



# EIB INFORMATION

June 1995 • N° 84  
ISSN 0250-3891

BANQUE EUROPEENNE D'INVESTISSEMENT  
BANCA EUROPEA PER GLI INVESTIMENTI  
EUROPESE INVESTERINGSBANK  
BANCO EUROPEU DE INVESTIMENTO  
EUROOPAN INVESTOINTIPANKKI  
EUROPEISKA INVESTERINGSBANKEN

## Annual Meeting of the Board of Governors

The European Investment Bank's Board of Governors, at its annual meeting in Luxembourg on Monday 19 June 1995, congratulated the Bank on consolidating its activities during 1994 in a period of great turmoil on financial markets and difficult economic conditions in the Member States.

The Board, which is made up of the fifteen Finance Ministers of the European Union Member States, underlined the Bank's success in adapting to the rapid changes underway within the European Union and to the new challenges in meeting the requirements of Union policies, in

The Board meeting was chaired by the Governor for The Netherlands, Gerrit Zalm, Minister of Finance. The Governors approved the EIB's 1994 annual report and balance sheet, which at end-1994 stood at ECU 102.75 billion. After the end of the day of the annual meeting, the new chairman of the Board is the Governor for Austria, Andreas Staribacher, Minister for Finance, who holds the post up until the end of the day of the next annual meeting.

The Governors noted that the EIB had sustained its lending activity at a high level - some ECU 20 billion - during 1994, and welcomed the EIB's part in implementing the Union's economic regeneration policies, including the establishment of a special «window» to accelerate and facilitate the financing of the priority trans-European network projects, announced at the Essen European Council (December 1994).

The Governors also welcomed the organisational and management changes being introduced by the Management Committee to increase the efficiency of the Bank and to enable it ▶



*Opening of the Board of Governors' Annual Meeting.*

particular those for cohesion and the financing of trans-European networks. They welcomed the Bank's achievement in pushing forward European Union policies to encourage economic growth, competitiveness and employment and stressed that the Bank should continue to place the emphasis on «quality rather than quantity».

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to adapt to the challenge of a changing environment.

The Board gave clearance for the EIB to begin lending in South Africa, within a ceiling of ECU 300 million for a two year period. They appointed Rudolf de Korte (The Netherlands) as Vice-President on the Bank's Management Committee to succeed Mr Corneille Brück, whose term of office finishes at the end of the month and on whom the Governors conferred the title of Honorary Vice-President in appreciation of his valuable contribution rendered to the Bank.

The Board appointed to the Audit Committee Juan Carlos Perez Lozano, Inspector General of the Agency for International Cooperation, Ministry of Foreign Affairs; Madrid, (to replace Ciriaco de Vicente Martín who retires for personal reasons) and re-appointed for a new three-year term Albert Hansen, Secretary General to the Luxembourg Government Council.

#### Statement by Sir Brian Unwin KCB, EIB President and Chairman of the Board of Directors to the annual meeting:

Chairman  
Ladies and Gentlemen

This is the first annual meeting of the Board of Governors since the accession of Austria, Finland and Sweden to the European Union, and I should like to begin by welcoming these countries to membership of the Bank's governing bodies. We have started operations in each of these countries in support of Community policies, and we look forward to a continued development of this activity. We have also begun to recruit staff of the three new nationalities - I am glad to report that fifteen professionals have already joined us and others should be joining soon. This is a good start on which to build.

In 1994 the lending activity of the Bank as a whole stabilised at some ECU 20 billion; the bond portfolio was restructured; and a number of organisational and management changes were taken forward. Details of the operations are given in the Annual Report in front of you, so I shall restrict myself to the main points of interest from the point of view of Community policy.

#### LENDING WITHIN THE EUROPEAN UNION

By the end of 1994 the Bank had committed the full amount of the ECU 7 billion lending facility decided at the European Council meetings in Edinburgh at the end of 1992 and Copenhagen in mid 1993. This was to accelerate the financing of infrastructure projects, and, so far, about two thirds of the total has been disbursed in favour of some 140 projects.

In a related Decision, a scheme was established whereby interest rate subsidies from the Union budget were to be applied to ECU 1 billion of loans in favour of job-creating SMEs. The EIB has already committed 70% of the full amount, with allocations going for investment that should create some 35 000 new jobs in the Union.

A third Decision at Edinburgh was to create the European Investment Fund (EIF) to provide guarantees both for capital investment carried out by SMEs and for major infrastructure. The Fund has been operational since June 1994, and will have its first Annual General Meeting tomorrow, under the chairmanship of Commissioner de Silguy. Subject to approval by the General Meeting tomorrow, to date 76 banks from every Member State will have

subscribed ECU 384 million of initial capital. In its first year the Fund has approved 14 guarantees to a value of about ECU 700 million in respect of capital projects in 5 Member States, of which 6 to a value of some ECU 515 million have been signed. This is an encouraging start, but the Fund is still in its infancy and the greater part of its potential remains to be realised. I should like to pay a warm tribute to its first Chairman, Eugenio Greppi, who has established the EIF as a going concern - and to the two other members of the Financial Committee and the small staff who have supported them - and to welcome Mr Greppi's successor, Mr Georges Ugeux, who, subject to approval by the EIF General Meeting tomorrow, takes up his new post on 20 June.

#### TRANS-EUROPEAN NETWORKS (TENS)

During the past year the Bank has contributed positively to the TENS exercise. I took part in the Christophersen Group of personal representatives of Heads of



*Sir Brian Unwin and Gerrit Zalm, Governor for The Netherlands who chaired the annual meeting.*

State or Government and in the related discussions at the ECOFIN Council. Following up the conclusions of this work, as endorsed by the Essen European Council, has meant a heavy commitment for the Bank. We have carried out economic, technical and financial appraisals of most of the priority projects

identified by the Christophersen Group, and the Board of Directors has already approved loans of some ECU 4.8 billion for all or part of 8 of the priority transport TENs; and ECU 1.3 billion for 4 priority energy projects. In addition, priority projects to the value of over ECU 2.5 billion are currently under detailed Bank appraisal.

Most of these, and indeed the other TENs projects, are big and complex and require special handling. We have therefore established special arrangements whereby we shall become engaged in these projects earlier and more actively than in other investment. In suitable circumstances we shall also help with financial engineering, including the provision, where appropriate, of unusually long maturities and grace periods. This package of measures constitutes our special TENs «window».

We would prefer to implement it in partnership with the private sector, which can contribute managerial expertise, and an entrepreneurial spirit that make for greater efficiency and a better sharing of risks. Integrating private operators into TENs projects is not, however, easy. The problems and potential benefits were ventilated in the EIB Forum which we held in Amsterdam last month, and I shall let you have the conclusions of this Forum when we publish them shortly.

Our heavy involvement in the Edinburgh Facility and TENs did not deflect us from our primary objective in the Community, which is to contribute to the economic development of the least favoured regions. Last year again, some 70% of our lending in the Member States, or more than ECU 12 billion, was focused on investment promoting regional development. This was mainly in areas attracting grants from the Structural Funds and the Cohesion Fund.

## LENDING OUTSIDE THE EUROPEAN UNION

Lending outside the Union increased to over ECU 2.2 billion in 1994. The main feature was a doubling of lending in the ACP States from a low level, which is a gratifying increase, given the intractability of the economic problems which many of these States face. There was a marked recovery in lending for industry, and in regional cooperation projects in Eastern and Southern Africa.

The Bank continued to play its role in implementing the redirected Mediterranean policy, lending more than ECU 600 million, mainly for regional cooperation projects: In Central and Eastern Europe, which now includes all three of the Baltic States, and where the Bank is playing an increasingly important role, it lent almost ECU 1 billion in 1994; and in Asia and Latin America over ECU 200 million.

## BORROWING AND DISBURSEMENTS

To finance its lending, the Bank borrowed the equivalent of ECU 14 billion in 18 currencies on the world's capital markets. Community currencies accounted for almost 80% of this, more than half of it being accounted for by the Italian Lira, the Deutsche Mark, the Pound Sterling and the French Franc. There was increased recourse to swap operations, mainly to obtain floating rate funds.

Disbursements have been relatively stable since 1990 at about ECU 15 billion a year. Although the ECU accounted for only a modest proportion of funds raised it has remained one of the main currencies of disbursement. The Bank has not needed to borrow ECU on the same scale as its lending because it has a positive cash flow in this currency.

## BALANCE SHEET

At 31 December 1994, total loans and guarantees outstanding came to ECU 106.5 billion. The EIB therefore still has substantial headroom to develop its activity within its statutory lending ceiling which rose from ECU 144 billion at the end of last year to ECU 155 billion on 1 January with the accession of the new Member States.

The Bank's operating surplus in 1994 was ECU 970 million, a return on the Bank's own funds of nearly 7.5%. The management of the Bank's total liquid assets generated a revenue of ECU 200 million representing an overall return of 2.83% in 1994. The figure would have been higher but for a fall as at 31 December 1994 of some ECU 240 million in the market value of the Bank's bond portfolio. This amount will be fully recouped as bonds are held to maturity, which, subject to a restructuring to improve the composition of the portfolio, is what we intend.

Consistently with this intention, and with the agreement of the Board of Directors and the Bank's external auditors, we have transformed the bond portfolio into an investment portfolio, that is to say a buy and hold portfolio, from 1 January 1995. This means that, subject to the restructuring, fluctuations, up or down, in the market value of the underlying securities will no longer be reflected in the profit and loss account. As a matter of fact, there has been an improvement in bond markets since the beginning of this year, which has increased the market value of the portfolio.

As regards general banking risks, the Board of Directors has recommended, in line with the Bank's policy of prudent management, that the balance sheet provision for such risks be increased to a round figure of ECU 400 million ➤

from ECU 350 million, and that ECU 1020.8 million be appropriated to the Bank's Additional Reserves. The set of accounts that is in front of you shows that, by any measure, the Bank's financial position remains extremely sound.

## POLICIES AND PROSPECTS

But financial strength, though important, is not the Bank's only objective. Our Mission, as you see from the new statement at the front of our Annual Report, is to further the objectives of the European Union by making long term finance available for the finance of sound investment.

To fulfil this Mission, the Bank must evolve with the European economy and the priorities of Community policy. Both have been changing rapidly. Within the Community the playing field is becoming more level, largely as a result of the internal market

programme, and the services that the Bank offers are less different than they used to be from those of other financial institutions. In a related trend, the private sector is everywhere expanding as a result of privatisation and deregulation, and the recipients of the Bank's loans are increasingly private enterprises. The Bank is adjusting to these trends in a number of ways. The most important concern loan pricing and the taking of security against credit risk.

The Bank's mark-to-market loan pricing system has remained unchanged since the late 1980s with a standard mark-up of 15 basis points. This means that all those who borrow from the Bank pay the same price for a loan of given currency and

maturity, although the administrative costs that the Bank incurs can vary considerably from one case to another. We are therefore proposing some modest differentiation of the basic mark-up to reflect cost differences of various kinds. Our proposals are on the agenda of the Board of Directors for their meeting later today.

The question as to what constitutes adequate security against credit risk, as required by the Bank's Statute, is both a legal matter and an economic one. A sovereign guarantee or equivalent from one of the Member States obviously satisfies both sets of criteria, and, so long

as most of the security which the Bank obtained was of this kind, the question as to what constitutes adequate security was not of major importance. Fewer sovereign or equivalent public sector guarantees are, however, now available. Indeed, less than half the Bank's current lending

in the Union is covered by such guarantee; the rest is guaranteed by banks or secured on the projects themselves. In order to maintain the high standards of creditworthiness on which the Bank has always insisted, and at the same time to provide the additional flexibility within the Statute necessary to enable the Bank to respond to the changing credit environment, we have further strengthened our credit risk and monitoring capability, but with an emphasis on satisfying key financial and banking rather than purely formal criteria.

These changes are designed to reinforce the ability of the Bank to support Community economic policy. This role continues to increase both within the Union

and outside. For example, the Bank has received and responded positively to new remits such as support for the peace processes in Northern Ireland, in Gaza and the West Bank and in South Africa. These new remits are important, and the Bank is proud to be able to undertake them. Another feature of the Bank's changing role as a Community institution is the increasing importance of some of its existing remits. Our role in the TENs exercise is a good example. Another is cohesion, which is all the more important if the path to monetary union is to be properly prepared.

In sum, as I indicated to you last year, after several years of exceptionally rapid growth, the Bank's activities within the Union are increasing in importance and complexity more than in volume, and it is entirely right that they should do so. With the increased integration of markets within the Union, they are also becoming more market-related. The EIB is a bank and in areas such as loan pricing and the handling of loan security, the EIB cannot stand aside from trends in the rest of the banking system. A consequence is that, within the Union, the Bank is acting less differently from other market participants than it used to.

Outside the Union, change is taking a different form. There is increasing pressure to lend more, both in our existing areas of operations and in new parts of the world, and the traditional balance between lending inside and outside the Union may be beginning to shift. The Bank is ready to respond to this, provided that there is no doubt about the continuing priority of our activities within the Union (to which, of course, we hope that some of our present «third country» recipients will soon belong); that lending outside the Union continues to benefit from satisfactory guarantee arrangements; and that the resource and staffing implications for the Bank are recog-



*The Governors of the new Member States (the Swedish Finance Minister, above) participated for the first time in the Annual Meeting.*

nised and accepted. I am sure that you will continue to ensure that the Bank is fully involved and consulted on all developments affecting its activities outside the Union.

## ORGANISATION AND MANAGEMENT

As times change, the Bank must continue to change with them. In addition to the developments I have mentioned, we have taken further measures to ensure that the organisation and management of the Bank is appropriate and adequate to meet the Bank's external responsibilities. With resources that are still small in comparison with any other international financing institution, and a growing complexity and variety of business, the Bank's staff are under intense pressure and we must not abuse their loyalty and dedication.

Some further increases in staff will, therefore, be necessary, and the Management Committee has budgeted for a net increase of some 20 posts in the current year. We are, however, reviewing our budget and cost-control systems in order to make them tighter, more transparent and more effective. This means that we must continue to make even better use of existing resources and a number of changes have been made, or initiated, to that effect.

First, the establishment of the single senior management cadre, which I announced last year, has now taken place. Each post is remunerated on the basis of an evaluation of that post and merit will be acknowledged primarily by bonus awards geared to performance on the basis of a new appraisal system. The structure is new, but I believe it will progressively provide greater flexibility at senior staff level, and make for better career opportunities.

At the same time, with the support of the Board of Directors and after long nego-

tiations with the staff representatives - whose constructive approach I should like to acknowledge - we have also now introduced modifications to our salary system, in particular to the relationship between performance and individual salary advancement. This will progressively reduce automatic entitlement to annual increments, relate reward more closely to performance - again, based on a new appraisal system - and bear down on growth in salary costs as a whole. I believe it will combine the level of remuneration necessary to recruit and retain a highly professional staff with the salary control appropriate to a public institution.

I have also announced, and am in the process of implementing, a number of important organisational changes designed to clarify the responsibilities of Directorates, reduce duplication and overlap, and in particular streamline the technical and economic advice provided by the expert services within the Bank. The core of these changes is the creation of a single Projects Directorate, through the merger of the Bank's Technical Advisory Services with the project related units of our Economics Directorate. This will be reinforced by further rationalisation both of internal Bank procedures and organisation and, with their agreement, procedures for decision-taking by the Board of Directors.

## ACCOUNTABILITY AND TRANSPARENCY

A further important change is the set of proposals which, after endorsement by the Board of Directors, the Management Committee has submitted to you for strengthening the Bank's audit structures. These have the full support of the Audit Committee and they are designed to update and strengthen the respective roles of the three audit «pillars» of the Bank - the Audit Committee, the external audi-

tors and Internal Audit. I believe they are necessary both on grounds of substance - the arrangements have not kept pace with the increased weight and complexity of the Bank's business - and for reasons of accountability and transparency at a time when this Bank, like all other international financing institutions, must be seen to have thorough, effective and independent accounting arrangements. I very much hope you will support them.

## BUILDING EXTENSION

Finally, I told you last year that the extension to the Bank's building was well under way. I can now report that it was formally opened on 10 May, having been completed at the end of last year with only a few weeks' delay and, subject to the settlement of claims raised by the main contractor, within the budget authorised by the Board of Directors. I think this is a remarkable achievement and I should like to thank and pay tribute to all concerned in the project, not least the project team within the Bank who have kept tight and highly professional control over the project. We now have a fine extension, of architectural distinction, which will accommodate the Bank's growing needs for some time to come.

## CONCLUSIONS

It has been an exceptionally challenging year for the Bank. While maintaining a high volume, and greater variety, of activity, we have sought to maintain the quality of that activity while responding positively to the policy requirements of the Community and the increasingly market-related environment in which the Bank must operate. I have described to you some of the changes we are making to meet these challenges and I have no doubt that, with the continuing professionalism

and loyalty of the Bank's staff, we shall succeed in doing so.

It is conventional in statements like this to pay tribute to the staff. I do so today, however, on behalf of myself and the Management Committee, with particular strength and sincerity. They are having to cope with severe operational pressures, as well as substantial internal changes, as the Bank adapts its practices and structures to the needs of today and tomorrow. I am grateful for their cooperation and forbearance - and for their sheer hard work - and I should also like to express my personal thanks to the new Management Committee «team» for their support and commitment during the past year.

I am sorry that today will be the last appearance as a member of the Management Committee of Corneille Brück, from whose experience, shrewdness and guidance we have all benefited greatly. I look forward, however, to working with his successor.

Chairman, may I express my gratitude and that of my colleagues on the Management Committee to the Board of Directors and to you, the Governors, for your continuous support.

## EIB PRIZE

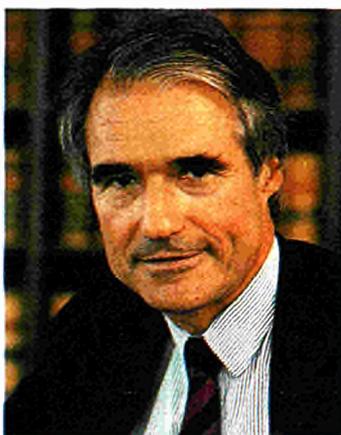
There is just one further announcement that I must make. As you may know, the Bank awards the EIB Prize every two years for a doctoral dissertation, and under the rules of the prize the awards are first announced at the annual meeting of the Board of Governors. The EIB Prize was set up to stimulate academic research in investment and finance on the occasion of the Bank's 25th anniversary. This year the Prize Jury, which is chaired by Lord Roll of Ipsden, decided to split the award. I am happy to inform you that the two successful candidates

## MR RUDOLF DE KORTE APPOINTED VICE-PRESIDENT

At their annual meeting on 19 June 1995, the EIB's Governors appointed Mr Rudolf de Korte (The Netherlands) as Vice-President on the Bank's Management Committee, with effect from 1 July 1995. Before joining the EIB, Mr De Korte was Home Secretary (1986) and Secretary of Trade and Industry/Deputy Prime Minister (1986-1989) as well as Member of Parliament in The Netherlands. He succeeds Vice-President Corneille Brück (Luxembourg) on the Management Committee, whose term of office ends. The Governors conferred the title of Honorary Vice-President on Mr Brück in appreciation of his services rendered to the Bank.

With the appointment of Mr De Korte, the Management Committee is composed as follows: Sir Brian Unwin, President of the EIB, Messrs Wolfgang Roth, Panagiotis-Loukas Gennimatas, Massimo Ponzellini, Luis Martí, Mrs Ariane Obolensky and Mr Rudolf de Korte, Vice-Presidents. The Board of Governors has decided to increase the Management Committee by one Vice-President. The new Vice-President, a national from one of the new Member States Austria, Finland and Sweden, is to be appointed shortly (This will be reported on in EIB Information N° 85).

The Management Committee, whose members are appointed by the Board of Governors, on a proposal from the Board of Directors, is the EIB's full-time executive body, responsible for day-to-day business, recommending policy changes and financing decisions to the Board of Directors and assuring their implementation. The President, or in his absence one of the Vice-Presidents, presides over meetings of the Board of Directors.



*Dutch, born 1936. Starting his career for Shell (1964-68) and then working for Unilever-Emery Ltd (1969-77), De Korte became Member of Parliament for the VVD (Volkspartij voor Vrijheid en Democratie) in 1978. He was Home Secretary in 1986 and Secretary of Trade and Industry/Deputy Prime Minister during the years 1986-89. He returned to Parliament in 1990.*

are Andreas Löffler at the Free University of Berlin for his thesis on «The capital asset pricing model as an equilibrium model», and Peter Nippel at the University of Cologne for his thesis on «The structure of debt contracts from a theo-

retical perspective». The Jury found both works of high academic standard with practical relevance. I am sure you will want to join with the Management Committee in congratulating the two winners. ■

## The EIB Forum 1995

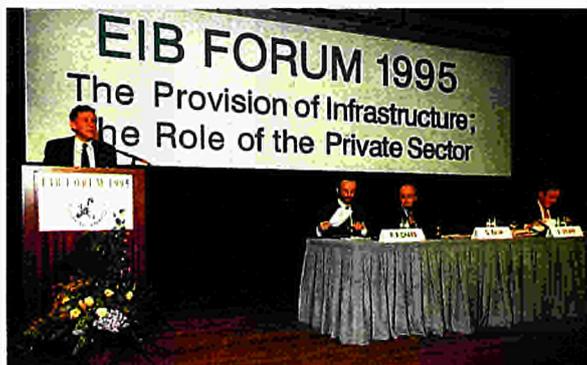
The Bank's first «EIB Forūm» was held in Amsterdam on 18-19 May and focused on «The provision of infrastructure; the role of the Private Sector». The importance of the subject and the EIB's catalytic role in accelerating the financing of the trans-European networks (TENs) in transport, telecommunications and energy transfer infrastructure was reflected in both the eminence of the speakers and the high level of the participants. In all over 200 delegates attended the two-day forum representing the banking and industry sectors, governments, and the media throughout Europe.

The EIB decided to hold the forum because of its central position in helping to meet one of the greatest challenges for the turn of the century - ensuring sufficient investment in major infrastructure projects, particularly the priority TENs. Ideas on the significance and financing of infrastructure in the development of Europe have advanced considerably in recent years, and were highlighted in the Christophersen Group's report to the Essen Council in December 1994. The EIB has played a key role in the group, which raised the profile and advanced the priority of the TENs.

Measures being taken by the Member States to improve long-term budgetary performance to meet the Maastricht criteria for Economic and Monetary Union, and development of current economic thinking on the role of the private and public sectors, are emphasising the contribution the private sector can make to the process of modernising and expanding Europe's vital infrastructure. However, moving from the definition of priority TENs and their financing needs to their realisation as investment projects is difficult. The EIB Forum discussed the issues

hindering the implementation of TENs, and examined ideas to give further impetus to the process with involvement from the private sector.

The Forum's first day was chaired by Sir Brian Unwin who made the keynote speech. Other speakers were: the EIB Governor for the Netherlands, Gerrit



Zalm, Minister of Finance on «Infrastructure facilities: The Dutch vision on co-operation with the private sector»; Pierre Richard, PDG of Crédit Local de France on «Public Utilities: Shifting to the private sector»; Wolfgang Hager, Director of the European Centre for Infrastructure Studies, Rotterdam on «Industry needs and can deliver efficient infrastructures»; and Neil Kinnock, European Commissioner responsible for Transport on «The private sector's role in development of trans-European networks».

The Second day was chaired by EIB's Vice-President Wolfgang Roth with speeches by: Chancellor Franz Vranitzky of Austria who spoke on «Partnership of private and public sectors in Central and Eastern European economies»; Heinz Sandhäger, Director General in the German Ministry of Transport who presented the address of Matthias Wissmann, German Minister for Transport on «The East German experience»; Rainer Masera, Italian Minister for the Budget, on «Motives for the private sector to

contribute to collective infrastructure»; and Sir William Ryrrie, Vice-Chairman of the Commonwealth Development Corporation and former Executive Vice-President of the International Finance Corporation on «Financing infrastructure facilities: The role of the private investor».

The Forum's conclusion was made by Vice-President Roth, who pointed out that the public sector would still have a crucial role in financing infrastructure, particularly in those transport projects where rates of return were not attractive enough for private funding. It was also clear that public sector banks, parallel to the EIB's commitment, had a major contribution to make in the development of a special partnership between the public and private sectors. The fundamental problem in pushing forward the priority TENs projects was the sharing of risks between public and private sectors. If the Member States wished to see private sector participation reduce demands on public budgets, they had to set out clear frameworks for infrastructure projects so the private sector could evaluate clearly their risk.

Guest speaker at the dinner on the first day was Jacques Santer, President of the European Commission, and the welcoming address at the start of the Forum was given by the Mayor of Amsterdam, Schelto Patijn.

The Forum was a success, not at the least because of the quality of the speeches and the discussions. They will be published in a booklet which will come out Mid-July. The publication «EIB Forum 1995» can be ordered (for free) through the EIB's Information and Communications Department, fax number 00 352 4379 3189. ■

# The EIB and enlargement of the European Union

Since the accession of Austria, Finland and Sweden to the European Union on 1 January 1995, the European Investment Bank's shareholders have numbered 15 Member States. The EIB's theatre of operations has thus once again been extended and the Bank's financing capacity strengthened.

The swiftness with which the accession procedures, initiated in 1992, were completed was due very much to the willingness of the applicant countries rapidly to integrate the «acquis communautaire» into their advanced economic and social fabric. The acceding countries' and the Union's mutual desire for greater cooperation had first been given tangible expression by entry into force on 1 January 1994 of the agreement on the European Economic Area (EEA). This agreement is designed not only to broaden economic flows between countries of the Euro-

a financial mechanism which the EIB is actively involved in administering (see article, page 10).

## A LEGACY OF CLOSE RELATIONS

As a prelude to accession and within the framework of the EEA agreement, the EIB's Board of Governors had already authorised the Bank, on 8 April 1994, to provide loans and guarantees in the EFTA countries worth ECU 500 million per annum over two years. Accordingly, in 1994, the EIB lent ECU 165 million for a variety of capital projects both benefiting the economies of the applicant countries and developing their ties with the Union.

Some ECU 74 million were devoted to improving and modernising telephone links between Austria and seven neighbouring countries, while over 60 million helped to upgrade sections be-

vanger (Norway) with Saint Petersburg (Russia) via Oslo, Stockholm and Helsinki. In Sweden, a loan of ECU 15 million was advanced for a submarine cable permitting electricity exchanges with Germany across the Baltic and another for modernisation of six power stations in the North of the country (ECU 85.5 million). In addition, the global loan mechanism - allowing funds to be made available to smaller businesses, via local banks, for financing their productive investment needs - was also activated in Austria in 1994 in cooperation with Österreichische Investitionskredit AG.

Taking advantage of ties already forged with economic and financial circles in these countries during the period leading up to accession, the EIB has been able rapidly to press ahead with identifying new capital investment schemes. During the first half of 1995, the Bank committed around ECU 233 million in support of a wide range of projects in the three new Member Countries with the emphasis on the energy sector (hydropower and combined-cycle plants) in Sweden, environmental protection (sewage treatment facilities in major conurbations) in Austria and Sweden, the motor vehicle industry in Austria plus road and rail transport in Scandinavia and Austria. Furthermore, global loans, particularly subsidised credit lines for small job-creating enterprises<sup>(1)</sup>, have been arranged with the partici-



*Initial projects financed by the EIB in the new Member States include energy generation and transmission schemes.*

pean Union and the European Free Trade Association (EFTA) but also to associate the EFTA countries in the structural development of the Union's less privileged regions by establishing

tween Turku and Helsinki of the E18 motorway on the Nordic Triangle, one of the priority trans-European network (TENs) projects approved by the Essen European Council<sup>(1)</sup> and linking Sta-

(1) The European Council held in Essen in December 1994 identified 14 top-priority TENs transport projects and 10 priority energy transfer projects. For details on the EIB's role in supporting TENs, see «EIB Information» No. 81 of September 1994.

(2) See «EIB Information» No. 82 of November 1994.



*Strengthening links between the new Member States and their EU partners through energy exchange and telecommunications infrastructure.*

pation of several banking partners in each of the new Member Countries.

As a result of these numerous projects, the EIB, already an active player on the Austrian and Swedish capital markets, will soon be building up its borrowing activity in the currencies of the three new Member Countries.

A final point to mention is that six banks from the new Member Countries have subscribed to the capital of the European Investment Fund (EIF) (3), highlighting the unreserved support of economic and financial circles in these countries for Community instruments fostering investment within the Union.

**INSTITUTIONAL IMPLICATIONS**

The accession of Austria, Sweden and Finland also has direct consequences for the EIB in terms of its organisational structure.

Each of the three new countries has a seat on the Board of Governors, the EIB's highest decision-making body consisting of the Ministers designated by the Member States. The Board of Governors lays down general directives on credit policy, authorises financing operations outside the Union and approves the accounts and annual report. The Governors also decide

on capital increases and appoint members of the Board of Directors and the Management Committee.

Each of the three new Member States has nominated a full member of the Board of Directors and, by common accord, one alternate member between them (4). Hence, since 1 January 1995, the Board of Directors has comprised 25 Directors and 13 Alternates, of whom 24

and 12 respectively are nominated by the Member States, with one Director and one Alternate being nominated by the European Commission. The Board of Directors ensures that the Bank is managed in keeping with both the Treaty establishing the European Community and the EIB's Statute and that the general directives laid down by the Governors are complied with. It is responsible for deciding on EIB loans, guarantees and borrowings.

In early 1995, the Board of Governors decided to increase from seven to eight the number of members of the Management Committee, the Bank's resident executive body responsible for overseeing day-to-day business (5). The Management Committee ensures inter alia due appraisal of loan applications and assessment of borrowing opportunities on the capital markets before the corresponding decisions are taken by the Board of Directors.

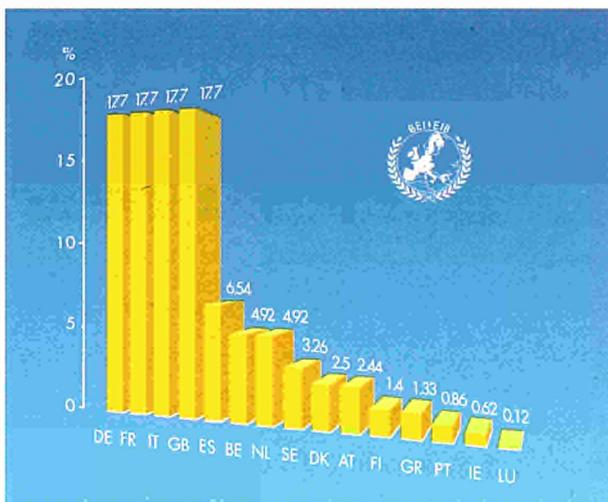
**GREATER SCOPE FOR OPERATIONS**

The new Member States are contributing, as to 7.1%, to the Bank's subscri-

bed capital which has thus been increased to ECU 62 billion. The ceiling on loans outstanding, in accordance with the EIB's Statute, has consequently been raised to ECU 155 billion, equivalent to 250% of subscribed capital. The proportion of capital paid in and to be paid in remains unchanged at 7.5%, while the new members will settle their corresponding contributions in eight equal instalments by October 1998.

With loans and guarantees outstanding of around ECU 106 billion at 31 December 1994, the EIB last year helped to finance over 200 large-scale projects and some 8 000 ventures mounted by smaller businesses or local authorities. Drawing on this expertise, the Bank is

**Breakdown of the EIB's subscribed capital as between the EU's fifteen Member States**



making a major contribution towards the goals of the now enlarged European Union with its ever greater sphere of influence.

(3) See «EIB Information» Nos. 81 and 82 of September and November 1994.

(4) See box article, page 5, «EIB Information» No. 83 of February 1995.

(5) The new member of the Management Committee is currently being appointed. Further details will be provided in «EIB Information» No. 85.

## The EEA Financial Mechanism

Under the agreement on the European Economic Area (EEA) which entered into force on 1 January 1994 and seeks to promote stronger trade and economic relations between the signatories, a financial mechanism was established by the participating countries then members of EFTA (European Free Trade Association), namely Austria, Finland, Iceland, Liechtenstein, Norway and Sweden. This mechanism is

designed to support investment in certain regions of the European Union lagging behind in their development with a view to their closer economic and social integration into the EEA. The regions eligible for assistance pursuant to the agreement are: Greece, Portugal, the island of Ireland and, in Spain, the regions of Andalucía, Asturias, Castilla-La Mancha, Ceuta-Melilla, Valencia, Extremadura, Galicia, the Canary islands and Murcia. All these regions qualify for aid from the Structural Funds and are accorded Objective 1 status, signifying that their Gross National Product (GNP) is less than 75% of the Community average. The fields of environmental protection,

urban renewal and rehabilitation, transport, training and education can in particular attract EIB loans carrying an interest rebate and/or grants from the EEA financial mechanism.

In order to foster more widespread trade between the EEA partners, the agreement is also anchored on the «acquis communautaire» (existing Community legislation) as far as the free movement of persons, services, goods and capital together with parallel policies on social aspects, environmental protection, company law and competition are concerned.

The EEA financial mechanism has remained in force following the accession of Austria, Finland and Sweden to the European Union, with the Community budget bearing these three countries' financial contribution corresponding to almost 82% of the resources deployed (the balance being provided by Norway, Iceland and Liechtenstein).

The package comprises five annual tranches and financing can, subject to

certain limits, be combined with other grants from the Structural Funds and the Cohesion Fund or with standard EIB loans. The interest rebate is accorded for a period of no more than ten years and repayment of the principal amount of the loan may be deferred by up to two years.

As to the grant component, the mechanism can cover up to 50% of the capital costs of private-sector projects and as much as 85% in the case of environmental protection or transport schemes. Training and education projects can be subsidised as to 75-80%, while feasibility studies can be financed entirely by grant aid.

### PROJECTS APPRAISED BY THE EIB

The six EFTA countries which originally implemented the EEA financial mechanism entrusted the EIB with administering funds and appraising projects given the Bank's long experience and mature expertise in this area. The EIB does not however decide on allocation of the financial resources available under the mechanism; it submits proposals to the EFTA Financial Committee - the decision-making body set up by the six donor countries - and, at the same time, seeks the opinion of the Commission which rules on the projects' compliance with Community legislation and EU objectives. The Commission also ensures that projects financed are consistent with other actions promoted by the Structural Funds or supported by other EU financial instruments.

Since the accession of Austria, Finland and Sweden to the Union, the Com-



*Furthering the development of the EU's least prosperous regions.*

mission also ensures that projects financed are consistent with other actions promoted by the Structural Funds or supported by other EU financial instruments.

### ECU 2 BILLION OVER FIVE YEARS

Since the accession of Austria, Finland and Sweden to the Union, the Com-

mission has represented these three countries' interests on the Financial Committee.

Project promoters should forward applications for loans directly and informally to the EIB. Applications for grants must be lodged by the national authorities responsible. The EFTA Financial Committee rules on projects likely to receive priority consideration for grant aid from the EEA financial mechanism.

When appraising projects standing to benefit from a grant or a subsidised loan, the EIB generally applies the

same criteria as for its other lending operations. The financial, economic and technical aspects of each project are examined as well as its compatibility with EU objectives, sectoral policies and environmental regulations and standards at both national and Community levels. The EIB also ensures compliance with procurement regulations, as defined in Community directives on public tendering, non-discrimination and transparency.

#### OPERATIONS TO DATE

Since the mechanism was established, the Financial Committee has approved

grants for improving infrastructure facilities at eight universities and a vessel-traffic management system in Spain, constructing the Lisbon metro and, in Greece, training geothermal energy experts, funding the Attica Management Training Centre and restoring four monasteries on Mount Athos. Finally, loans carrying interest rebates have been granted for implementing a wastewater treatment and sewerage project in the Valencia region, upgrading road and motorway infrastructure in Galicia, constructing water supply and sewage disposal systems in the Extremadura region and building the Lisbon metro. ■

## René Karsenti is EIB's new Director General of Finance

■ On 1 May 1995 René Karsenti has taken over from Philippe Marchat, as Director General of Finance at the European Investment Bank.

Philippe Marchat, who turned 65 earlier this year, joined the EIB some 12 years ago and looks back on an impressive record of achievements at the helm of a strong team of professionals. With aggregate borrowings of more than ECU 14 billion in each of the last two years, the EIB has become, during Philippe Marchat's term of office, the first of the international financing institutions in borrowing and lending. His contribution to the Bank was truly exceptional, thanks not only to his length of service, but also to his faculty for taking the wider and longer view to develop the EIB's borrowing policies with a dual aim: to raise the Bank's

ressources on the finest terms available, and to make the Bank act as a stimulus for the European Union's capital markets.

Before joining the EIB, René Karsenti had a remarkable career. He has



*Philippe Marchat and René Karsenti*

been Treasurer of the EBRD in London since its inception in May 1991. Prior to this appointment he spent eleven

years in senior positions in the treasury organisations of the World Bank and the International Finance Corporation (IFC). Until 1989 he was a Senior Manager of the World Bank's Financial Operations Department. From 1989 to 1991 Mr Karsenti was Director of the Treasury and Financial Policy Department of the IFC, the private sector arm of the World Bank Group. Before, he began his career as an investment analyst and portfolio manager at the Caisse des Dépôts et Consignations in Paris.

Mr Karsenti is 45 years old, is married and has two daughters. He holds an engineering degree from Lyon University and a Doctorate in economics from Sorbonne University, Paris. He was also a researcher in finance and economics at the University of California, Berkeley. ■

## Videoconferencing at the EIB

The European Investment Bank has established the H320 videoconference system at its headquarters in Luxembourg as well as in its Department for Italy in Rome and its Representative Office in Brussels.

With the introduction of videoconferencing, the EIB is able to diversify and improve its external and internal com-

patibility of links between different videoconference systems around the globe meeting these standards is guaranteed. The basic requirements to make the system work are audiovisual equipment such as cameras, microphones and visualization screens, the COMpression/DECompression (CODEC) system, conference rooms and telecommunications links.



Videoconferencing at the EIB's headquarters in Luxembourg.

munications. In choosing its equipment, the EIB has focused on the inter-operability of its system with those of other users. For instance, the H320 system fulfils the Bank's frequent needs for contacts with the European Commission and the Council of Ministers in Brussels. Another major aim is to reduce the communications barriers with other banking institutions as well as project promoters.

All EIB videoconferencing rooms are equipped with faxes to allow the exchange of documents during the meetings.

Videoconferencing provides visual communications at distance. Since the introduction of the H320 standards-system for sound and images in 1990, the com-

The EIB videoconferencing numbers are the following:

For the EIB in Luxembourg:

H320 Videoconferencing (+352) 43 93 67

For the EIB Representative Office in Brussels:

H320 Videoconferencing (+32) 2 280 11 40

For the Department for Italy in Rome:

H320 Videoconferencing (+39) 6 48 90 55 26

For booking of EIB videoconferencing facilities, the General Secretariat (Protocol) can be contacted:

tel. number (+352) 43 79-1;

fax number (+352) 43 77 04. ■

## ECU

Below are the ECU values in national currencies, as at 31 March 1995; these rates are applied for the second quarter in preparing financial statements and operational statistics of the EIB:

DEM	1.85173	BEF	38.0760
FRF	6.49478	LUF	38.0760
GBP	0.829611	ITL	2291.05
NLG	2.0726	ESP	170.305
DKK	7.34932	PTE	195.553
IEP	0.827969	GRD	302.719
SEK	9.92232	ATS	13.0311
FIM	5.81302	USD	1.33941

EIB Information is published periodically by the European Investment Bank in eleven languages (Danish, Dutch, English, Finnish, French, German, Greek, Italian, Portuguese, Spanish and Swedish).

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100, bd Konrad Adenauer  
L-2950 Luxembourg  
tel. 4379-1 - fax 437704 -  
H320 Videoconferencing 43 93 67

Department for Italy:  
Via Sardegna, 38 - I-00187 Rome  
tel. 4719-1 - fax 4873438 -  
H320 Videoconferencing 48 90 55 26

Athens Office:  
Amalias, 12 - GR-10557 Athens  
tel. 3220773/774/775 - fax 3220776

Lisbon Office:  
Avenida da Liberdade, 144-156, 8º  
P - 1250 Lisbon  
tel. 342 8989 or 342 8848 - fax 3470487

London Office:  
68, Pall Mall - London SW1Y 5ES  
tel. 0171-343 1200 - fax 0171-930 9929

Madrid Office:  
Calle José Ortega y Gasset, 29  
E - 28006 Madrid  
tel. 431 1340 - fax 431 1383

Representative Office in Brussels:  
Rue de la Loi 227  
B-1040 Brussels  
tel. 230 98 90 - fax 230 58 27 -  
H320 Videoconferencing 280 11 40

Design by MEINBACH-DESIGN  
Photos: EIB photographic library; p.8: Energitidningen  
Vattenfall; p.9: Baltic Cable.  
Printed on chlorine-free paper  
by Ceuterick B-3000 Leuven  
IX-AA-95-002-EN-C