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Europäische Investitionsbank
Ευρωπαϊκή Τράπεζα Επενδύσεων
European Investment Bank
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EIB-Information

Annual Meeting of the Board of Governors

The Board of Governors unanimously approved the European Investment Bank's 1988 Annual Report and balance sheet at the annual meeting in Luxembourg on 19 June 1989. The Board, which consists of a Government Minister, usually the Minister of Finance, from each of the European Community Member States, was chaired by the Governor for Spain, Carlos Solchaga Catalán, Minister for Economic and Financial Affairs, in the absence of the chairman, the Governor for Greece, Panayotis Roumeliotis, Minister for National Economy (1).

EIB President, Ernst-Günther Bröder, as chairman of the Board of Directors, presented the annual report to the Governors. His introductory statement is reproduced hereafter.

The Governors congratulated the Directors, Management Committee and staff for their conduct of the EIB's affairs in 1988. A 30% increase in its lending activities was recorded during the year. The balance sheet at the end of 1988 stood at ECU 49.1 billion (ECU 42.9 billion end-1987).

Reviewing the EIB's activities, the Governors commented on the growth in the Bank's operations as reflecting its positive response to European Community objectives and the increased flexibility of its financial product. This growth had been healthy both in quantitative and qualitative terms.

The Board expressed its appreciation of the Bank's professional approach as a long-term project financing institution. The Bank had the experience and competence to ensure the quality and viability of the investment it supported.

The Governors again emphasised that furthering regional development to strengthen social and economic cohesion should continue to be the prime target for the EIB's lending. They welcomed its cooperation with the Community's structural funds to ensure an appropriate mix of loans and grants in support of economic development in the less favoured regions. The most effective combination of loans and grants should be determined by the revenue generating capacity of projects, in order to realise a maximum of viable investment in these regions.

The Governors called on the Bank to play a more direct role in initiating and encouraging projects of European interest, and expressed their satisfaction with the EIB's increased support for Community infrastructure projects, environmental protection, the strengthening of industrial competitiveness and, in particular, investment by small and medium-sized ventures.

They stressed the importance of the EIB's excellent access to the capital markets and its activity as the lar-

In brief . . .

While the EIB's annual meeting is a low-key media event, it is of decisive importance for the orientation of the Bank's work. As representatives of the EIB's shareholders, the Governors review its past activity and consider future perspectives (see leading article). At this year's meeting they expressed their satisfaction with the Bank's effectiveness as a financial intermediary in mobilising capital market funds in support of the Community's economic integration. The parameters for the EIB's activities are set by its task to support Community objectives and, as a borrower and lender, by market forces.

The EIB, as a major project financing institution, can be expected to continue to play a part in helping to realise key projects needed to meet the challenges of "1992" and establishment of a single European market. Essential in the creation of a single market is investment in adequate transportation and telecommunications to allow the efficient movement of goods and services (see page 7).

While the EIB's operations are mostly concentrated within the EEC it has also built up considerable financing experience within the framework of the Community's development aid policy. Outside the Community, under the Lomé Convention, the EIB finances industrial projects aimed at strengthening economic growth (see page 5).

To encourage the study of investment and finance, the Bank awards every two years the EIB prize of ECU 10 000 (see page 8).

(1) Chairmanship of the Board of Governors, which rotates annually according to the alphabetical order of Member States, is taken over by the Governor for Spain as from 20 June 1989 until the end of the day of the annual meeting in 1990.

gest borrower and lender in ecu. They called on the Bank to continue to encourage and diversify the development and use of the ecu.

Looking ahead, the Governors saw the Bank playing a constructive role in the establishment of the single internal market by complementing the commercial sector in providing long-term project finance in support of Community priority objectives. They were confident the EIB would use its unique position on the markets, as well as the working knowledge and experience it had gained in all Member Countries, to bring about greater economic integration.

Mr Chairman,
Gentlemen,

In 1988, the European Investment Bank increased its finance for investment to 10.2 billion ecus.

Within the Community, the Bank's lending was favoured by macroeconomic factors, including an accelerating rate of growth of investment and widespread expectations of rising interest rates. Outside the Community, the entry into force of new protocols with the Mediterranean countries had a triggering effect, such that overall financing rose by nearly 30 per cent compared with 1987. In making this big increase the Bank was responding to a surge in the demand for its loans. But lending was not simply demand-driven; and the Bank remained insistent on high quality in the investments financed and their conformity with Community objectives.

Some of the highlights of activity within the Community in 1988 are summarised as follows:

Regional development has remained the main objective of the Bank's lending. It accounted for almost 60 % of loans from the Bank's own resources in 1988 and two thirds of it was to finance projects in the regions classified as warranting special assistance during the recent reform of the Community's structural funds.

Loans to small and medium enterprises have developed strongly in 1988. Some 62 per cent of all global loan allocations were directed towards investment in assisted areas.

Loans to finance transport and telecommunications projects of Community interest also showed a big increase. This reflected a rapid expansion of investment in transport and telecommunications throughout the Community and it incorporated, inter alia, the first tranches of financing for Eurotunnel.

Lending for environmental projects remained high in 1988, whereas loans for energy-policy related projects were down a little from a year earlier.

Financing **outside the Community** amounted to 700 million ecus of which 520 million come from the EIB's own resources and 180 million from risk capital resources drawn from Community and Member States' budgetary funds, against a total activity of 400 million in 1987. This rise stems from the entry into force of new financial protocols between the Community and the Mediterranean countries, with a total financing of 400 million against 40 million in 1987. Financing in the ACP under the terms of the 3rd Lome Convention and in the Overseas Countries and Territories fell to 300 million against 350 million in 1987.

To finance its lending activities from own resources, **the Bank raised a total of 7.7 billion ecus** compared with 5.6 billion ecus in 1987. Virtually all of these funds were borrowed at medium and long term. In line with the needs of its borrowers, 84 % of the funds were raised in Member States currencies, against 71 % in 1987 and 58 % in 1986. In 1988 borrowings in Deutsche Mark were biggest, followed by borrowings in ecus, French francs, pounds sterling and Italian lire.

At the end of 1988 the stock of outstanding loans and guarantees amounted to 47.6 billion ecus, i.e. below the level projected when the Bank's capital was last increased in 1985 (52.3 billion ecus). The reason is that loan growth was lower than expected in earlier years. At 31 December 1988, the balance sheet total amounted to 49 billion ecus against 43 billion ecus at the end of 1987.

Demand for EIB loans has continued to increase during the first half of 1989 such that substantial

growth could again be recorded this year compared with 1988. These loans are suitably spread over the various economic sectors and regions.

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In all areas of lending emphasis has been accorded to the less developed regions, and in particular the regions designated for special help during the reform of the structural funds. The Bank aims to play its full part, alongside the Commission, in implementing the Community's policy in these regions; and, following extensive contacts between the Bank and the Commission, an agreement was reached last month between the two parties as to how loans by the Bank and grants by the structural funds are to be combined. The basic thinking behind the agreed solution is that the division between grants and loans should depend on revenue expectations; loan finance from the Bank will be appropriate where the revenue from the investment seems likely to be at least sufficient to service the loan. Investment generating little or no revenue can benefit from Community grants and it is worth mentioning that schools and hospitals are now eligible for grants from the structural funds, which they were not before.

The Bank and the Commission are cooperating closely and making rapid progress with the processing of the first regional development plans and the preparation of the first Community support frameworks. We hope that this pragmatic approach will lead to practical solutions. Operational programmes will follow, after which the first loans under the new arrangements could be presented to the Board of Directors.

The continued surge in the Bank's lending has been occasioned by a combination of factors. The most fundamental element is perhaps that investment growth remains rapid throughout the Community in preparation for the new opportunities that are being opened up by **the 1992 programme**. The Bank is ready to help to finance this investment, especially since a substantial proportion of this encompasses vital urgent measures to restructure

and modernise the European economy.

The liberalisation of capital markets, which is also part of the 1992 programme, is making new sources of finance available and hence stimulating competition in the market for loans. Competition will affect the Bank's business in several ways. For example, increased disintermediation may cause some loss of activity to the EIB, as to other financial institutions. On the other hand, the Bank has special features as a triple A institution which specialises in the longer end of the market; and it can offer its partners additional knowhow in view of its experience in the appraisal and financing of investment. This specialist experience of regional, organisational, technical and financial aspects built up over more than 30 years will enable the Bank to remain a valued partner for both public and private enterprises and commercial banks in the finance of investment. Thus, it should be able to expand its useful role as a constructive complementary source of funds while remaining a subsidiary one.

The key variable, however, is not quantity but **quality**, which includes **relevance to the balanced development of the Community**. The Bank will therefore continue to apply its traditional standards of economic, technical and financial viability to the investment which it helps to finance; and it will continue to ensure that this investment is in keeping with Community policy objectives. Following these principles as the internal market develops, the Bank's approach will be appropriate and pragmatic.

In line with this, it has been considered from time to time whether the Bank should undertake operations that go somewhat beyond those provided for at present, through, for example, a sister company or other off-balance-sheet mechanisms in order to avoid any risk of disturbing the Bank's triple A rating. There are a number of interesting possibilities here covering, for instance, the provision of guarantees for some of the Bank's loans or equity in certain cases. Studies of these issues are under way within the Bank and wider dis-

cussion will be appropriate in the context of preparations for the next capital increase. For the immediate future, however, the approach is not to seek any amendment to the Statute.

The Bank's policy then is one of sectoral and regional adaptation and evolution within the present Statute and according to circumstances. To implement this, the Management Committee has provided the Board of Directors with a stream of documentation on strategic issues; and it will continue to do so, as the Bank's borrowing and lending policies, and its finances and operational capacities, are adjusted to keep them up to date with Community policy and market conditions.

A recent instance concerns the question of recycling balance of

payments flows within the Community. Henceforth, the Bank will take payment imbalances into account in the pattern of its lending and borrowing while retaining its traditional project appraisal standards.

Whenever the Bank raises funds in a Community country with a current external surplus and onlends these funds to finance investment in a Community country with a current external deficit, it contributes to recycling. Such transfers are beneficial in a double sense. Since the financial assets concerned are firmly held in the Bank's loan portfolio, they are a more appropriate form of external finance than short-term capital movements that may be subject to speculation; and, in addition, long-term investment financed through EIB lending strengthens the economy of the

Roger Lavelle appointed Vice-President



At its annual meeting, the Board of Governors, acting on a proposal of the Board of Directors, appointed Roger Lavelle Vice-President of the European Investment Bank. Mr Lavelle, currently head of the European Secretariat of the UK Cabinet Office, will join the Bank's Management Committee on 1 August 1989 where he succeeds C. Richard Ross who resigns from office after 11 years of distinguished service.

The Management Committee consists of the Bank's President and six Vice-Presidents. As of 1 August it will be composed of Ernst-Günther Bröder, President, and Lucio Izzo, Alain Prate, Miguel A. Arnedo Orbañanos, Erling Jørgensen, Ludovicus Meulemans and Roger Lavelle, Vice-Presidents.

Mr Lavelle (born in 1932) is a British citizen. He joined the UK civil service in 1955 and Her Majesty's Treasury in 1957 where he was appointed Principal in 1961, Assistant Secretary in 1968, Under Secretary in 1975, and Deputy Secretary of Overseas Finance in 1985. Mr Lavelle was Private Secretary to Lord Privy Seal (Mr Edward Heath) from 1961 to 1963 and Private Secretary to the Chancellor of the Exchequer from 1965 to 1968. Since 1987 he has been head of the European Secretariat in the Cabinet Office. Mr Lavelle was a director of the European Investment Bank from 1985 to 1987.

C. Richard Ross has been EIB Vice-President since July 1978. In recognition of his outstanding service to the European Investment Bank, the Board of Governors conferred on Mr Ross the title of Honorary Vice-President. Before Mr Ross joined the Management Committee of the EIB, he was Deputy Secretary in the Central Policy Review Staff ("Think Tank") of the UK Government Cabinet Office from 1971 to 1978.

recipient country and contributes at the same time to improving the current account of its balance of payments.

There are however limits to the volume of paper that the markets would be willing to take in any period of time. On the lending side the limit arises mainly because promoters who borrow strong currencies from the EIB may face an exchange risk. For example, one way to reduce this is to borrow in ecus for, as a basket of currencies, the ecu can never appreciate as much as its strongest components or depreciate as much as its weakest ones. For borrowers whose own currencies are not expected to be at either extreme, the exchange risk from borrowing in ecus is correspondingly limited. For these and other reasons **the ecu** has in recent years become a very attractive financing instrument for the EIB's clients, and **the Bank has played a major role in its development and use**. In 1988 it borrowed and lent around 1 billion ecus. Since 1981 the Bank's public bond issues have represented on average more than 10 per cent a year of all ECU bonds issued in the international market. Indeed, the EIB is the biggest borrower and lender of ecus in the international market. In addition, the EIB has a revolving programme of short-term ECU notes

amounting to 400 million ecus. A further 200 million has been raised in ECU notes to enable the Bank to satisfy a strong demand for ECU loans at floating rates of interest. The Bank proposes to step up its efforts to promote the ecu's development by diversifying its use for the benefit of its customers while at the same time increasing the volume of its borrowing and lending in ecus in the interests of recycling.

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The balance sheet and profit and loss account contained within the Annual Report for 1988 which has been submitted to you confirm that the Bank's financial structure is both sound and balanced. Reserves are about 15 per cent of subscribed capital.

As background to the next capital increase, the Management Committee will provide a series of wide-ranging papers on the role of the Bank in the Community of the 1990s. The Board of Directors will have an opportunity to begin to discuss these papers in the second half of this year, so that agreements can be reached and decisions prepared in good time for the Governors' meeting.

Mr Chairman,
Gentlemen,

I would like to conclude with some remarks on **organisational matters** and **personnel policy**. These fields are particularly important in a period of strong activity growth in which the complexity of the work load is increasing as well as its volume. The Management Committee is more and more convinced that the compact size of the institution has contributed considerably to its success. Looking to future development, it will, however, be necessary to use our staff more flexibly, to motivate it properly and to make organisational adjustments whenever necessary.

I reported to you last year that a new, more performance-oriented remuneration and advancement system had been put into effect. We have now completed more than one

year's experience of it and are able to report increased motivation, a greater degree of dialogue between superiors and their subordinates, better mobilisation of individual abilities by virtue of the annual appraisal procedure and, last but not least, no noticeable increase in the salaries bill as a result of introduction of the new system. The fact that the entire personnel, both executive and non-executive staff, has accepted such an arrangement, which, in other quarters, is frequently not unattended by problems, attests to the dedication of our staff and the good working atmosphere in your Bank.

With ever stronger competition in the banking sector, this positive attitude on the part of our staff is an invaluable asset. I am grateful for the emphasis which the Board of Directors placed at its meeting in May on the need for the Bank to be competitive in the international market from which it draws its staff.

We are in the process of examining and redefining the job descriptions of a range of functions in order to adapt them to changes in technological developments in general and especially to the tasks to be fulfilled by the Bank.

Administrative expenditures in 1988 rose by only 4.7% and the number of posts again increased by only 1%, whereas activity during the year grew by 30%. The figures for this year will be somewhat higher because we are reaching the limits to the productivity increases which are immediately attainable.

Finally, I still have to inform you of the name of this year's winner of the EIB prize. It is Mrs Angélien Kemna who has been awarded the prize for her dissertation on 'Options in Real and Financial Markets' for which she obtained her doctorate in her final year at the 'Erasmus University'.

Mr Chairman, Gentlemen,
Permit me, in conclusion, to express my own gratitude and that of my colleagues on the Management Committee both for the pointers which you have provided as to the major directions of Bank policy and for your continuing support.

Opening of an Office in Madrid

The European Investment Bank has opened an office in Madrid to widen and deepen contacts with public authorities, project promoters and banks in Spain.

The office gives the Bank a permanent presence in Spain and should prove a valuable asset in the development of its financing activities in support of the Spanish economy.

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Lending for Industrial Development in the ACP States

This article describes the scope of the European Investment Bank's financing of industrial projects in the African, Caribbean and Pacific States, signatories to the Third Lomé Convention, which came into force in May 1986.

Under the Third Lomé Convention, the EIB is being called upon to deploy a total of ECU 1.7 billion in loans for projects in the ACP countries: firstly a ceiling of ECU 1.1 billion in loans from the Bank's own resources ⁽¹⁾ with an interest subsidy of generally 3%, financed from the European Development Fund (EDF) ⁽²⁾ and which is automatically adjusted so that the interest rate actually borne by the borrower is neither less than 5% nor more than 8%; and secondly, ECU 600 million earmarked as risk capital, also financed from EDF resources and managed by the Bank in the name and for the account of the EEC; this particular form of finance was first used under the Second Yaoundé Convention and is especially well suited to lending for industrial projects.

In most cases risk capital is advanced in the form of conditional loans, whose term, rate of interest and repayment schedule, or even the very principle of repayment, depend on the conditions agreed during loan negotiation, and are designed to ensure that the project has overcome the risks inherent in the start-up period. In addition, risk capital can take the form of subordinated loans, repaid only after other loans have been settled. Furthermore, risk capital may finance equity participations, feasibility studies and technical assistance.

The choice between using own resources or risk capital depends both on the nature and characteristics of the project itself and on the overall economic situation of the country concerned, but often the Bank provides finance from own resources and from risk capital in a combined operation, which makes for even greater flexibility. Of the ECU 900 million committed under

the Third Lomé Convention ⁽³⁾, more than half were from own resources.

In accordance with the division of responsibilities between the Commission of the European Communities and the EIB provided for under the Lomé Convention, financing applications with respect to productive projects or programmes in industry (including agricultural processing), mining and tourism, as well as energy production, transport and telecommunications linked to these sectors are submitted to, and considered by the Bank.

In the industrial sector the EIB provides individual loans for larger projects and finances small and medium-size ventures indirectly through global loans (in practice lines of credit) to development banks or other financial intermediaries.

Global loans combine the financial resources of the EIB with its first-class standing on international capital markets, and the local operational resources of ACP financing institutions, such as first-hand contacts with the private sector and governments, as well as knowledge of local markets and development priorities.

The role of development banks

Financing the ACP small and medium-sized enterprises in cooperation with the development banks is an activity which has been built up over time. First appropriate financial intermediaries had to be identified. Then global loans were negotiated and procedures established; allocations (sub-loans to final beneficiaries) are usually made over the two to three years following the global loan contract signature.

The choice of the projects to be financed is left to the intermediary but the EIB approves each allocation on the basis of detailed documents provided by the financial intermediaries. Throughout the life of a global loan and beyond, the EIB and the intermediary institution maintain close contacts which have

proved, over time, to be mutually advantageous, providing the EIB with useful insight into the realities of the local investment climate, and the development banks with the possibility of benefitting from the EIB's broad experience in the field of project appraisal. Frequently, through successive global loans, the relationship between the EIB and local development banks dates back 10 years or longer, and is now characterised by rapid, flexible and effective working procedures.

Through its cooperation with local development banks the EIB has been able to support a large number of small, mainly private entrepreneurs, which it could not have reached otherwise. In many ACP countries the development banks are the sole institutions providing long-term finance and foreign exchange for project investment.

Global loans are not the only form of cooperation between the EIB and the financial intermediaries; to broaden the equity base of the intermediaries, the Bank made available 32 loans to 23 development banks — 14 directly and 18 via the respective governments — amounting to ECU 33.6 million. Through this close cooperation the EIB is therefore simultaneously furthering industrial projects and the development of financial institutions in the ACP countries. However, like their borrowers, the development banks and other financial intermediaries have not escaped the effects of the economic difficulties of the ACP countries.

Industrial projects financed under the Third Lomé Convention

The European Investment Bank can draw on many years of experience in financing industrial investment inside as well as outside the Community. Because of the difficult economic circumstances of many ACP States, particularly in Africa, industrial investment has recently stagnated, or even fallen; nevertheless, the Bank has continued to support a good number of larger industrial projects. The total amount provided for industrial projects has reached nearly ECU 460 million, or

⁽¹⁾ Own resources, in EIB terminology, refer to funds mainly borrowed by the Bank on the capital markets.

⁽²⁾ The EDF is made up of budgetary contributions from the Member States.

⁽³⁾ All figures in this article referring to the Third Lomé Convention, or to all three Lomé Conventions, cover the time period up to 31 May 1989.

more than half of the ECU 900 million of the total committed so far under Lomé III. About ECU 300 million, out of a total of ECU 730 million advanced in the form of individual loans, have benefitted industrial projects; ECU 165 million (about 54%) came from own resources and the rest from risk capital.

During the same period, ECU 158 million of global loans were concluded with intermediary institutions for on-lending to small and medium-sized projects mainly in industry, of which ECU 95.5 million were advanced from the Bank's own resources and 62.5 million from risk capital resources.

Individually financed industrial projects

Individual loans for industrial projects under the Third Lomé Convention have been concentrated heavily in mining, agricultural processing and textiles, the latter largely aimed at local or regional markets.

Major individual loans in mining and quarrying comprised ECU 50 million for the rehabilitation of copper and cobalt production in Zaire, ECU 10 million for upgrading iron-ore processing facilities in Mauritania, 21 million for an open-cast gold mine in Ethiopia, and in Guinea ECU 13 million for the modernisation of an alumina plant and ECU 3.6 million for a granite quarry.

In textiles, ECU 16.9 million went to a cotton spinning plant and the modernisation of an integrated textile complex in the Ivory Coast, ECU 18.5 million helped finance a mill producing cotton and polyester fabrics in Mauritius, while ECU 1.5 million were used for the rehabilitation of a cotton ginnery in Mozambique. In Madagascar the rehabilitation of a textile mill was funded with ECU 3.3 million.

In agro-industry, an integrated tuna-processing complex in Madagascar attracted ECU 5.7 million, a vegetable cannery in Mozambique ECU 1.5 million, and the construction of a modern abattoir in Botswana ECU 6 million, while schemes to upgrade tea-processing capacity in Kenya attracted 13.5 million, and flour mills in Mauritius and Swaziland, received ECU 3 million each. In the Congo ECU 16 million were provided for the rehabilitation of an agro-industrial project and in Burun-

di ECU 1 million for purchasing coffee sorting and storing equipment; in Papua New Guinea palm oil and cocoa storage and processing facilities were financed with ECU 15.5 million. In Sao Tome and Principe ECU 2.1 million helped to build a palm oil mill.

In other sectors, ECU 7 million were used to finance a chemicals complex processing phosphates in Senegal, and in Malawi 4 million helped to build an integrated sawmill and plywood panel mill. In Fiji, ECU 4.5 million were also used for financing sawmills; two factories in Burkina Faso, one producing cardboard boxes and the other plastic sheeting and sacks, attracted a total of ECU 4.5 million.

Global loans under successive Lomé Conventions

Since the coming into force of the First Lomé Convention in 1976, ECU 2.27 billion has been made available for capital investment projects in the ACP countries, almost one fifth (ECU 425 million) in the form of global loans. A total of 124 global loans, to 48 financial intermediaries, have been made in 42 out of the 66 ACP countries, including five regional development banks active in more than one country. Some 700 small and medium-sized enterprises were financed.

Two thirds of the funds provided in the form of global loans came from the EIB's own resources, the other third from risk capital.

There is no universal definition of SMEs in ACP countries but an impression of the size and nature of the EIB-financed SMEs can be obtained by considering the size of the amounts allocated and of the features of the corresponding projects.

Interestingly, the average size of allocations has been falling during successive Lomé Conventions; it was ECU 439 000 under Lomé 1 and ECU 400 000 under Lomé 2; under the Third Lomé Convention allocations have ranged from ECU 16 000 to ECU 1 500 000, the average being ECU 230 000, with 17.5% of allocations below ECU 50 000. This indicates that in line with the objectives of the EIB, the intermediaries are becoming more effective at reaching smaller entrepreneurs.

Employment figures and turnover of the final beneficiaries of EIB fun-

ding under the global loan scheme offer useful information about the size and type of typical EIB-financed SMEs: 60% had less than 50 employees, and 40% had annual anticipated sales of less than ECU 1 million. EIB economists have estimated that EIB financing of SMEs in the ACP countries between 1976 and 1988 has led to the direct creation of some 30 000 jobs; the indirect effect is likely to be a multiple of this.

The overwhelming majority of the ventures financed through global loans fall in the private sector. About 90% are majority-owned by local businessmen, more than half within one family. A small proportion are joint ventures, with a mixture of local and foreign shareholding. More than half are new ventures while the remainder are expansions of existing enterprises or rehabilitation and modernisation projects. Around two thirds of the projects are import substituting. The rest are divided between export-oriented projects or service industries.

Conclusions

Whereas demand for loans for large industrial projects has tended to stagnate as a result of the economic situation and under-utilisation of existing capacity in some sectors of the ACP States, the EIB in cooperation with local and regional development banks, has been able to maintain a steady flow of funds to small and medium-sized industrial enterprises.

The success rate for SME projects financed through global loans can be considered satisfactory: 80% are still operating, 50% profitably. This is encouraging, because SMEs in the ACP countries, especially in Africa, have had to function in a particularly difficult economic context. Local markets for industrial products have not grown as rapidly as expected. The shortage of equity or quasi-equity for small companies was, at least to some extent, offset by the risk capital resources managed by the EIB. Large devaluations of local currencies were another problem confronting many entrepreneurs.

Financing of industrial projects could hardly have taken place to such an extent without the effective cooperation between the EIB and the local development banks. The

difficulties faced by their borrowers have, however, shown up weaknesses in their operations, which are receiving close attention.

EEC and ACP negotiators still face busy months negotiating the fourth Lomé Convention, and financing the industrial sector, with risk capital

and loans from the EIB's own resources, as well as the role of financial intermediaries figure high on their agenda.

Preparing for a Single European Market

The success of a single European market will hinge on rapid and efficient communications between the EC Member States — this realisation has brought about a significant increase in new communications projects in the European Community. In tandem with this surge of investment, the European Investment Bank has stepped up its lending for transport and telecommunications projects of Community interest. In the five year period from 1984 to 1988, the EIB's total of loans for communications infrastructure reached close to ECU 4 billion, of which almost 1.7 billion was in 1988 alone. The upward trend has continued this year with total lending of approximately ECU 1.1 billion in the first five months.

With air passenger travel on European routes increasing by 8.5% in 1988, civil aviation is a booming industry. Medium and long-term forecasts indicate that high growth rates will be sustained and that, as a consequence, investment in additional capacity is urgently needed. A number of European airlines have come to the EIB to help finance fleet renewal and extension: among them Aer Lingus, Alitalia, Iberia, KLM and Martinair, for the purchase of Airbus, ATR and Fokker as well as Boeing and McDonnell Douglas aircraft. So far in 1989 the EIB has provided loans for Maersk Air to finance the purchase of Fokker-50s, to Iberia for McDonnell Douglas and Airbus aircraft, and to KLM for the new Boeing 747-400. All planes purchased with EIB funds are for use on European routes or for strengthening links between the European Community and the rest of the world.

The passenger handling capacity of EC airports also needs continued expansion. According to IATA estimates, 35 European airports are already facing saturation and airport capacity should be doubled every 8 to 12 years to keep up with the expected increase in air travel well into the beginning of the next century. The EIB, therefore, has financed development works at a large number of airports, notably in the United Kingdom (Gatwick, Stansted, London City Airport, Manchester, Leeds and Bradford), Italy (Tur-

in and Pisa), Greece (Athens), Ireland (Dublin), Denmark (Copenhagen) and France (Nice).

Air control facilities in Europe are stretched to the utmost. To the extent that investment finance can alleviate the existing problems, the European Investment Bank is ready to help. The EIB has supported improvements in air traffic control and air safety (approach and landing) systems in Greece and in the United Kingdom and it intends to give particular attention to this sector in the future.

Close to 50% of all EIB financing for European Community infrastructure has centred on the construction of major trunk roads and motorways. In 1986, a working group of the European Conference of Transport Ministers predicted that passenger and bulk traffic would increase at a faster pace than road infrastructure capacity. The impetus the internal market is giving to intra-Community traffic will add to congestion problems, unless the necessary additional investment is carried out. To improve major road links of Community interest, the EIB has provided finance in Italy and France, as well as in Denmark, the United Kingdom, Luxembourg and, on a growing scale, in Spain and Portugal.

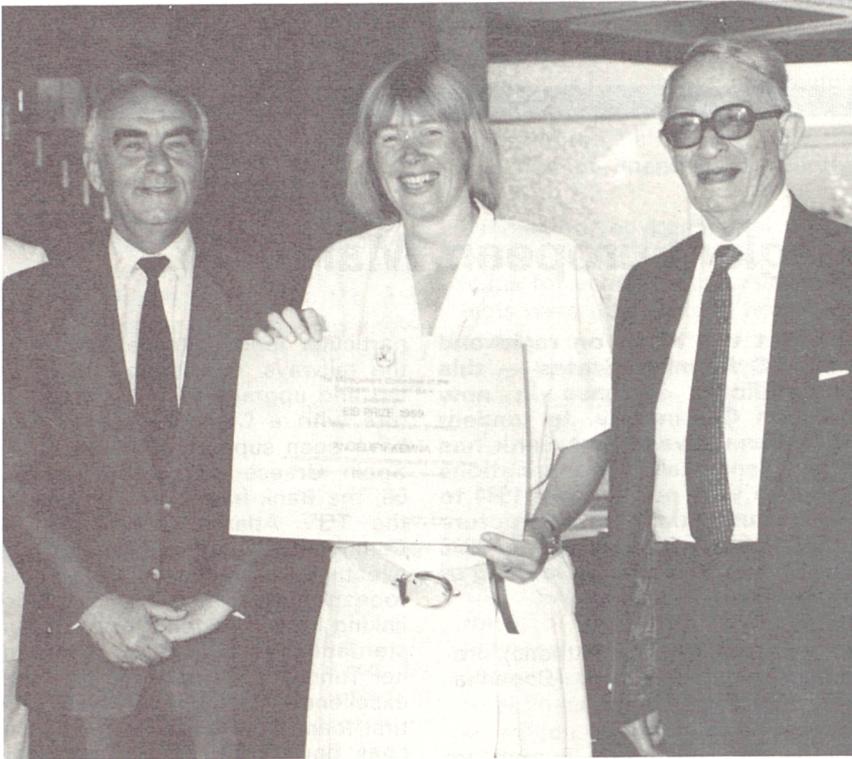
One of the options to reduce congestion on European routes is to divert air and road traffic flows, in

particular long distance freight, to the railways. Investments to develop and upgrade railway infrastructure with a Community dimension have been supported by the EIB in Spain, Greece and the UK. In France, the Bank has helped to finance the TGV Atlantique which is of Community interest because it will eventually form part of a North European high speed train network linking Paris, London, Brussels, Amsterdam and Cologne. For the Channel Tunnel, a European project par excellence, the EIB provided the first loans in 1988 and further tranches have been drawn down this year.

Beyond people and goods moving freely in the internal market, the swift and unhampered exchange of information is also a basic requirement for the Community's economy. Investment in international telephone links, including communications by satellite and submarine cable, is growing and this has led to a significant increase in Bank lending for the telecommunications sector. Among the EIB's clients are British Telecom, Italian SIP and Telefonica de España which all have taken up important amounts for large-scale investment programmes. Telecommunications satellites and ground stations have been financed in France and Italy as well as the purchase, launching and operation of specialised satellites by EUTELSAT and INMARSAT which have a trans-European interest.

The experience the European Investment Bank has built up in the process of financing this variety of communications projects is important for the future. Many large-scale projects are on the drawing-board or about to be implemented and, because of their scale and complex nature, will need the sophisticated, tailor-made financial packages which the EIB can provide.

1989 EIB Prize to Angelien Kemna



The 1989 EIB Prize goes to Mrs Angelien Kemna for her thesis 'Options in Real and Financial Markets'. On 10 July, during a ceremony with the Bank's Management Committee, the Prize was presented to Mrs Kemna (centre) by EIB President Ernst-Günther Bröder (left) and Lord Roll of Ipsden (right), chairman of the London based bank S.G. Warburg & Co. Ltd. and chairman of the EIB Prize Jury. Mrs Kemna obtained her doctorate at Erasmus University, Rotterdam, in 1988.

In her thesis, Mrs Kemna presents an overview of the theory of option pricing to evaluate its applicability. She then proceeds to analyse, both theoretically and empirically, three areas of option pricing: traded American call options on the European Options Exchange in Amsterdam, financial options in a commodity-indexed bond issued by a Netherlands investment company and real options in capital investment decisions encountered by a multinational petroleum company.

The jury report commends 'Options in Real and Financial Markets' as an excellent combination of theory and empirical verification. The author demonstrates knowledge of the literature and presents the results of her comparison and analysis of the theoretical models clearly and concisely. During the presentation ceremony Mr Bröder, underlining the conclusions of the jury, said that Mrs Kemna's thesis makes an important contribution to understanding the pricing and application of options, one of the most significant developments of financial innovation in recent years.

The EIB Prize, consisting of 10 000 ECUs and a diploma, was instituted on the occasion of the 25th anniversary of the European Investment Bank in 1983 to promote the study of topics related to investment and finance at academic institutions in the European Community. The prize is awarded biennially and was first conferred in 1985. It will be awarded again in 1991. The jury of the EIB Prize consists of Lord Roll, chairman, and Professors Beniamino Andreatta (University of Bologna), Arnold Heertje (University of Amsterdam), Jacques Lesourne (Conservatoire National des Arts et Métiers, Paris), Michael MacCormac (Professor emeritus, University College Dublin) and Wilhelm Hankel (Johann Wolfgang Goethe University, Frankfurt).

Ecu

Below are the ECU's values in national currencies, as at 30 June 1989; these rates are applied to the third quarter in preparing financial statements and operational statistics of the Bank:

DEM	2.06770	BEF	43.2974
GBP	0.683449	LUF	43.2974
FRF	7.02120	DKK	8.04631
ITL	1 495.95	GRD	178.135
NLG	2.33055	IEP	0.777479
ESP	131.581	PTE	173.147
		USD	1.05900

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