the European Communities.

The possibility for the EIB to operate in non-Member Countries was provided for in Article 18 of the Bank's Statute (an integral part of the Treaty of Rome).

This stipulates that although EIB financing should normally assist investment projects carried out in the European territories of Community Member States, the Board of Governors (one Minister from each Member Country), acting unanimously on a proposal from the Board of Directors, may also authorise the Bank to lend outside the Community.

The clause opened the way, as cooperation policy evolved, for the Bank's experience as a project financing body within the Member Countries to be put progressively to use to the benefit of other countries.

It meant also that, as the Bank borrows its resources on the capital markets, funds could be mobilised additional to those provided by the Member States or the Community from budgetary resources.

Certain basic principles govern the EIB's activities outside the Community:

☐ the Bank lends within the framework of agreements negotiated between the Community and the countries concerned; the maximum amounts for EIB lending must be formally approved by the Bank's own Board of Governors. Each of these agreements specifies a timespan for Bank lending (usually about 5 years) and sets a ceiling for the total amount — this is not a legal obligation but an amount to be reached only if sufficient, good quality investment projects are identified.

☐ the agreement of the authorities in the countries concerned is necessary before the EIB pursues financing proposals.

☐ every project must undergo examination by the Bank's own staff of its likely economic impact; depending on the project, the appraisal will cover various aspects such as effect in eliminating infrastructure bottlenecks to development, potential balance of payments benefits, revenues generated, jobs created, impact in diversifying energy supplies and encouraging regional development. The Bank also looks closely at the financial structure and the technical and managerial capacities of the promoter.

☐ within the overall spectrum of Community aid, and in cooperation with the Commission of the European Communities, the EIB deploys different forms of financing, some softer than others, and it is necessary to determine how these are used, and in what mix, according to the projects.

☐ support may be given for investment carried out by public, semi-public or private sector promoters.

☐ the EIB finances only part of the fixed asset costs involved, i.e. the funds it makes available should be one element of a comprehensive financing plan, including the promoter's own funds and, in most cases, finance from governments, other banks or development agencies.

☐ the Bank's standard policy is that finance be used for equipment or services chosen on the basis of international competition; it may cover both foreign currency and local expenditure.

Whether lending inside or outside the Community, the EIB is always required by its Statute to obtain **adequate security** for its loans. This is the main safeguard for the Bank's high credit-standing and its ability to raise funds on the markets on best conditions, and hence in the direct interest of its own borrowers.

Security is assured in various ways. The basic element is the Bank's own rigorous appraisal of the economic, financial and technical viability of each project with a view to supporting only soundly conceived and implemented investments (see pages 15-16 detailing the Bank's project appraisal approach).

Secondly, contractual security arrangements are made for each, individual loan agreement, usually in the form of a guarantee from the State concerned, or banks or industrial groups, in appropriate circumstances.

Beyond this, the Community itself stands as guarantor for the EIB's lending outside the Community. It gives blanket guarantees covering 75% of lending both in the Mediterranean and Lomé Convention countries.

This triple approach — insistence on project quality, individual loan security, Community comprehensive guarantee — demonstrates to the capital markets that the Bank's lending outside the EEC (in over 60 countries to date) is not materially different, in terms of exposure, from its lending in the Community countries.

Another general point to operations outside the Community is the way tasks are shared between the Commission and the European Investment Bank.

This aims at structuring financial cooperation to enable a versatile, pragmatic approach with a range of different facilities handled by the two institutions. The Commission is primarily concerned with the kind of projects which require a very soft, largely grant aid-oriented approach (e.g. social infrastructure and basic rural development) and in providing funds for investment studies and technical assistance of various kinds.

The EIB concentrates on fields more appropriate for the kinds of loan finance which it deploys (development of economic infrastructure, expansion in the production sectors, exploiting energy resources). However, there are some projects which call for a blend of different kinds of financial support, with an input from both the Bank and the Commission.

EIB financing in the Mediterranean countries comes under two broad headings:

— ordinary operations financed from the Bank's own resources (i.e. essentially the sums raised as part of normal borrowing operations on the capital markets); and

— special operations financed from budgetary funds which the Bank manages under Community mandate.

Ordinary operations are loans provided on the same conditions as the Bank's loans within the Community, that is to say at interest rates closely following movements on the markets where the Bank obtains its funds. However, in most Mediterranean countries, lending rates are brought down by interest subsidies paid from Community budgetary resources; the borrowers therefore receive loans on more favourable conditions than the Bank itself could afford to give, bearing in mind that it

This review of EIB operations in the Mediterranean region deals with the non EEC-countries in which the Bank is currently engaged. It would be incomplete, however, without a brief retrospection on lending in **Greece.**

On 1 January 1981, Greece joined the European Economic Community and became at the same time a Member of the European Investment Bank. Since that date, financing operations in this country have been conducted in exactly the same manner as in any other EEC country.

But for almost 20 years prior to membership, Greece was linked to the Community through an association agreement.

Amongst other aspects, this agreement — signed 9 July 1961 — was the first under which the EIB was asked to extend its operations beyond the Member States.

There were two financial protocols which involved the Bank in lending a total of 351.4 million ECUs.

The first came into effect in November 1962 and provided for the EIB to lend up to US$ 125 million (= 116.4 million ECUs at rates ruling at contract signatures), all from the Bank's own resources. 3% interest subsidies were paid from the EEC Member States' own budgets on two thirds of the loans (for transport, energy and land improvement projects).

The EIB's operations under this protocol were interrupted in 1967 following the coup d'état in Greece. It was possible to recommence lending only towards the end of 1974, after restoration of democratic government and following reactivation of the association agreement. The remaining amount was committed by end-1975.

The second protocol, which came into effect in August 1978, provided for the EIB to lend 225 million ECUs from its own resources (150 million with 3% interest subsidies), 10 million in loans on special conditions, financed from the Community budget, and grant aid of 45 million ECUs from the Community budget, partly to pay the interest subsidies on the EIB loans. Lending was completed by end-1980.

Under both protocols, the aim was to channel funds into key areas of the Greek economy, helping to increase performance to a level more approaching that of the Community and so easing integration.

Special priority was given to improving agricultural productivity, essentially through irrigation plus some forestry development (37% of the total) and to helping small and medium-scale industrial ventures (25%). Funds also went towards energy provision (mainly development of hydro resources, cutting oil import dependence) and transport improvements.

There is, of course, a direct similarity between the objectives of these operations in Greece and the work which the Bank is currently carrying out in Spain and Portugal under the pre-accession finance arrangements with these two EEC candidate countries.

can raise funds on financial markets only by offering a competitive rate of interest to investors, that it has to cover its own operating costs and contribute to reserves required by its Statute.

The duration of the loan depends on the nature of the project financed and always, of course, on the Bank's own borrowing possibilities. For infrastructure projects the term may be up to 20 years, for industrial investments between 7 and 12 years. There is a grace period on capital repayments covering the construction and start-up phase of a project.

Special operations are on very soft conditions. As the Bank's own resources are not involved, the finance provided does not have to reflect the conditions on the capital markets. There are two kinds of operation:

a) Special loans, with a very long term (under recent agreements: 40 years, including a 10-year grace period on repayment of principal); the interest rate is nominal (1%).

b) risk capital for financing shareholdings or lending to a State or a national development agency to bolster enterprises' equity bases, or for providing quasi-capital assistance.

So far there have been very few opportunities to carry out risk capital operations in Mediterranean countries but there may be more in the future; risk capital contributions are a most important element of the EIB's financing operations under the Lomé Convention to help productive sector investments in the African, Caribbean and Pacific countries.

All special operations are accounted for separately from the Bank's other activities, off balance sheet, in what is known as the "Special Section", formed by decision of the Board of Governors in 1963 when the first such lending took place in Turkey.

It is interesting to examine how the combination of these different forms of financing has been applied.

The "mix" of finance

Financial cooperation with the Mediterranean countries has to take account of widely different levels in their economic development.

Their per capita Gross Domestic Product averages about 27% of that of the Community, but behind this there are considerable variations. Spain is roughly at the same level as the least prosperous Community countries whereas Egypt has about 1/16th of the Community average per capita GDP.(1)

The "mix" of finance offered by the Community reflects these differences. In the Maghreb and Mashreq countries, for example, the help they require to overcome severe development problems is recognised in the fact that about half of the finance under both the previous and new protocols is in the form of grant aid (including amounts for interest subsidies on EIB loans) and loans on special conditions. By contrast, the agreements with Spain, Israel and Yugoslavia, countries with certainly a much higher level of economic development, foresee loans exclusively from the EIB's own resources, without subsidies, i.e. on the same lines as for normal Bank operations within the Community.

The broad approach is that the EIB's loans, subsidised or not, go mainly to investment in industry and agricultural development schemes and to infrastructure projects necessary for economic development, such as electricity generation and transmission, highways and ports. Special loans from budgetary resources are handled by the Commission (essentially for social and basic rural development) and can also be deployed by the EIB for economic infrastructure projects. There is a fair degree of flexibility to these divisions and it is to be noted that, in certain cases, a combination of ordinary loans and special loans can be provided for the same investment.

Grant aid — apart from the amounts used to pay interest subsidies on EIB loans — is used by the Commission for financing technical cooperation (i.e. training, technical assistance in running facilities, pre-investment studies).

Agreements with non-EEC European Mediterranean countries

European Mediterranean countries have benefited the most from the financial cooperation arrangements in the region.

Portugal, Spain and Turkey — the three with particularly strong attachments to the EEC — between them account for over 75% of all EIB financing operations in the 14 Mediterranean countries (1 260 million ECUs out of a total of 1 686.5 million, as at 30 September 1982). With Yugoslavia, Cyprus and Malta, the share rises to 79%.

Portugal

After first signing a commercial agreement with Portugal in 1972, the Community has extended financial cooperation in three stages.

The first followed restoration of democratic government in 1974. The Community wanted to help at a time of "particular economic difficulties" and, after discussions with the Bank, the Council of the European Communities decided in October 1975 to offer "exceptional emergency aid" in the form of 150 million ECUs of EIB loans for priority development projects. Loans were to be subsidised by 3%, for which 30 million ECUs were made available from the Community budget. First loans were granted in 1976 and lending was completed by end-1977.

The emergency aid was envisaged as an interim measure pending negotiations on a formal financial protocol between Portugal and the EEC. This came into effect in November 1978 and foresaw a total of 200 million ECUs in EIB loans. Up to 150 million could be provided with 3% interest subsidies, for which again 30 million ECUs were reserved in the Community budget.

The protocol was for financing investment projects aimed at increasing productivity, improving the infrastructure, diversifying the economy and, above all, promoting industrialisation and modernisation of the agricultural sector. The agreement was planned originally to cover five years (up to end-October 1983), but after a request from the Portuguese government to the Council of Ministers, the Bank's Board of Governors agreed to accelerate implementation and all lending was completed by end-1981.

The third stage of financial cooperation is now in progress and it takes the form of pre-accession aid "to prepare and facilitate the harmonious integration of the Portuguese economy into the Community economy". This came into force on 1 January 1981.

Provision for EIB loans is set at 150 million ECUs (up to 125 million with

(1) Figures for 1980; source World Bank.

3% interest subsidies, for which an amount of 25 million ECUs has been set aside in the Community budget).

Complementing the EIB loans, the Commission of the European Communities administers 100 million ECUs of grants from the budget for cooperation projects or programmes. This includes technical assistance (studies, services of consulting engineers, etc.) partly intended for use in indentifying and preparing investment projects for possible EIB lending.

At 30 September 1982, EIB lending in Portugal totalled 435 million ECUs, of which 85 million under the latest pre-accession aid arrangements.

Spain

Formal commercial agreements were established between the Community and Spain in 1970. Negotiations on Spain's EEC membership have been in progress since 1979 and in the middle of 1980 they broadened out to include the question of financial cooperation.

After a formal request from the Community's Council of Ministers, the Bank's Board of Governors decided in May 1981 to lend up to 200 million ECUs as pre-accession aid, subject to a limit of 100 million ECUs per annum.

The arrangements foresee finance being concentrated on certain key sectors of importance for Spain's integration into the Community economy:

— improved regional infrastructure so as to promote more balanced development between regions;

— improved infrastructure linking Spain to the Community;

— restructuring, modernisation and development of small and medium-sized enterprises;

— support for efforts to save energy, particularly oil.

At 30 September this year, 120 million ECUs had been lent.

Turkey

Financial cooperation with Turkey dates back to 1963 when the association agreement was signed between Turkey and the EEC.

The agreement was intended steadily to forge more balanced relations between the signatories and reduce the development gap between Turkey and the EEC.

It stated that "the support given by the European Economic Community to the efforts of the Turkish people to improve their standard of living will facilitate the accession of Turkey to the Community at a later date".

The agreement committed the Community to help finance projects designed to step up productivity in the Turkish economy, in particular by improving economic infrastructure, raising agricultural output and by the setting up or expansion of modern, well-run industrial ventures in both the public and private sectors. The European Investment Bank was entrusted with the responsibility of implementing the provisions.

There have been three financial protocols governing aid up until October last year. Now a fourth protocol has been drawn up and awaits the necessary approvals before lending operations can start.

The first financial protocol came into effect just after the association agreement in November 1964. It foresaw, over a five year period, the lending of 175 million ECUs; these were exclusively loans on special conditions, funded from resources made available by the Member States from their own budgets, with the EIB managing the lending directly under their mandate.

The second protocol, which came into effect in November 1973, extended aid through to May 1976 with 220 million ECUs (195 million in special loans from Member States' budgetary funds, plus 25 million in ordinary loans from the EIB's own resources).

This was followed, from May 1979 to October 1981, by the third protocol which provided for a total of 310 million ECUs (220 million in loans on special conditions, now drawn from the Community's budget as opposed to the previous system of direct funding by the individual Member States, plus 90 million ECUs in ordinary loans from the EIB's own resources).

As can be seen, about 80% of the total aid foreseen under the first three protocols was made available by the EIB in the form of loans on special conditions.

At 30 September 1982, the EIB had committed all funds under the protocols for a total of 705 million ECUs, comprising 590 million in

The European Investment Bank works in close cooperation with other development agencies.

These may be Member States' bilateral aid organisations, other international lenders, in particular the World Bank group, and more recently the various bilateral or multilateral financial institutions in the Arab oil-producing countries.

Such contacts often help in the identification of possible projects for financing and in easing the complicated business of constructing financing plans for a number of the larger projects.

Regularly, the EIB co-finances investments directly with one or more of these organisations. Co-financing may take the form of loans from two or three aid agencies for precisely the same project. Alternatively, a major development project can be divided into its main components (say industry and the infrastructure directly necessary) with agencies making separate contributions.

Experience has also shown that because institutions like the EIB and the World Bank are known for their rigorous appraisals, the fact that they agree to finance a project can have the effect of encouraging aid from other sources and inspiring confidence on the part of potential commercial lenders.

In several instances the Bank has directly helped to mobilise other sources of finance and, as a member of syndicates or groups formed expressly for financing particular investments, has acted as coordinator both within these groups and between them, the national authorities and the project promoter. A particularly important example of such action was the EIB's participation in an international financing plan for construction of the Bosporus bridge in Turkey.

loans on special conditions, 115 million in ordinary loans.

The next financial protocol envisages a substantial increase in financing with a total of up to 600 million ECUs, to be committed by end-October 1986. This would be composed of 325 million ECUs in special loans from budgetary resources, 225 million ECUs in EIB ordinary loans, and — as a new aspect — 50 million ECUs in grants for technical and economic cooperation to be managed by the Commission.

Yugoslavia

EEC — Yugoslavia commercial links were formalised in trading agreements signed in the early 70s. Towards the end of 1976 there were discussions on the ways and means of further cooperation, followed by the so-called "Declaration of Belgrade". This affirmed the wish of both parties to strengthen and diversify relations and as one outcome the EIB's Board of Governors authorised the Bank in December 1976 to make available 50 million ECUs in ordinary loans for investment projects of common interest to Yugoslavia and the Community. Lending was completed by end-1978.

On 2 April 1980 a cooperation agreement was entered into between the Community and Yugoslavia and a financial protocol provides for up to 200 million ECUs in EIB ordinary loans to be made available by end-June 1985, again for investments of common interest to Yugoslavia and the EEC.

Financing in non-EEC Mediterranean countries
Sectoral breakdown: situation at 30.9.1982

in million ECUs

	total		of which global loan allocations		% of total	
Energy, communications and other infrastructure	1 086.6				64.4	
Energy	625.9				37.1	
Electricity production		507.3				30.1
Power lines		90.6				5.4
Gasfield development		28.0				1.6
Transport	377.7				22.4	
Railways		110.9				6.6
Roads, bridges and tunnels		105.2				6.2
Shipping		142.0				8.4
Airlines		19.6				1.2
Irrigation	63.0				3.7	
Global loan (part still being allocated)	20.0				1.2	
Industry, agriculture and services	599.9		282.4		35.6	
Industry	484.8		275.4		28.8	
Metal production and semi-processing		31.9		9.0		1.9
Construction materials		72.8		40.4		4.3
Woodworking		17.9		16.8		1.1
Glass and ceramics		21.0		17.7		1.2
Chemicals		88.7		29.8		5.3
Metalworking and mechanical engineering		41.4		41.4		2.5
Motor vehicles, transport equipment		8.5		8.5		0.5
Electrical engineering, electronics		20.5		19.7		1.2
Foodstuffs		38.9		38.9		2.3
Textiles and leather		20.9		17.1		1.2
Paper and pulp		90.5		12.8		5.4
Other		31.8		23.3		1.9
Agriculture, forestry	40.2		0.2		2.4	
Services (tourism and other)	6.8		6.8		0.4	
Global loans (part still being allocated)	68.1				4.0	
Grand Total	1 686.5[1]		282.4		100.0	

[1] Ordinary loans (1 053.7 million) from EIB own resources and operations on special conditions (632.8 million) financed from Member States or Community budgetary funds and accounted for off balance sheet in the Banks Special Section.
N.B. This table does not include operations in Greece before country's accession to the Community (see p. 5).

Cyprus

Commercial relations between the EEC and Cyprus were first given a formal framework in an association agreement signed in 1972. Financial cooperation was introduced through a protocol which came into effect in January 1979; this makes provision for up to 30 million ECUs in the form of 20 million ECUs in EIB ordinary loans, 4 million in special loans from budgetary funds (managed by the EIB under mandate) and 6 million in grant aid, part of which serves to pay 2% interest subsidies on EIB loans.

The protocol, which expires end-1983, stipulates that any project financed must benefit both the Greek and Turkish communities on the island. At 30 September 1982, the Bank has made an ordinary loan of 12 million ECUs.

Malta

Malta also signed an association agreement with the EEC, in 1970, which provided for certain trade concessions. Subsequently a financial protocol was negotiated and this came into effect in November 1978. It foresees a total of 26 million ECUs to be committed by end-October 1983 in the form of 16 million ECUs in EIB ordinary loans, 5 million in special loans (managed by the EIB under mandate) and 5 million in grant aid, essentially for paying interest subsidies on the EIB loans.

At 30 September 1982, the Bank had made available 8 million ECUs (3 million in ordinary loans, 5 million in special loans).

Sectoral summary of loans in non-EEC European Mediterranean countries

Energy

The largest single share of loans granted by the EIB in the six European Mediterranean countries has gone to improving energy supplies: 513.9 million ECUs, representing 38.8% of the total.

Each of the countries faces the same need to invest in new energy production facilities — where possible, exploiting indigenous resources — which are basic to their plans for economic development and higher living standards. They are all heavily dependent upon oil imports (80% of Portugal's consumption, 65% in Spain, 40% in Turkey).

The EIB's action in this respect has been particularly strong in **Turkey** where 356.9 million ECUs — that is to say, half of the EIB's financing operations in this country — have gone to energy supply and transmission. Funds have been directed towards construction of two major hydro-electric schemes on the Euphrates (with about 3 000 MW capacity between them) and development of lignite deposits and construction of a 1 250 MW power station in Eastern Anatolia. The annual output of these three stations — once all the equipment is in full service — should be equivalent to about 5 million tonnes of oil (this corresponds to about 40% of Turkey's oil imports in 1980).

Loans have also gone towards the laying of some 1 900 km of high tension lines and for installation of a national grid control centre to rationalise generation and transmission facilities.

In **Portugal**, the EIB has made similar efforts with 120 million ECUs channelled into 1 250 MW of new electricity generating capacity (mainly hydro-electric or coal-fired), erection of 240 km of high voltage power lines, including a link-up with the Spanish grid, and installation of a computer-controlled electricity dispatching system to optimise coordination of national facilities. The hydro and coal-fired plant, and the control system, should make a direct contribution to limiting dependence upon oil imports, saving or replacing about 1 million tonnes per year.

In **Yugoslavia**, 25 million ECUs went towards the erection of 1100 km of high tension lines and interconnections with the Greek and Italian grids. Yugoslavia has considerable hydro resources, the majority not yet exploited, and reserves of coal and lignite. In general these are far removed from the areas of major consumption, making a heavy load electricity transmission system indispensable if rising electricity demand is to be met.

The link-up with neighbouring countries means Yugoslavia can iron out peaks and troughs in its electricity production by exporting power in periods of surplus and obtaining supplies in periods of shortfall. It also provides for mutual assistance through pooling of reserves, in case of failure of large generating units.

Finally, a loan of 12 million ECUs went towards extension of a thermal power station in **Cyprus** and reinforcement of the transmission system and distribution networks.

*NB In **Spain,** the Bank has also lent for restructuring energy consumption in the cement industry, switching from oil to coal (see section on industry below).*

Small and medium-scale ventures account for the dominant share of industrial activity — in some cases virtually all — in most Mediterranean countries.

There are clear practical difficulties as to how the EIB, a Community body with operations on an international scale, can deal with them directly, discussing in detail their multiple investment finance needs. For this reason it channels funds to them through development banks in the different countries which are better equipped, with their on-the-spot personnel, to talk with potential clients and assess their requirements.

The EIB provides finance to the local development banks in the form of global loans (basically lines of credit) which the institutions then draw upon to make a number of sub-loans for smaller-scale investments. The conditions laid down for the deployment of funds (e.g. the size, nature and location of ventures to be assisted) are fixed in negotiating each global loan. The ventures to be financed are chosen in agreement with the EIB, for which a streamlined approval procedure is established.

The objectives are to encourage the growth of small and medium-scale industry which has good chances of being internationally competitive, with growth prospects, and directs industrialisation away from major urban concentrations.

In Spain and Portugal there is the further, specific aim of helping to progressively integrate small and medium-scale industry as efficiently as possible into the Community market (see page 10).

At end-September 1982, 30 global loans worth some 370 million ECUs had been made to development banks or other financial institutions in Portugal, Spain, Turkey, Morocco, Tunisia, Egypt, Jordan and Israel. At the same date about 290 million ECUs had been drawn from these financing facilities to provide credits for some 570 small and medium-scale investments — including over 120 small handicraft ventures in Jordan — involving a total fixed asset cost of 840 million ECUs and the creation of 27 000 jobs.

A point to be noted: a few of the global loans financed from budgetary resources (Turkey, Morocco) have been used to finance feasibility studies, technical assistance and various risk capital contributions.

Industry

Industrial development has accounted for 468.6 million ECUs, with finance provided for a wide range of investments in Spain, Portugal and Turkey.

More than half — 267.2 million ECUs — has been concentrated on small and medium-scale ventures by deploying funds through the global loan technique. Global loans are essentially lines of credit which the EIB opens to financial institutions in the countries concerned which in turn use the resources to make a series of sub-loans for investments chosen in agreement with the EIB. In this way, the EIB is able to channel funds to many firms whose operations would be of too modest a size for the EIB to assist directly (see insert above).

Small and medium-scale firms are crucial to the economies of all three countries and represent the vast bulk of their industrial output and employment. However, many of them operate in conditions far from ideal and they are up against strong pressure to invest in modern equipment and hone their competitiveness. This is particularly the case in Spain and Portugal where future EEC membership means that industry must prepare itself rapidly to trade efficiently in a far larger and more dynamic market and to take advantage of new export opportunities.

In **Portugal,** 174 million ECUs have gone to industry. 104 million were in the form of six global loans from which, at end-September 1982, credits worth 60.3 million ECUs had been drawn down to help finance a total of 98 ventures.

Larger industrial investments supported through individual, direct loans concerned production of fertilisers, glass fibre and plastics, cement and extraction of the iron content from industrial "waste" material (pyrite cinders).

In total, the industrial developments assisted by the EIB in Portugal represent new fixed investment worth 428.5 million ECUs and the direct creation or safeguarding of around 6 500 jobs.

In **Spain,** 60 million ECUs have gone to industry, the entire amount in the form of three global loans. Two of them (40 million ECUs) were granted for financing small and medium-scale ventures: at end-September 1982 34 firms had benefited, with investments worth 55.2 million ECUs involving some 1 700 jobs.

The other global loan — 20 million ECUs — is being used specifically to help finance the conversion from oil to coal-firing of 15 cementworks throughout the country. The investment — total cost put at 45 million ECUs — should lead to considerable savings in companies' fuel bills and contribute to the country's overall objective of diversifying energy imports by replacing almost a million tonnes of oil per year.

Two main aims of the Bank's financing of industrial development in **Turkey** have been, at a first stage, to replace a certain amount of imports with national production and then, where possible, to encourage export-oriented activities. Again, this is on the basis of seeing industry move progressively to a more satisfactory level of international competitiveness.

The EIB has provided a total of 234.6 million ECUs for industrial development in the country, somewhat over 40% — 99.9 million — going to the public sector, essentially for basic goods production (e.g. paper, petrochemicals, fertilisers).

Finance for private sector investment — 134.7 million ECUs — has been provided in global loans (100.2 million) from which credits were drawn down to assist small and medium-scale ventures primarily in the metals, mechanical and electrical engineering, and chemicals sectors.

In total, the various industrial investments supported in Turkey, both large and small, represent new fixed investment in the order of 920 million ECUs and direct employment for some 2 800 people.

Agriculture

A total of 91 million ECUs has gone to investment in the agricultural sector — irrigation schemes and forestry development — in Portugal and Turkey.

In both countries, agriculture holds a dominant position in the economy and increased land and labour productivity is a priority objective. Irrigation widens the choice of crops, often enabling several to be harvested in one year and making more efficient use of manpower in areas where there is usually little alternative employment. It enables farmers to better structure their production to market needs, either reducing national deficits in certain foods (substantial foreign currency drains) or aiming for better export possibilities, e.g. early and late vegetables in Northern European markets.

Forestry development is also an important factor in both national economies and increased production finds a ready market in the EEC which imports about two-thirds of its timber, half its paper pulp and a fourth of its paper and board.

In **Portugal,** the Bank lent 27 million ECUs towards irrigation schemes in North-East and Southern Portugal and 18 million ECUs for planting eucalyptus forests mainly *on abandoned* land.

In **Turkey,** 36 million ECUs went towards major agricultural development schemes in the Izmir and Mersin regions, involving irrigation facilities, land levelling and consolidation, works to combat erosion, and flood protection. 10.0 million ECUs went to forestry development in Southern Turkey, closely linked to industrial investment in timber and paper mills, also part-financed by the EIB.

Transport and other infrastructure

Loans for transport and other infrastructure — in Portugal, Spain, Turkey, Yugoslavia and Malta — totalled 256.5 million ECUs at 30 September 1982.

Savings in transport operating costs can have a direct, beneficial effect on the economy, helping to keep domestic prices down, sharpening export competitiveness, and improving conditions for more balanced regional development. The Bank has channelled funds into a range of projects, some of importance well beyond national frontiers.

In **Portugal,** the main priority has been port development. Portugal's rugged hinterland and limited road infrastructure means a heavy dependence on sea transport for both international and internal trade. Out of a total of 96 million ECUs for transport schemes, 54 million went to expansion of the Lisbon, Leixoes (Oporto) and Aveiro ports.

Other loans have helped to finance work on the Lisbon-Algarve highway and to improve the safety of operations at Funchal airport, Madeira, where 250 000 islanders depend mainly on tourism for their livelihood.

In **Spain,** 40 million ECUs went to construction of a railway loopline around Barcelona, which will relieve congestion — often necessitating costly detours — on the Valencia/Barcelona/French frontier line. Also, a 20 million ECUs global loan will be used to finance small and medium-scale road improvement and other infrastructure investments primarily to help regional development.

Transport improvements in **Turkey** account for 67.5 million ECUs.

Loans went to construction of the Bosporus bridge (linking Europe and Asia Minor), railway modernisation including electrification, and purchase of aircraft for domestic routes.

In **Yugoslavia,** 25 million ECUs were lent for construction of sections of the Trans-Yugoslavia Highway, which will run almost 1 200 km from the Italian and Austrian borders in the north to the Greek frontier in the south. The highway should permit substantial cuts in haulage costs to the benefit of Yugoslavia in its internal and international trade and also to the Community which will have far better road access to Turkey and the Middle East, as well as improved links between Greece and other Member Countries. The EIB's loan went towards some of the most important parts of the motorway — the Belgrade throughway, the link-up with the Greek frontier, the Ljubljana by-pass, which connects with the Ljubljana-Trieste motorway.

Finally, in **Malta** 8 million ECUs were lent for improvements at Valletta commercial port, which handles virtually all the island's imports and exports.

Agreements with the Mahgreb and Mashreq countries

Currently the Community has financial cooperation arrangements with seven Arab countries in the Mediterranean basin: the Mahgreb countries — Algeria, Morocco, Tunisia, and the Mashreq countries — Egypt, Jordan, the Lebanon and Syria.

The links with these countries are in a sense doubly significant, firstly in the context of the EEC's overall Mediterranean approach and secondly because they help to strengthen economic relations with the Arab world.

Negotiations on cooperation agreements with the **Maghreb** countries (which already enjoyed some forms of concessionary trading arrangements with the EEC) began in 1973 and the agreements were signed in April 1976.

Financial protocols provided for a total of 339 million ECUs, roughly half (167 million) in the form of EIB ordinary loans, generally with 2% interest subsidies, 116 million in special loans and grant aid of 56

EIB loans in Mediterranean Countries outside the Community (up to 30 September 1982) — (million ECUs)

	Loans from own resources	Loans from budgetary resources
PORTUGAL	**435.0**	
Industry	*174.0*	
Global loans for financing small and medium-scale tourism and industrial ventures		
— loans to Banco de Fomento Nacional (1976, 77, 79, 81)	69.0[1]	
— loans to Caixa Geral de Depósitos — CGD (1980, 82)	35.0[1]	
Modernisation of a factory producing nitrogen fertilisers at Barreiro, near Lisbon (1978)	17.0	
New facilities for manufacturing glass fibres and plastics at Barreiro, near Lisbon (1978)	8.0	
Extension of a cement plant at Souselas, near Coimbra and storage facilities at Oporto (1978, 80)	25.0	
Plant for processing pyrite cinders and copper metallurgy installations at Barreiro, near Lisbon (1976)	20.0[1]	
Energy	*120.0*	
Setubal thermal power station near Lisbon and high-voltage power lines for connection to the Spanish national grid (1976)	35.0[1]	
Sines coal-fired power station (1982)	35.0[1]	
Installation of high-voltage power lines connecting Setubal power station to the national grid (1979)	20.0[1]	
Construction of dam and hydroelectric power station on river Douro at Pocinho (1976)	20.0[1]	
Creation of new computerised control system to optimise electricity production and distribution (1980)	10.0[1]	
Agriculture	*45.0*	
Construction of a dam on the Azibo river and irrigation systems in Tras-os-Montes province (North-East Portugal) (1977)	15.0[1]	
Irrigation in Odivelas and Vigia regions; studies for reinstatement of irrigation network around Mira, Alentejo (South Portugal) (1977)	12.0[1]	
Plantation of 10 000 ha of eucalyptus for paper pulp (1980)	18.0[1]	
Transport	*96.0*	
Refurbishment of 182 km of the Lisbon-Algarve road (1981)	31.0[1]	
Improvement of port facilities at Aveiro, south of Oporto (1980)	30.0[1]	
Construction of a container terminal and a new dock at Leixões harbour, Oporto (1977)	16.0[1]	
Extension and improvement of the runway and installation of equipment to improve safety at Funchal airport, Madeira (1979)	11.0[1]	
Reconstruction and extension of Alcântara wharf, Lisbon port (1977)	8.0[1]	
SPAIN	**120.0**	
Industry	*60.0*	
Global loans for small and medium-scale industrial ventures		
— loans to Banco de Credito Industrial (1981, 82)	40.0	
Global loan for energy-saving schemes in 15 cement works		
— loans to Banco de Credito Industrial (1981)	20.0	
Transport and other infrastructure	*60.0*	
Construction of a railway loop line around Barcelona (1982)	40.0	
Global loan for small and medium-scale infrastructure schemes		
— loans to Banco de Credito Local de España 1982)	20.0	
TURKEY	**115.0**	**590.0**
Industry	*105.0*	*129.6*
Global loans to Turkish institutions for financing small and medium-scale industrial ventures		
— loans to T.S.K.B. – Industrial Development Bank of Turkey (1969, 73)		9.8[2]
(1974)	20.0	0.4[2]
(1979, 80)	45.0	
— loan to S.Y.K.B. – Industrial Investment and Credit Bank (1974, 79, 80)	20.0	
(1975)		5.0[2]

(1) Loan attracting a 3% interest subsidy met from the Community budget
(2) Loan granted for 30 years at an interest rate of 4.5%

N.B. The loans from budgetary resources to the industrial sector in Turkey are made available to the Government which on-lends the proceeds either directly, or, more frequently, through a Turkish financial institution; all the loans granted in support of the private sector were routed via the TSKB or the SYKB. Loans for infrastructure are advanced to the Government which places the funds at the disposal of its operational departments or on-lends them to Government undertakings.

million, partly to pay the interest subsidies on EIB loans.

The protocols came into effect in November 1978 and expired at end-October 1981.

The second financial protocols with the Maghreb countries — currently awaiting ratification — provide for a fresh volume of assistance totalling 489 million ECUs, to be committed by end-October 1986. This is composed of 275 million in ordinary loans from the EIB's own resources, again with provision for interest subsidies, 82 million in special loans and 132 million in grant aid.

Under both old and new protocols, the EIB can handle on the Community's behalf any special loans or risk capital operations which may be required for investment in the industrial, mining, energy and tourism sectors, and in economic infrastructure.

The first Maghreb negotiations established broad principles valid also for the **Mashreq.** Discussions were consequently much quicker with the latter group of countries, beginning in spring 1976 and leading to signature of agreements with Egypt, Jordan and Syria in January 1977, and with the Lebanon in May 1977.

The financial protocols provided for a division of financial assistance broadly the same as that agreed for the Maghreb, although there was slightly less in the way of special loans but more outright grant aid, to take account of the somewhat lower stage of economic development.

The total volume of finance was set at 300 million ECUs, composed of 165 million in EIB ordinary loans (with 2% interest subsidies), 27 million in special loans and 108 million in grant aid, partly to pay interest subsidies on the EIB loans.

These protocols entered into force and expired concurrently with the Maghreb arrangements.

The second financial protocols, also awaiting ratification, foresee a fresh flow of funds totalling 486 million ECUs over the same committment period as the Maghreb arrangements, i.e. by end-October 1986.

The assistance is composed of 285 million ECUs in ordinary loans from the EIB's own resources (again with provision for interest subsidies), 73 million in special loans and 128 million in grant aid.

	Loans from own resources	Loans from budgetary resources
Global loans for financing public sector preinvestment expenditure — loans to Republic of Turkey (1973, 76)		3.0[1]
Forestry development in the Mediterranean region and production of linerboard, kraft paper and sawn wood at Silifke, near Mersin (1976)		5.0[1]
(1979)	16.0	
Forestry development and construction of a pulp mill and sawmill near Antalya (1973)		20.0[1]
Construction of a synthetic rubber factory at Yarimca, near Izmit (1969, 73)		15.7[1]
Pulp, paper and cardboard factory at Dalaman (South-West Anatolia) (1967)		14.0[1]
Pulp and kraft paper factory at Çaycuma (near Zonguldak on the Black Sea) (1966)		10.3[1]
Installation of a unit to produce coated paper and board together with a plant to treat effluent at the Dalaman paper mill (South-West Anatolia) (1978)		6.3[1]
(1980)	4.0	
Synthetic fibre plant at Bursa (1967, 69, 73)		5.7[1]
Industrial complex producing fertilisers near Samsun on the Black Sea (1967)		5.6[1]
Acrylic fibre plant at Izmit (1968)		5.0[1]
Cement works at Hereke in the Gulf of Izmit (1967)		2.5[1]
Extension of a cement plant at Kartal, near Istanbul (1967)		2.3[1]
Extension of a plant producing flat glass at Çayirova, near Istanbul (1966)		2.1[1]
Construction of a cotton-textile plant at Edirne, in North-West Turkey (1974)		2.0[1]
Expansion of a cement plant at Eskisehir (1973)		2.0[1]
Wire-drawing mill and cable-winding plant at Izmit (1966)		1.5[1]
Plant producing cardboard at Izmit (1968)		1.4[1]
Expansion of a factory producing nylon filament yarn at Bursa (1966)		1.3[1]
Factory producing particle board and plaster board at Isparta (Southern Anatolia) (1969)		1.2[1]
Construction of a porcelain tableware factory at Kütahya in Central Anatolia (1974)		1.1[1]
Factory producing electric lamps at Izmit (1968)		0.8[1]
Cement plant near Istanbul (1968)		0.7[1]
Factory producing corrugated cardboard and card boxes at Gebze, near Istanbul (1967)		0.7[1]
Extension and conversion of a sheet steel plant at Istanbul (1967)		0.7[1]
Shop for spinning yarn from cotton waste at Istanbul (1967)		0.7[1]
Pencil factory near Istanbul (1968)		0.6[1]
Expansion of a tyre factory at Izmit (1966)		0.5[1]
Extension of a shop for spinning man-made fibres at Bakirköy, near Istanbul (1967)		0.4[1]
Rationalisation and modernisation of a finishing shop in a textiles mill at Adana (1967)		0.4[1]
Expansion of a steel tube factory at Izmit (1966)		0.4[1]
Enamelling shop in a domestic appliances factory near Istanbul (1966)		0.3[1]
Modernisation of a textiles plant at Izmir (1966)		0.2[1]
Energy	*10.0*	*346.9*
Construction of a dam on the Euphrates and a hydroelectric power station at Karakaya (1980, 81)		85.0[2]
Construction of a dam and hydroelectric power station at Keban on the Euphrates (Eastern Anatolia) and installation of power lines to Ankara and Istanbul (1966, 71)		40.0[3]
Uprating the Keban hydroelectric power station (1979)		36.0[2]
Mining of a lignite deposit and construction of a thermal power station at Elbistan (Eastern Anatolia) (1974, 75)		77.0[4]
(1980)		75.0[2]

(1) Loan granted for 30 years at an interest rate of 4.5%
(2) Loan granted for 40 years at an interest rate of 2.5%
(3) Loan granted for 30 years at an interest rate of 3%
(4) Loan granted for 30 years at an interest rate of 2.5%

EIB responsibilities for managing special loans are on the same broad basis as under the Maghreb arrangements.

Taken together, the second financial protocols with the Maghreb and Mashreq countries represent total Community financial aid worth 975 million ECUs. This is nominally a roughly 50%[1] increase on the amount under the first protocols (639 million), but in real terms broadly maintains the value of the assistance.

The table on page 2 gives the country-by-country details of the Maghreb and Mashreq agreements.

Exceptional aid to the Lebanon

The Community agreed in November 1977 to help the Lebanon's economic recovery by giving exceptional aid. This took the form of the EIB agreeing to lend 20 million ECUs over and above the amounts already provided for under the first financial protocol. The aid was deployed by end-1979.

In November 1982 the Board of Governors authorised the EIB to provide a second stage of exceptional aid; Bank will lend up to a further 50 million ECUs.

Maghreb/Mashreq: summary of loans by sector

In accordance with the Governments concerned, the Bank has spread its lending over the different sectors, notably transport infrastructure, energy and small/medium-scale industry, in order to have some impact in different areas of development.

Transport

Transport projects account for the major single share of EIB financing operations in the Maghreb and Mashreq. At 30 September 1982, 141.2 million ECUs had been lent in Algeria, Morocco, Tunisia, Egypt and Syria for a range of investments aimed at improving road, rail and sea communications. Several projects improve links with neighbouring countries or facilitate trade with Europe and further afield.

[1] = 60% increase in loans from the EIB's own resources, 40% increase in budgetary funds.

	Loans from own resources	Loans from budgetary resources
National control centre for the high-voltage electricity grid at Gölbasi (1981)	10.0	14.0[1]
Gökçekaya-Seyitömer-Izmir 380 kV high-voltage power line (1969)		7.6[2]
Dam and hydroelectric power station at Gökçekaya on the Sakarya River (North-West Anatolia) (1967)		7.3[2]
Power station near Kovada Lake, north of Antalya (1965)		5.0[2]
Agriculture		*46.0*
Irrigation and development of the Gediz Valley, north of Izmir (1966)		15.0[2]
(1974)		10.0[3]
Irrigation in the Berdan Valley, Mersin Province, Southern Anatolia (1975)		11.0[3]
Forestry programme for 1.4 million ha. in the Antalya, Adana and Kahramanmaras conservancies, in Southern Turkey (1979)		10.0[1]
Transport		*67.5*
Conversion to diesel of part of the Turkish railway network and provision of diesel locomotives (1968)		11.0[2]
(1973)		23.5[3]
Implementation of a road scheme in Istanbul, comprising construction of a suspension bridge over the Bosporus, a bridge across the Golden Horn and 19 km of associated motorway (1969)		20.0[2]
Modernisation of aircraft fleet on domestic services (1973)		8.6[3]
Electrification of Istanbul-Adapazari railway line and acquisition of 15 electric locomotives (1973)		4.4[3]
YUGOSLAVIA	**50.0**	
Energy	*25.0*	
Erection of 1100 km of electricity transmission lines, including interconnection with the Greek and Italian grids (1977)	25.0	
Transport	*25.0*	
Construction of sections of the Trans-Yugoslavian Highway, including the Belgrade throughway, the link-up with the Greek frontier and the Ljubljana by-pass (1978)	25.0	
CYPRUS	**12.0**	
Energy	*12.0*	
Uprating of Dhekelia power station and reinforcement of the electricity transmission and distribution system (1981)	12.0[4]	
MALTA	**3.0**	**5.0**
Transport	*3.0*	*5.0*
Improvement and redevelopment of Valletta commercial port (1979)	3.0	5.0[2]
ALGERIA	**30.0**	
Energy	*20.0*	
Uprating diesel power stations in the towns of Adrar, Timimoun, El Goléa, Ain Salah, Tamanrasset (Southern Algeria) (1980)	20.0	
Transport	*10.0*	
Upgrading and improvement of 133 km of road between Constantine and Jijel (1981)	10.0[4]	
MOROCCO	**56.0**	**19.0**
Industry	*15.0*	*5.0*
Global loan for financing small and medium-scale industrial ventures — loan to Kingdom of Morocco (1981)	15.0	
Global loan for financing equity participations in small and medium-scale industrial undertakings — loan to Office pour le Développement Industriel – ODI (1980)		5.0[5]
Transport	*41.0*	*14.0*
Construction of an ore-handling port at Jorf Lasfar, south of Casablanca (1979)	26.0	14.0[5]
Improvements to the ports of Safi and Agadir (1981)	15.0	

[1] Loan granted for 40 years at an interest rate of 2.5%
[2] Loan granted for 30 years at an interest rate of 3%
[3] Loan granted for 30 years at an interest rate of 2.5%
[4] Loan attracting a 2% interest subsidy met from the Community budget
[5] Loan granted for 40 years at an interest rate of 1%

In **Morocco,** 55 million ECUs went to help the country's exports of phosphate rock by constructing a new mineral port at Jorf Lasfar and expanding existing facilities at Safi. Funds also went to extension of Agadir port which handles much of Morocco's agricultural and general wares import-export trade.

In **Tunisia,** 32 million ECUs were lent for railway schemes: a 130-km new railway line linking the bulk of the country's phosphate deposits to the processing industry (the much longer old line could not cope with the increasing traffic); relocation of part of the railway line between Tunis and Algiers because the present track is being submerged under a reservoir for irrigation purposes.

Improvements to the Suez Canal accounted for 25 million ECUs lent in **Egypt.** The funds went towards work on deepening and widening the canal and expanding ship repair and maintenance facilities at Port Tawfik.

In **Syria,** 19.2 million ECUs went to construction of 150 km of highway mainly to cut the cost of transport from the farming areas in the East to the main population centres in the West and so give a boost to agricultural production.

Finally, in **Algeria** 10 million ECUs have been lent to help finance a road scheme with important regional development benefits; this involves improvements to the highway between Constantine, Algeria's third city with growing industrial activity, and the Bazoul area. Further loans are foreseen for the project, up to a maximum of 50 million ECUs.

Energy

Loans for energy development — in Egypt, the Lebanon, Algeria and Jordan — totalled 112 million ECUs at end-September 1982.

In **Egypt,** 53 million ECUs went towards development of a natural gas field near Alexandria — to supply local industry, replacing oil which can be released for export — and for 600 MW of new electricity generating plant near Cairo.

Loans worth 35 million ECUs went towards the expansion of two power stations (460 MW) in **the Lebanon,** part of the infrastructure support necessary to improve conditions for the country's economic recovery.

	Loans from own resources	Loans from budgetary resources
TUNISIA	**41.0**	**15.0**
Industry	*12.0*	
Global loan for financing small and medium-scale industrial and tourism ventures		
— loan to Banque de Développement Economique de Tunisie (1979)	12.0[1]	
Agriculture	*12.0*	
Improvement of irrigation and drainage of 930 ha of date-palm plantations in the South and development of irrigation, livestock farming, tree crop plantations and improvement of grazing land on 10 multi-purpose farms in the North-East (1981)	8.0[1]	
Development of poultry slaughtering, storage and egg packing facilities and construction of 200 ha of greenhouses for early vegetable and fruit production in Sousse-Monastir area (1981)	4.0[1]	
Transport	*17.0*	*15.0*
Construction of Gafsa-Gabes railway line, mainly for transporting phosphate rock from the Gafsa deposits to the port of Gabes (1980)	5.0[1]	15.0[2]
Relocation of a section of the Tunis-Algiers railway line as part of the Water Master Plan for Northern Tunisia (1979)	12.0[1]	
EGYPT	**93.0**	
Industry	*15.0*	
Global loan for financing small and medium-scale industrial and tourism ventures		
— loan to Development Industrial Bank – DIB (1979)	15.0[1]	
Energy	*53.0*	
Development of offshore natural gas field at Abu Qir, near Alexandria (1982)	28.0	
Construction of a power station at Shoubrah el Heima, north of Cairo (1979)	25.0[1]	
Transport	*25.0*	
Deepening and widening of the Suez Canal and improvements to maintenance and repair facilities at Port Tawfik (1979)	25.0[1]	
JORDAN	**18.0**	**0.3**
Industry	*14.0*	*0.3*
Global loan for financing small and medium-scale industrial and tourism ventures		
— loan to Industrial Development Bank (IDB) (1979)	6.0[1]	0.3[2]
Construction of an industrial estate at Sahab, South Amman, designed for small and medium-scale industrial undertakings (1971, 81)	8.0[1]	
Energy	*4.0*	
Extension of the electricity transmission and distribution network north-east of Amman (1980)	4.0[1]	
THE LEBANON	**35.0**	
Energy	*35.0*	
Uprating Jieh thermal power station (south of Beirut) (1978, 79)	20.0	
(1981)	5.0[1]	
Uprating Zouk thermal power station (near Beirut) (1980, 81)	10.0[1]	
SYRIA	**15.7**	**3.5**
Transport	*15.7*	*3.5*
Construction of a road between Aleppo and Tall Kojak on the Iraqi-Syrian border (North-East) (1979)	15.7[1]	3.5[2]
ISRAEL	**30.0**	
Industry	*30.0*	
Global loans for financing small and medium-scale industrial ventures		
— loans to Industrial Development Bank of Israel (1981)	30.0	

(1) Loan attracting a 2% interest subsidy met from the Community budget
(2) Loan granted for 40 years at an interest rate of 1%

In **Algeria,** 20 million ECUs went towards *small generating units* for Sahara oasis towns which need increasing electricity supplies to help them develop small-scale industry and also exploit their tourism potential.

4 million ECUs were lent for improved electricity transmission and *distribution facilities in* **Jordan,** mainly to serve thriving small-scale industry north of Amman.

Industry

Possibilities for financing industrial development have centred so far on small and medium-scale ventures.

The EIB has made global loans worth in total 53.3 million ECUs to local development banks in **Morocco** (20 million), **Egypt** (15 million), **Tunisia** (12 million) and **Jordan** (6.3 million). At end-September 1982, funds had been drawn down from *these facilities to help finance some* 160 ventures — including in Morocco and Jordan a number of very small handicraft businesses — involving the creation of around 8 300 jobs. Investment has been aimed mainly at meeting local demand, in particular in food and beverages, textiles and leather, metals and mechanical engineering.

Two points of particular interest: part of the funds in Morocco (5 million ECUs) were made available as a risk capital contribution to finance equity participations in industrial ventures; in Jordan, a 300 000 ECUs special loan was provided to give technical and financial assistance to entrepreneurs of handicraft ventures.

In **Jordan,** the Bank also lent 8 mil*lion ECUs for construction of an* industrial zone near Amman to give enterprises modern, efficient working conditions outside the congested city.

Agriculture

Most Community support for basic agricultural development in the Maghreb and Mashreq countries is *in the form of grant aid and channel*led through the Commission of the European Communities.

However, the Bank was asked to provide 12 million ECUs in **Tunisia** for allocation, via national banking and credit circuits, to investment in a range of agricultural production (poultry, market gardening, date palm plantations, livestock farming, irrigation, grazing land improvements). Tunisia is a substantial net importer of food and virtually all of the increased production is aimed at supplying the domestic market.

NB the road scheme in Syria and the Tunis-Algiers railway line project already referred to can both be seen in the context of assisting agricultural development.

Agreement with Israel

Israel first signed a commercial agreement with the Community as far back as 1964. When the Community decided in 1972 to embark upon a comprehensive Mediterranean cooperation policy Israel was the first country to effectively conclude a cooperation agreement in this framework, signed in May 1975.

A financial protocol was then negotiated and came into force in November 1978 providing for the EIB to lend up to 30 million ECUs. The protocol expired at end-October 1981 and a second protocol has been drawn up and awaits ratification. This foresees up to 40 million ECUs being made available by end-October 1986.

Given Israel's status as a relatively developed country, compared with most others in the region, no provision has been made, under either protocol, for grant aid or finance on special conditions. The loans made by the EIB are on its normal terms.

Industry

All the funds under the first protocol were deployed to finance small and *medium-scale industry. Two global* loans were made to a local development bank which used them to support 23 ventures involving the creation of some 900 jobs. It was agreed that all funds should be used for production of an exclusively civil nature (e.g. energy-saving equipment, medical apparatus, food products, paper and building materials) and not for investment in occupied territories.

Key points to the EIB's project appraisal approach

Clearly the financial cooperation arrangements with the Mediterranean countries can provide only a small proportion of the funds they need to pursue their development and, in the case of Spain and Portugal, to integrate their economies more closely into the existing Community structure.

This puts a premium on using the *limited resources to the best effect* and underlines the importance of examining projects to ensure that they have a satisfactory financial basis and offer clear economic benefits.

All investments financed by the EIB — whether from its own resources or from budgetary funds — have been subjected to an in-depth appraisal by the Bank's own staff and approved only when they have been judged as a sound contribution to the development of the countries concerned.

*The starting point in project identifi*cation and appraisal is a visit to the country concerned for discussions with the Government, national financing institutions and important public and private enterprises. Arising from this, various projects, usu*ally from the national development* plan, are put before the EIB for consideration for financing (other projects may arise at a later stage but they must always have the support of the Government).

Not all will be financed, in some cases far from it. There may also be difficulties in identifying sufficient acceptable projects for the full take-up of funds in the period foreseen.

In *principle, however, the discus*sions give a basic framework of possible projects which must then be tested against a number of objectives related to the overall economic situation of the country concerned and the sector in which the investment falls.

The EIB conducts for each project a detailed study examining the fi*nancial, economic and technical* aspects.

According to the characteristics of the proposed project, the financial and economic rate of return are calculated and the benefits for the country assessed.

These include considerations such as how the investment might help to remove "bottlenecks" to development caused by inadequate infrastructure, how it could contribute to industrial and agricultural development, potential effects on the balance of payments, the impact on unemployment, energy use rationalisation.

There are basically three kinds of investment proposals which come before the Bank in its Mediterranean operations: energy and infrastructure projects; larger scale industrial or agricultural development; global loans for financing small and medium-scale investments. Each has special characteristics for appraisal.

For **energy and infrastructure** projects the analysis concentrates on assessing the probable demand and utilisation pattern for the proposed facilities. The economic analysis of this type of project is based on finding the least-cost solution to meet demand.

Take a port development scheme, for example. The appraisal would aim to establish likely trade development, taking into account regional, national and international requirements and translate this into numbers and types of ships, cargoes handled etc. Projects of this kind are often typified by bottlenecks (e.g. queues of ships or shallow water obliging larger vessels to transload onto barges outside the port) which mean the benefits of the new investment can be quantified in assessing the costs to the economy (e.g. increased handling charges leading to higher retail prices of imported goods or harming export competitivity). Indirect benefits are often important and include opening up a region for industrial development or stimulating increased output in an area where there is already some industrial activity.

For **larger scale projects in the productive sector** the appraisal must examine the market for the product and determine whether the investment would respond to demand with realistically attainable sales objectives.

This may call for market trends — consumption, trade, price, quality improvements — to be studied over recent years so as to judge likely future development; the project may then be tested against possible market environments in which it could well have to work.

For all such projects the Bank tries to ascertain whether the production would be competitive with local or foreign output in the absence of protection or subsidies.

Attention is also paid to the impact of the project in the same industry and others in the country in stimulating further output (e.g. supplies of intermediate materials or components) or assisting in the transfer of technology or reinforcing existing technological capacities.

The contribution to regional development is usually an aspect taken into account and in several countries special importance is attached to decentralising industry away from congested urban areas.

For **global loans,** the appraisal carried out by the EIB is aimed essentially at assessing the financing body contracting the loan and its operational capacity to select viable small and medium-scale investments to support with the funds.

The EIB must be satisfied that the institution has a reliable approach along the same broad lines as the Bank's own appraisal procedures.

After a global loan is signed there is continuous contact between the EIB and the institution concerned and discussion on financing proposals; this means that a feedback of information and monitoring of the strength of the institution's appraisals is an integral part of the procedure.

The process allows for a dialogue on the most applicable analytical methods and techniques. It encourages the development banks, which must of course select investments promising a reasonable financial return, to be equally conscious of the need to assess the economic benefits.

Operational efficiency and management quality represent the best guarantee of success for the local development banks, not simply the total volume of funds made available to them.

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The EIB's appraisals — broadly similar to those of other major development agencies — have to adopt a multidimensioned approach to establish the economic, financial and technical validity of investment proposals.

Regularly, the Bank plays a constructive role in the shaping of individual projects by recommending special studies or assistance in implementation. Exchanges of information between the EIB, the World Bank and other potential co-financing institutions, both bilateral and multilateral, are also very important (see page 7).

The appraisal procedures are designed not only to safeguard the Bank's own position, by allocating funds soundly; most significant, they are aimed at trying to ensure that the projects give maximum benefit to the countries concerned and promote the objectives of the cooperation agreements.

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