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EIB-Information

From Lomé II to Lomé III

The EIB and Community aid for the ACP States

In a few weeks' time the third ACP-EEC Convention, signed in Lomé on 8 December 1984, can be expected to come into force, once all the Member States of the Community and two thirds of the 66 African, Caribbean and Pacific States (ACP) have ratified the text. This will signal the start of a further, 5-year phase of cooperation between Europe and the ACP States.

This third Lomé Convention will serve to maintain and widen the cooperative links instituted under the first Convention signed in Lomé in February 1975. That event was a major political act, the first substantive move in the history of international relations to involve the countries of the North and those of the South in a contractual commitment to work together with mutual development as their goal. In the making was a new European development aid policy to continue and intensify the relations that had been established with certain African States under the Yaoundé Conventions.

The European Investment Bank, reflecting the convictions of the Member States, has from the outset been shouldering its responsibilities in terms of making financial and technical cooperation work on the ground, helping to forge new working relations between the Community and an ever-increasing number of partners[1]. The Bank has every intention, with the Lomé III Convention providing its terms of reference, of continuing to play an active part in the process of financial and technical cooperation between Europe and the ACP States. At the same time, there can be no escaping the fact that the grinding effects on most ACP countries of world economic and financial conditions are going to make it even more difficult for the Bank to go about its appointed task of financing productive investment in the countries concerned **by means of loans.**

Before looking at the broad lines of prospective EIB activity under Lomé III however, a useful perspective can be gained by a glance at the EIB's developing role in the implementation of the Community's development aid policy for the ACP States as it has emerged through its operations under Lomé I and II between 1976 and 1985.

One or two basic background facts about EIB operations in this domain might perhaps first be stated:

(a) the financial aid administrated by the Bank is of two kinds: loans from own resources, the bulk of which consists of the proceeds of borrowing operations on the capital markets, and financing from risk capital which is drawn from the resources of the European Development Fund.

Loans from own resources are reserved for financing investment that looks likely to provide an adequate economic and financial return. In each case, the EIB takes stock of the economic and financial situation in the ACP country concerned and of factors likely to ensure that service payments on the loan are kept up. As

[1] The EIB also operates in 12 Mediterranean countries under the terms of cooperation agreements between these countries and the EEC.

In Brief...

EIB-Information has undergone a minor facelift. The accession of Spain and Portugal to the European Economic Community and to the European Investment Bank, called for adaptations in the first page heading, notably updating the EIB symbol with a map of the Community of Twelve, and adding the Spanish and Portuguese names of the Bank. Beyond the obviously necessary, changes have also been made to improve the presentation, while maintaining its character as a publication giving basic information about all aspects of the Bank's activities.

Bienvenida, España. Bem-vindo Portugal presents an outline of the adaptations in the Bank's Statute to integrate the two new members: participation in the decision making bodies and in the Bank's capital, as well as access to loans in Spain and Portugal along the same lines as the other Community countries.

The role of the European Investment Bank under the second and third Lomé Convention is the subject of **The EIB and Community aid for the ACP States.** The third Lomé Convention strengthens the Bank's role both qualitatively and quantitatively.

Potential borrowers from the European Investment Bank have an interest in knowing how the rates on the Bank's loans are established. **How the EIB sets its interest rates** gives an answer to this question.

Also in this issue: recent **senior staff appointments.**

a general rule, loans from own resources attract an interest subsidy, usually of 3%, but there is automatic adjustment where appropriate to ensure that the rate of interest actually paid by the borrower is not less than 5% and not more than 8%.

Risk capital financing, a form of credit devised by the Bank and refined and proven during the currency of Yaoundé II, is well suited to the financial situation and economic conditions found in many ACP countries. It affords the Bank greater flexibility in its operations and is by definition complementary to lending from own resources. Indeed, it will often, in practice, be arranged alongside subsidised loans, either for different components of a given project, or by way of setting up a financial package the overall terms and conditions of which are better fitted to investment in the ACP field. Risk capital may be deployed either for the acquisition of equity participations or as quasi-capital funding. The EIB is at liberty, acting in the name of the Community, to purchase stakes in the capital of companies or development banks in the ACP countries. The holding must be of minority proportions, acquired on a temporary basis for transfer at the appropriate time, preferably to nationals of, or institutions based in the ACP countries in question. Quasi-capital funding may take the form either of subordinated loans, repayment of which only occurs when the borrower has settled all other bank commitments, or of conditional loans, the terms of repayment, duration and rate of interest are not fixed firmly in advance but can vary – depending on the extent to which target profits or output are realised – and only be set at the time the funds are disbursed.

(b) financing is provided by the Bank for deployment in a specified sector. This is stipulated in the Lomé Conventions, which actually also provide for the division of responsibilities between the two agencies administering Community aid, the Commission and the Bank. It is the EIB, no doubt in the light of the experience it has accrued in similar fields within the EEC, that has been appointed to give priority to the appraisal of applications for financing of projects in the industrial sector (including agro-industrial ventures), mining, tourism and energy projects connected with investment in those sectors. This guideline does not preclude the granting of loans for economic infrastructure projects, especially in those countries where such a form of financing is deemed suitable, by reason of the level of development they have attained or of their economic and financial situation.

(c) the financial aid administrated by the Bank is not subject to a systematic programme specifying set amounts, country by country. Unlike the Commission, which is contractually bound to state in advance for every country the amount of aid it will be dispensing there, the Bank cannot – given the very nature of the operations it conducts – enter into commitments to deploy predetermined financial resources over a five-year period. Nevertheless, within the confines imposed by its mode of operation, the Bank does take part in a process of concertation with the authorities in the States concerned with the aim of achieving optimal utilisation of the financial resources potentially available. Indeed, because it is impossible to carry out a systematic programme based on set amounts, it is equally impossible to take it for granted that the volumes of aid placed under Bank administration will actually be committed, in particular the total stated for lending from own resources, which should be looked at as a ceiling figure and not a package to be committed, regardless (the phrase "up to" is clearly inserted). The amounts specified under the Lomé I and II Conventions were 487 million ECUs (390 m from own resources and 97 m from risk capital) and 969 million ECUs (685 m from own resources and 284 m from risk capital).

The pattern of Bank financing under the Lomé I and II Conventions

Amounts committed

During the currency of the Lomé I Convention, EIB commitments – loans from own resources and risk capital combined – progressed steadily and in the end the entire volume of financial aid provided for was committed.

With Lomé II on the other hand, the Convention was in force at the time the repercussions of the world economic crisis were beginning to be felt, with a consequent slow-down in investment programmes, increased difficulty with their balance of payments for most ACP countries and a marked deterioration in their budget positions constricting their borrowing capacity and hence their scope for absorbing loans from the Bank. The situation was still worse in that an increasing number of countries in Africa were affected by persistent drought. Certain of these – amongst the largest – are currently contending with a grave financial crisis or are locked into a credit squeeze or austerity measures that are inhibiting investment.

In 1981, the first year of Lomé II operations, commitments from own resources showed the same rate of progression as during the final phase of the first Convention (with a stock of projects built up in 1980), but between 1982 and 1984 the volume of lending from the Bank's own resources in the ACPs showed a marked drop, to the extent that by the end of 1984, less than 60% of the overall package of 685 million ECUs provided for in the texts had been committed. After that, there was something of a recovery and it now seems certain that by the end of 1985, which should in fact have seen Lomé II run to expiry, almost 84% of the total will have been accounted for.

With risk capital financing, on the other hand, and in spite of the fact that the volume of funds specified under this heading was three times that provided for under the Lomé I Convention, the entire amount of 284 million ECUs will be committed. This is further confirmation that this form of aid is particularly appropriate for countries whose economic and financial circumstances are like those of most of the ACP countries. This is why, as will be explained presently, the Lomé III negotiators were bidding for the risk capital appropriation for the five-year period now about to commence to be doubled to 600 million ECUs (i.e. 6 times the Lomé I allotment).

Between 1976 and 1985, the Bank will have mounted operations in almost every ACP country, financing investment – either directly or through the intermediary of development banks in support of small and medium sized enterprises – that should help to create about 50 000 jobs, largely in industry and agro-industrial sectors. In industry as such the average cost of investment per job created is of the order of 45 000 ECUs. However, the figures do not include rehabilitation projects or help for firms during the start-up phase, the main purpose of which is to get companies operating on an economically and financially viable basis. As far as the energy projects the Bank has financed are concerned, these should help either to substitute for imports or achieve additional exports of the equivalent of about 2.3 million tonnes of oil a year, or about 7% of the total petroleum import requirements of all the ACP countries taken together in 1984.

Sectoral breakdown of financing

Going back to 1976, various broad trends in the sectoral pattern of Bank financing have emerged.

During the first two years of Lomé I, the main bias of operations was towards individual financing for new projects or extension works, with agro-industrial ventures taking the lion's share, followed by energy-sector projects (34% of all loans from own resources).

The most striking thing about the second phase of Lomé I was the high incidence of global loans (lines of credit) granted to national or regional financial institutions (25% of ACP loans from own resources between 1978 and 1980). This versatile mode of financing, the effectiveness of which had already been shown in the Member States of the Community and various Mediterranean countries, is especially useful as a medium for channelling investment finance into small and medium-sized enterprises (SMEs) which, in the ACP countries, are sometimes better able to accommodate the diverse needs of what are often quite narrow markets.

The trend has been thrown into greater relief with the implementation of the Lomé II Convention, which provides considerably broadened scope for the deployment of risk capital to help development banks. The present impression is that this type of operation has more or less found its level: that global loans are running at something like 20% of all Bank financing, and that this should continue to be the pattern in the future.

Since 1982-83, what has commanded most attention is a twofold development: a higher incidence of financing for viable infrastructure on the one hand, and for rehabilitation projects on the other, a trend that will doubtless gain momentum under Lomé III.

The scope for infrastructure financing was not excluded during the currency of Lomé I, but neither was it actually exploited. The first such loans, granted from own resources in 1981 under Lomé II, went for investment in the transport sector. Between 1982 and 1985, further financing was provided for telecommunications, water supply schemes and harbour works.

As regards operations in support of rehabilitating capital investment in the ACP countries, again a number of distinct phases can be seen in retrospect since the activation of Lomé I. Such operations were relatively thin on the ground up to the end of 1983, but expanded considerably in 1984. All these operations used risk capital funds, amouting to 43% of total operations under this heading and 22% of all ACP financing by the Bank. To get new projects off the ground, especially in industry and mining, has been proving ever more difficult in recent years, chiefly because of the extremely straitened economic and financial circumstances of most ACP countries and the unpropitious world economic climate. At the same time, various ongoing activities in the manufacturing sector, mining and economic infrastructure have been running into problems and failing to perform as they should. Of these, there are various items of laid-up plant or installations running at low efficiency which could be brought back to viability through renovation, restoration or restructuring. In the appraisal of these projects, an important element is identifying what went wrong: factors include bad management, low productivity, a narrower market than projected, a lack of foreign exchange or perhaps an ill-judged pricing policy but these were probably aggravated by the worsening terms of trade between the industrialised and the developing countries. Rehabilitation works need careful handling and before any go-ahead is given they require thorough examination of all potentially adverse factors and of ways and means of circumventing them. Not to be forgotten either is the fact that putting an investment project back on firm economic and financial feet, while in the long run it may underpin the economy, may equally in the early stages involve matters of some delicacy like redundancies and price revision.

The EIB and the new Lomé Convention

– The new Lomé Convention confirms the rights acquired and obligations established under earlier Conventions. It clearly reaffirms the principles underlying ACP-EEC cooperation such as non-interference and mutual respect of the sovereignty of the partners, while extending and building on the main instruments of cooperation: trade arrangements, protocols and special trade arrangements, Stabex and Sysmin.

– The new Convention goes much further than simply preserving the legacy of previous cooperation. Having learned lessons from changes in the world economic environment, the particular difficulties confronting the ACP States and the experience of nearly a quarter of a century of cooperation, the Community and the ACP States have sought to pinpoint and establish all measures and arrangements which could serve to enhance the effectiveness of aid. The quest for greater effectiveness represented the negotiators' main concern and this ambition is reflected at all levels, both in the objectives set for cooperation which are clearly spelt out at the very start of the Convention and in the instruments of cooperation, all mechanisms of which have been overhauled in detail with a view to ensuring swifter, better tailored and more effective measures accommodating new requirements.

– The new Convention also contains a number of innovations in fields which had been either omitted or dealt with in little depth under previous Conventions. As regards private investment, for example, whose role is universally acknowledged as indeed is the need to create a favourable climate and stable conditions for such investment, the Convention sets a general framework and spells out clear principles, especially that of "non-discrimination" which should foster the conclusion of bilateral agreements between Member and ACP States. With the degree of caution necessary in this sphere, it provides for a whole range of studies designed to facilitate ACP States' access to the capital markets and to improve conditions for financing their foreign trade.

– One Chapter – deemed vital in many respects – focuses on "Financial and technical cooperation", with the EIB playing an essential, complementary role alongside the Commission, the other institution responsible. It is interesting to note that, in a highly unfavourable international climate which is restricting, sometimes considerably, most multilateral development finance institutions' scope for action, the Community is stepping up its efforts on the financial side and not merely keeping pace with inflation. The Convention, in fact, provides for an overall financing package of 8.5bn ECUs, nearly 60% more than under the second Lomé Convention, comprising:

- 7.4bn ECUs from EDF resources including 600m ECUs in risk capital funds managed by the EIB
- (up to)1.1bn ECUs from the EIB's own resources

The concern of Lomé III negotiators to tailor aid more precisely to new requirements coupled with the search to link operations more closely to policies pursued by recipient countries have prompted, firstly, adoption of new forms of financing (maintenance assistance, sectoral programmes, support for sectoral policies or strategies, particularly food strategy) as an adjunct to traditional aid for new investment and, secondly, far more comprehensive aid programming.

– As far as the EIB in particular is concerned, the third Lomé Convention serves to strengthen its role both quantitatively and qualitatively. In addition to the ceiling amount of 1.1bn ECUs, already mentioned, for loans from own resources with interest subsidies (subsidies for which 210 m ECUs in grant aid has already been earmarked), the Bank will also deploy 600 m ECUs in the form of risk capital financing, i.e. more than double the amount available under the second Lomé Convention.

The Bank's responsibilities have been reaffirmed in areas already falling within its domain. However, in addition to project financing – its traditional form of activity – special emphasis has been accorded to funding productive programmes in industry, agricultural processing, tourism and mining as well as energy production, transport and telecommunications schemes connected with these sectors. These sectoral priorities do not, however, preclude the Bank from drawing on its own resources to finance productive projects and programmes in other sectors, particularly large-scale crop-growing, where such ventures comply with operational criteria. The third Lomé Convention also underscores the need for restoring, upgrading, rehabilitating or restructuring facilities deemed economically viable but which are temporarily inoperative or ineffective, as well as for equipment and plant maintenance. With these aims in mind, cooperation should focus, much more than in the past, on assistance for the start-up or rehabilitation of undertakings, ground broken by the EIB at the end of 1983, in view of the uncertain economic climate. Finally, particular importance will be accorded to processing ACP States' raw materials, especially agricultural products, as well as to industries likely to establish links between various sectors of the economy and to activities offering favourable repercussions on employment, the balance of trade and regional integration.

The EIB's role in implementing EEC-ACP financial and technical cooperation has clearly been enhanced significantly under the new Convention and this, paradoxically, at a time when it might have appeared preferable, given the ACP States' general debt situation and the international economic and financial crisis, to restrict "theoretical" scope for access to loan aid and to give added weight to financial assistance in the form of grant aid. If the EIB is to make full use of the means at its disposal while respecting the principles of sound management, it will need to turn to best effect the provisions of the new Convention:

– in the case of loans from own resources, greater emphasis on pinpointing and appraising productive economic infrastructure projects, particularly those connected with energy, water supplies, transport and telecommunications;

– scope for backing projects beset with difficulties either during implementation (cost overruns) or when operational (rehabilitation schemes); funding for rehabilitation ventures, decided, of course, on the basis of an appraisal confirming the viability of the scheme in question, may be provided first and foremost for plant and machinery (although finance may also be advanced for purchasing spare parts and raw materials) as well as for technical assistance in managing projects and for replenishing working capital;

– scope for supporting, either directly or through development finance corporations schemes complying with the EIB's criteria and forming part of a sectoral development programme;

– confirmation, however, of the impossibility of action at the macroeconomic level in the form of "structural adjustment loans", although it is acknowledged that the Bank should coordinate its operations in ACP States where structural adjustment programmes are being implemented under the aegis of the World Bank or the International Monetary Fund, and if possible to attempt to integrate its operations into programme components complying with its criteria.

One new facet merits special mention. It was recognised that the quest for effectiveness implied greater rationalisation and constant coordination of Community financial assistance and that provided on a bilateral basis by the Member States. On this point, the partners, who sought to incorporate into the programming process the development policy views of the parties underpinned by concertation and dialogue, again confirmed their shrewd judgement. In keeping with the spirit of the Convention, the Bank will assist as far as possible in attaining these goals, supporting, where desirable, action embarked upon by the Community with a view to ensuring optimum sectoral concentration of efforts. It may even, in appropriate cases, undertake to guarantee the least developed ACP States (43 out of a total of 66), from the very start of the Convention, a minimum allocation of risk capital funds to finance operations in priority sectors.

In conclusion, although it may appear that the third Lomé Convention merely confirms the tenor of the previous Convention and does not imply any radical changes as far as the Bank is concerned, it is nonetheless clear that, in terms of the resources which it is to deploy and the role it is to play in implementing financial and technical cooperation with the ACP States, the EIB will again need to strive to adjust its financing procedures to the scale of the tasks entrusted to it.

How the EIB sets its Interest Rates

The European Investment Bank was established in 1958 by the Treaty of Rome. Article 130 of the Treaty states that the task of the EIB is to contribute, by having recourse to the capital markets, to the balanced and steady development of the common market in the interest of the European Community. The Bank's means of carrying this out is through the granting of loans for capital investment projects meeting objectives also established by the Treaty. In fulfilling its tasks the EIB has become an almost continuous borrower on world capital markets, and the second largest institutional borrower after the World Bank.

The EIB's Statute, which is an integral part of the Treaty, states in Article 19 that the Bank's interest rates are to be adjusted to conditions prevailing on the capital markets and calculated to ensure that the Bank can meet its borrowing obligations, cover its expenses and build up a reserve fund up to 10% of its subscribed capital.

The same article also states that the Bank shall not grant any reduction in its interest rates. But third parties can grant interest-rate rebates on EIB loans, as in the context of decisions concerning Community aid for reconstruction following earthquakes in Italy in 1980 and Greece in 1981, and rebates can be granted, for certain EIB loans, from resources of the European Regional Development Fund. Within certain limits, EIB loans in Italy and Ireland between 1979 and 1983 received rebates under EMS arrangements.

The provisions referred to above establish the parameters for the EIB's Board of Directors in setting the interest rates for the Bank's loans. In practice the Board fixes a specific interest rate for each of the currencies with which the Bank works, principally the Member States' currencies and the ECU, as well as the US dollar, Yen and Swiss franc.

There are basically three elements involved in establishing EIB interest rates. The first and most important is the cost of borrowing the different currencies. The main component is the coupon, but all other direct and indirect issuing expenses are taken into account. Having an excellent credit standing (AAA is awarded consistently by the leading rating agencies), the EIB is able to raise funds at very fine terms.

The second element is the cost for the EIB of holding the proceeds of issues while awaiting disbursement. The volume of its lending operations means that the Bank is a constant borrower worldwide and also has to maintain an adequate volume of liquidity. At the same time it seeks to keep its treasury costs as low as possible.

The third element is the Bank's margin, at present 0.15%, added to cover its own operating costs. Working on a non-profit-making basis, it seeks only to recover these costs from its borrowers.

On the basis of these three components, how is the EIB able to build up its statutory reserves? Broadly, the reserves are derived from income generated by the Bank's own funds, made up in the first instance, of its paid-in capital and secondly of reserves built up in earlier periods.

Interest rates are set for each currency with which the Bank works and are adapted frequently to keep up with developments on the capital markets. For those currencies where the Bank has been absent from the relevant market, rates are set to reflect yields in the secondary market for its own bonds or for those of other comparable borrowers, or it may use as reference the yields on government or public sector issues.

These rates are applicable to all fixed-interest loans. There are no other costs or arrangement fees, and no commitment fees if a loan is drawn down within 60 days after loan contract signature. Depending on the nature of a project, "open-rate" loans can be arranged; such loans may be disbursed in different tranches and interest rates will be those prevailing at time of drawdown.

Most loans are repaid in six-monthly or, less usually, yearly instalments. However, the EIB also offers the possibility of loans to be repaid in full at term — known as "bullet loans". For such loans the interest rate is derived, with appropriate adjustments, from the rates set for the comparable average life of loans in which capital and interest are repaid in six-monthly (or yearly) instalments.

In special circumstances the EIB can arrange loans on a back-to-back basis where the rate of interest is determined by the cost of the resources directly employed in the loan plus the standard EIB margin.

Under the terms of its Statute the EIB has to protect itself against exchange risk. It does so by disbursing loans in the same currencies that it borrows and requesting its own borrowers to pay interest and capital reimburse-

Examples of EIB interest rates[1]
As at 13 January 1986[2]

Currency		Years: 7 %	10 %	12 %	15 %
ECU	semi-annual	9.20	9.30	9.30	9.40
	annual	9.35	9.45	9.45	9.55
DM	semi-annual	6.80	7.05	7.15	7.20
	annual	6.90	7.15	7.25	7.30
Ffr	semi-annual	10.95	10.95	11.05	11.15
	annual	11.20	11.20	11.30	11.40
Fl	semi-annual	7.10	7.35	7.40	7.45
	annual	7.20	7.45	7.50	7.55
US$	semi-annual	9.95	10.10	10.15	10.20
	annual	10.15	10.30	10.35	10.40
Yen	semi-annual	7.05	7.05	7.05	7.05
	annual	7.15	7.15	7.15	7.15

[1] Interest rates charged for loans repaid in equal semi-annual, or less usually, annual instalments of capital and interest.
[2] By the time this has been published, many of these rates may have been modified to take account of capital market developments.

ments in the same currencies and in the same proportions as they have received.

Depending on the wishes of the borrower and availability, EIB loans may be disbursed in one or several currencies. Loans entirely in one currency may be in any of the currencies with which the Bank works, including the ECU and the borrower's domestic currency. Where more than one currency is disbursed the specific interest rate for each currency is applied.

For reference purposes, a theoretical interest rate for the currency mix can, of course, be calculated as a weighted average.

This can be illustrated in standard currency mixes or "cocktails" which the EIB offers. The proportions of currencies are determined in such a way as to ensure that each of the different EIB cocktails has the same weighted average interest rate.

In addition to its usual fixed interest-rate loans, the EIB has also been able, since 1984, to offer floating-rate loans in response to demand. Funds to finance such loans have been raised at variable rates through sales of US commercial paper, interest-rate and currency-swap operations, and floating-rate note issues. The fixing of the Bank's interest charge for floating-rate lending has mostly been made on the basis of the quarterly average cost of the funds concerned plus the EIB margin, but in back-to-back operations depends directly on the cost to the Bank of raising the specific variable rate resources plus the usual margin.

More explicitly the rates charged on floating-rate US dollar loans are set on a quarterly basis and calculated according to the average cost of the Bank's variable rate funds for the previous three-month period. As a result the EIB's floating rates will inevitably lag behind fluctuations in the market, a tendency that could leave them either above or below current market rates.

Standard EIB currency mixes
As at 13 January 1986

		Mix 1				Mix 2				Mix 3			
Currency[1]	Years	8	10	12	15	8	10	12	15	8	10	12	15
ECU	%	20.00	20.00	20.00	20.00	37.00	36.00	36.00	34.00				
DM	%	20.00	20.00	20.00	20.00					35.50	36.00	37.00	37.00
Ffrs	%					15.00	15.00	15.00	15.00				
£	%									19.50	19.00	18.00	18.00
Fl	%	10.00	10.00	10.00	10.00	23.00	24.00	24.00	26.00				
US$	%	25.00	25.00	25.00	25.00					20.00	20.00	20.00	20.00
Sfrs	%					15.00	15.00	15.00	15.00	15.00	15.00	15.00	15.00
Yen	%	25.00	25.00	25.00	25.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00
semi-annual[2]		8.25	8.30	8.35	8.40	8.25	8.30	8.35	8.40	8.25	8.30	8.35	8.40
annual[2]		8.35	8.45	8.45	8.50	8.40	8.45	8.50	8.55	8.40	8.45	8.50	8.55

(1) Proportion of individual currencies in each currency mix
(2) Weighted average interest rate

Bienvenida, España. Bem-vindo Portugal

Article 129 of the Treaty of Rome lays down that "the members of the European Investment Bank shall be the Member States". Thus, with accession to the European Economic Community on 1 January 1986, Spain and Portugal have simultaneously become members of the EIB and share the same terms as the other Community countries:

— access to EIB finance along the same lines as the other Community countries,

— participation in the Bank's decision making bodies, and

— contribution to its capital.

The EIB's Statute has been adapted accordingly, with effect from 1 January. Attached to the Accession Treaty, a protocol on the Statute of the European Investment Bank lays down the modalities of the new Member States' participation in the decision making bodies as well as their respective contribution to the Bank's capital.

Unrestrained access

The EIB has already financed a number of investment projects in the Iberian peninsula. Lending in Portugal, which started in 1976, totalled 725 million ECUs on 31 December 1985. The first loans were made within the framework of the Community's exceptional emergency aid package and, at the time, helped Portugal to face urgent economic difficulties. Cooperation continued in the form of a financial protocol and, from 1981 until the end of 1985, under pre-accession cooperation agreements between Portugal and the EEC. EIB loans for investments in industry, infrastructure and energy helped to adapt the Portuguese economy to the new market situation following accession. In Spain, where lending started in 1981, all EIB financing took place in the context of cooperation arrangements leading up to accession to the European Community. At the end of last year loans totalled 550 million ECUs.

The various agreements between the European Community and Spain and Portugal always indicated ceilings for the total lending within a given period. With accession, such quantative limitations have ceased to exist. As in all Member Countries of the European Community, there are no ceilings on the European Investment Bank's long-term lending for investment projects provided they conform with the policy objectives defined by Article 130 of the Treaty of Rome and the Bank's lending criteria as they are laid down in the Statute.

Decision making bodies

The European Investment Bank has a legal personality separate from those of the European Communities and has its own decision making bodies: the Board of Governors, the Board of Directors, and the Management Committee.

The **Board of Governors,** *inter alia,* lays down general directives on credit policy, approves the balance sheet and the annual report, decides on capital increases, and appoints the Members of the Board of Directors as well as the Members of the Management Committee. The Board is now composed of twelve Governors, one Minister from each Member State, usually the Minister of Finance.

Decisions of the Board of Governors are taken by a majority of its members representing at least 45% of the subscribed capital (see below), except when the Bank's Statute provides otherwise. For example, a unanimous decision is required to increase the subscribed capital.

The **Board of Directors** assures that the Bank is managed according to the provisions of the Treaty of Rome, the Bank's Statute and the directives laid down by the Board of Governors. It has sole responsibility for deciding on loans and guarantees, borrowing operations and fixing interest rates. With the accession of Spain and Portugal the number of Directors has been raised from 19 (+ 11 Alternates) to 22 (+ 12 Alternates). Of the 22 Directors, 21 are nominated by Member States and 1 is nominated by the Commission of the European Communities; Member States nominate 11 Alternates and the Commission 1. The Directors and Alternates are high-level officials from public credit institutions, finance, economy and industry ministries. They are selected on the basis of their competence and are responsible only to the Bank.

The Board of Directors on average meets every six weeks. Each Director has one vote and, except when specified otherwise by the Bank's Statute, decisions are taken on the basis of a majority vote. The Alternates take part in the meetings but do not vote except when they replace Directors.

The **Management Committee** is responsible for all current operations, recommends decisions regarding borrowing and lending operations to the Board of Directors and ensures that these decisions are implemented. The Management Committee is now composed of the Bank's President and six Vice-Presidents, the sixth Vice-Presidency having been instituted by the protocol on the European Investment Bank attached to the Accession Treaty. The President of the Management Committee or, in his absence, one of the Vice-Presidents, presides over meetings of the Board of Directors.

Information about the Spanish and Portuguese Governors and Members of the Board of Directors, as well as the new EIB Vice-President, will be given in the next issue of EIB-Information.

Capital subscription

The EIB's capital is subscribed by the Member States. To allow the European Investment Bank a continued growth in lending and to meet the loan demands in the new Member States, the Bank's Board of Governors at their annual meeting in June last year, decided to increase the capital so that, including the shares of Spain and Portugal, the subscribed capital has been effectively doubled from 14.4 billion ECUs to 28.8 billion on 1 January 1986.

As the table indicates, some 9% of the subscribed capital is paid-in or to be paid-in. The capital to be paid-in by the new members of the Bank will be paid in instalments between April 1986 and October 1994.

A far larger part of the EIB's capital, some 91%, is uncalled and acts as guarantee capital. It is an important element in the "AAA" credit rating of the Bank. The subscribed capital also sets a limit to the overall amount of the Bank's outstanding loans, which, under the EIB's Statute, may not exceed 250% of the subscribed capital.

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Unrestrained access to the European Investment Bank's loans on the condi-

Capital Structure as of 1 January 1986 (in million ECUs)

	Subscribed capital	Paid-in or to be paid-in capital	%
Germany	5 508.725	497.529375	19.127
France	5 508.725	497.529375	19.127
Italy	5 508.725	497.529375	19.127
United Kingdom	5 508.725	497.529375	19.127
Spain	2 024.928	181.333940	7.031
Belgium	1 526.980	136.742250	5.302
Netherlands	1 526.980	136.742250	5.302
Denmark	773.154	69.236550	2.684
Greece	414.190	37.091750	1.438
Portugal	266.922	23.903086	0.927
Ireland	193.288	17.309100	0.671
Luxembourg	38.658	3.461850	0.134
Total	**28 800.000**	**2 595.938276**	**100.0**

tions which apply to all Member States, participation in the decision making process, and subscription to the EIB's capital are consequences for Spain and Portugal of their membership of the Bank. The Bank's Statute also stipulates that "in the selection of staff, account shall be taken not only of personal ability and qualifications but also of an equitable representation of nationals of the Member States". It will not be possible to engage the full representation of Iberian personnel overnight, but in the coming years the EIB will devote special attention to the recruitment of qualified men and women of Spanish and Portuguese nationalities.

Senior Staff Appointments

Effective as of 1 December 1985, Dieter HARTWICH has been appointed Secretary General of the European Investment Bank and, at the same time, Manager of the General Administration Directorate. Since joining the EIB in 1973, he has been Manager of the Directorate for Operations outside the Community. Mr Hartwich studied economics in Berlin and the United States. Following his appointment in 1953 as assistant and lecturer at the Institute of Economics, Free University of Berlin, he joined the German Ministry of Economic Affairs in 1956. In 1961 he left for the World Bank, where he was responsible for various geographical sectors, his last position being Director, Country Programs Department, Europe, Middle East and North Africa region.

The position of Manager of the Directorate for Operations outside the Community has been taken up as of the same date by Jacques SILVAIN. Having studied at the University of Paris, Mr Silvain started his banking career as comptroller at the Issuing Bank in Vietnam in 1952. Between 1955 and 1963 he served as Manager of branches in Guinea, Benin and Niger of the Banque Centrale des Etats de l'Afrique de l'Ouest. He joined the EIB in 1964, where he was in charge of operations, firstly in the Associated African States and, subsequently, as Co-Manager of the Directorate for Operations outside the Community and Head of the Department for operations in the African, Caribbean and Pacific States.

Thomas OURSIN succeeds Mr Silvain as Head of that Department. Mr Oursin was with the Ifo-Institute for Economic Research in Munich, before he joined the World Bank in 1967, where he worked in the Projects Department, and later joined the Western African Regional Office, first as Head of the Transportation Projects Division and later as Head of a Country Programme Division. He came to the EIB in 1974. Until his recent appointment, he was Head of the Division for Operations in Eastern Africa and the Pacific.

Christopher LETHBRIDGE has been appointed Head of the Department for Operations in Spain, Denmark and Germany. Mr Lethbridge started his career in East Africa in 1955, spending five years with the Uganda Development Corporation, followed by service with the Commonwealth Development Corporation in Sierra Leone and Tanzania. In 1967 he joined the World Bank and, following a one-year secondment to the Ethiopian Government, worked in Washington in the Development Finance Company's Department. In 1971 he joined the Société internationale financière pour les investissements et le développement en Afrique in Geneva as Manager of Operations. In 1975 Mr Lethbridge came to the EIB to become Head of the East Africa Division and, since 1978, Head of the Mediterranean Department.

The new Head of the Mediterranean Department is Piero PETTOVICH. Having joined the EIB in 1964 to help set up lending operations in Turkey, Mr Pettovich, throughout his career at the EIB, has worked in the Mediterranean Department, most recently as Head of the Division for Operations in Turkey, the Maghreb Countries (Algeria, Morocco, and Tunisia) and Malta.

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ECU

Below are the ECU's values in national currencies, as at 31 December 1985; these rates are applied to the present quarter in preparing financial statements and operational statistics of the Bank:

DM	2.18386	Bfrs	44.6450
£	0.615334	Lfrs	44.6450
Ffrs	6.70474	Dkr	7.95672
Lit	1 489.94	Dr	131.200
Fl	2.46133	IR£	0.714055
Ptas	136.519	Esc	140.736
		US$	0.887927

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