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Amsterdam European Council: Broader remit for EIB

At the European Council meeting in Amsterdam on 16-17 June, one of the major decisions taken by the European Union's Heads of State or Government was adoption of a Resolution on Growth and Employment.

In highlighting the important contribution made by the EIB, by virtue of its financial strength and solidity, towards creating new job opportunities, the European Council requested the Bank to step up its financing in support of infrastructure and small and medium-sized enterprises, especially those operating in innovative sectors. At the same time, it encouraged the EIB to examine the range of its operations and, where appropriate, to extend these to infrastructural investment in the areas of health, education and urban renewal. The Council recommended that adherence to the principle of financing only economically viable projects should go hand in hand with strict compliance with customary banking principles, implying notably that loans should be secured by adequate guarantees.

NEW INITIATIVES IN FAVOUR OF INFRASTRUCTURE

The European Council's requests tie in closely with the strategic review initiated

by the EIB's Management Committee in recent months and submitted to the Board of Directors. The Bank is making every effort to expand the range of its financing facilities and to develop new financing instruments tailor-made to specific investment needs, so helping to promote employment and economic and social cohesion within the Union.

The EIB has, for example, already financed pilot projects in the fields of health and education infrastructure in Spain, while, in France and Portugal, it has built up experience with certain aspects of urban renewal; in funding numerous sewage treatment plants as well as urban bypasses and tramlines, it has also contributed towards enhancing the environment in towns and cities. Projects of this kind are particularly suited to boosting employment, since they are not only labour-intensive but can also be carried through rapidly. Such schemes are mainly implemented by local or regional authorities which, although having completed work on the planning side, are often forced by budgetary constraints to delay actual construction. In such instances, the EIB can intervene on an ad hoc basis and contribute towards a quicker start to the construction phase by providing financial assistance.

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Loans totalling 9.4 billion, including 2.8 billion for the communications sector. Borrowings issued during the first half ran to 14 billion in all.

Since the resolutions of the European Councils held in Edinburgh (1992) and Essen (1994) to accelerate the development of *trans-European* transport and energy *networks*, the Bank has become the largest single source of finance for major infrastructural projects of relevance to Europe as a whole. Indeed, it is funding some ECU 33 billion of the aggregate capital cost of ECU 120 billion of projects currently under construction. The EIB is seeking to step up its financing in this area even further, offering long maturities and grace periods as well as loans above the usual ceiling of 50% of project cost and so helping to unblock their financing.

TARGETED FINANCING OF INNOVATIVE ENTERPRISE

As a result of the global loans which it grants to public and private partner institutions, the EIB is already strongly committed towards financing small and medium-sized firms. At present, the Bank is exploring scope for promoting, in particular, innovative and hence growth-oriented businesses in view of their dynamic role in generating new jobs and underpinning Europe's competitiveness. The EIB will focus its support on areas where the shortage of financing is the most critical, generally by making good a lack of equity or guarantee capital. To this end, it is set to develop new financing instruments, in close cooperation with the European Investment Fund (EIF).

The Bank holds a 40% stake in the EIF's capital of ECU 1.8 billion. The remaining 60% is held equally by the European Commission and some 80 private and public banks, with which the EIB also maintains close contacts through its global loan activity. The EIF can not only furnish guarantees for project financing but also acquire equity participations in undertakings. The

organisational structure for the development and use of innovative financing instruments is therefore already in place, offering a sound basis for increased cooperation with partner institutions whose local presence, familiarity with customer needs and experience with venture capital financing represent invaluable benefits for the Bank.

The extension of financing operations to further types of infrastructure coupled with the creation of new financing instruments will add a new dimension to EIB activity. It will fall to the Bank's decision-making bodies to give its seal of approval to the proposals which will be submitted to the European Council at its special Summit on Employment. ■

EXTRACT FROM THE EUROPEAN COUNCIL'S RESOLUTION ON GROWTH AND EMPLOYMENT

(...) 9.- Whereas the task of the European Investment Bank, as stated in Article 198e of the Treaty, is to contribute, by having recourse to the capital market and utilizing its own resources, to the balanced and steady development of the common market in the interest of the Community, we recognize the important role of the European Investment Bank and the European Investment Fund in creating employment through investment opportunities in Europe. We urge the EIB to step up its activities in this respect, promoting investment projects consistent with sound banking principles and practices, and more in particular:

- *to examine the establishment of a facility for the financing of high-technology projects of small and medium-sized enterprises in cooperation with the European Investment Fund, possibly making use of venture capital with involvement of the private banking sector;*
- *to examine its scope of intervention in the areas of education, health, urban environment and environmental protection;*
- *to step up its interventions in the area of large infrastructure networks by examining the possibility of granting very long-term loans, primarily for the large priority projects adopted in Essen. (...)*

Reacting promptly to the request from the European Council, EIB President, Sir Brian Unwin, announced after publication of the resolution:

"I very much welcome the recognition by the European Council of the important contribution the European Investment Bank can make to creating employment opportunities in Europe. I note the request from the Council to the Bank to step up its activities in such areas as large infrastructure projects (Trans-European Networks in particular), the financing of technological innovation through small and medium-sized enterprises, and in the fields of education, health and urban environment. As it has done on previous occasions (for example in response to requests from the Edinburgh, Copenhagen and Essen summits in 1992, 1993 & 1994), the Bank will respond as quickly and constructively as possible to the Council's request. Acting in consultation with the European Investment Fund (of which the EIB is a shareholder) and with the European Commission, the Bank will bring forward early specific proposals for approval by its governing bodies."

The European Council also decided to hold a special summit on employment on 21 and 22 November in Luxembourg. Accordingly, in the meantime the Bank is using its best endeavours to present concrete proposals approved by its decision-making bodies and preparatory work is already under way.

Annual Meeting of the Board of Governors

The European Investment Bank's Governors congratulated the Bank on the continuing expansion of operations and development of the scope of its activities in promoting European Union objectives, at the Bank's Annual Meeting in Luxembourg on Monday, 9 June 1997. The Board of Governors' meeting, held under the chairmanship of the Governor for Portugal, Minister of Finance, António Sousa Franco, approved the Bank's 1996 balance sheet and annual report: the balance sheet total came to ECU 135.7 billion.

The Board Governors, which is made up of the 15 Ministers of Finance or Treasury of the European Union, welcomed the EIB's substantial and continuing action in supporting preparations for Economic and Monetary Union and the introduction of the single currency. In their discussions, they highlighted the EIB's strong performance during the year, with over ECU 23.2 billion in signed loan contracts and with disbursements of some ECU 20.5 billion.

Lending in the EU Member States amounted to ECU 20.9 billion, up 13% on 1995, over two thirds for investment furthering the development of less developed regions, in particular the least-favoured and the "Cohesion Fund" countries of Spain and Portugal and the island of Ireland. Financing in non-member countries, as part of the EU's external co-operation policy, amounted to ECU 2.3 billion. To support these operations, the EIB raised ECU 18.6 billion on capital markets in

22 currencies, mainly those of the EU Member States.

The Governors agreed to set aside an additional ECU 100 million as provision for general banking and specific loan risk. They also approved a proposal that the EIB should fund, from its 1996 surpluses, the remaining contributions of the Bank's Member States in respect of the subscriptions still to be paid in to the Bank's 1990 capital increase, amounting to ECU 215 million.

They noted the contribution the EIB's activities were making towards securing growth and stability in the EU, helping to create employment by financing sound capital investment. They underlined in particular the priority the EIB was giving to financing the Trans-European Networks. All the 24 priority TENs adopted by the Essen European Council had been assessed and loans approved for 16 of the

schemes. Since 1993, the EIB has lent over ECU 30 billion for TENs investment in the EU, amounting to over ECU 120 billion.

The Governor's emphasised that the EIB should continue to give priority to supporting regional development and investment to encourage the activities of small and medium-sized enterprises in view of their importance for job creation. (See article on page 9.)

They also welcomed the significant contribution the EIB was making to prepare the way for future enlargement of the Union. The investment the EIB was supporting in the candidate countries in Central and Eastern Europe was helping to create a framework for economic and social progress for the whole of Europe. The Governors looked forward to considering later in the year the Bank's proposals for a special pre-accession lending facility for countries in the



Opening of the Annual Meeting. From left to right Mr W. Roth, Vice-President of the EIB, Mr A. Sousa Franco, Chairman-in-office of the Board of Governors, Sir Brian Unwin, President of the EIB, and Mr F. Carpenter, Secretary General.

region and elsewhere considering future membership of the European Union.

The following statement was given at the Annual Meeting by Sir Brian Unwin, EIB President and Chairman of the Board of Directors:

“Chairman, Ladies and Gentlemen,

I do not want to waste time by repeating the contents of the 1996 Annual Report, but I should like to review some of the key developments of 1996; the Bank's reactions to them; and to comment on the future strategy of the Bank and the main tasks facing it. I hope I can show that the Bank has continued to make a significant contribution to furthering European Union policies inside and outside the Union, and that it is vigorously addressing its role in the future.

ACTIVITY IN 1996

1996 was another year of restrained economic activity in the European Union, with growth of only 1.6% insufficient to have a significant impact on overall levels of unemployment. Nevertheless, the second half of the year saw a modest recovery, stimulated by the dynamism of world trade, low inflation and improved monetary conditions, and some upturn in consumer spending. Happily these trends seem likely to continue this year, with capital expenditure increasing substantially, despite continuing restraint in the public sector as governments seek to meet the Maastricht criteria.

Against this background, the Bank again performed strongly in 1996. Its primary mission, as set out in our

objectives statement, and derived from the Treaty, is “to further the objectives of the European Union by making long-term finance available for sound investment”. Last year saw high levels of such lending; total contracts signed amounted to over ECU 23 billion, while the amounts disbursed – the finance that actually reaches the borrowers – rose to nearly ECU 20.5 billion, an increase of over 20% on the previous year.

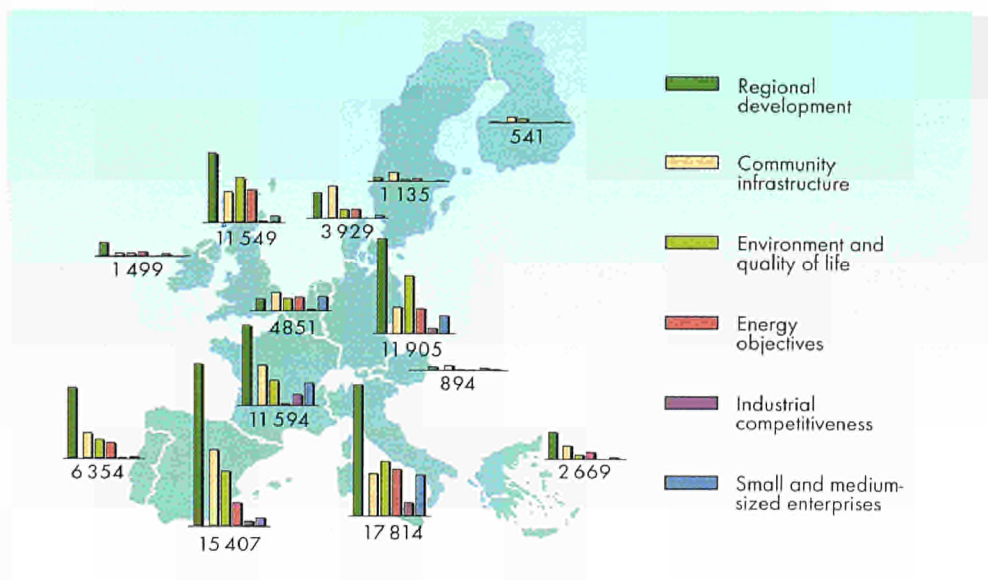
EIB OPERATIONS WITHIN THE EUROPEAN UNION

Nearly 90% of our lending was in the Member States of the European Union. Again, in accordance with our primary goal of regional development and integration, over two thirds of it (nearly ECU 14 billion) took place in assisted areas, and half of this was in Objective 1 regions, which face the most severe structural problems. There was a particularly large increase in lending in the Eastern Länder of

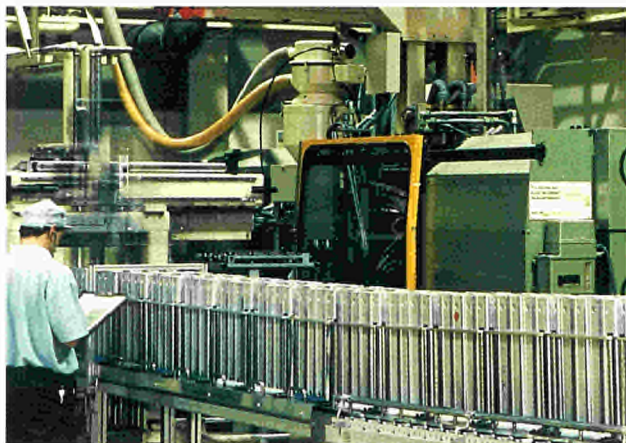
Germany, which have such a large backlog of investment in infrastructure and the environment; and an exceptionally heavy commitment in Greece, where a number of large infrastructure projects, including priority TENs, are now moving forward. Substantial sums were also advanced for investment to promote the environment (nearly ECU 6 billion), energy projects (over ECU 4 billion) and nearly ECU 4 billion to improve industrial competitiveness, both through direct loans to larger industrial companies and through intermediary banks to small and medium-sized enterprises (SMEs). In the second full year of activity Bank lending in the new Member States, Austria, Finland and Sweden, doubled to nearly ECU 1.6 billion. This contributed both to TENs and major infrastructure projects, as well as to a wide variety of industrial activities through bank intermediated global loans.

This lending made a significant contribution to maintaining the volume and quality of investment in the Union at a

Financing provided within the European Union (1992 - 1996)
ECU 91.1 billion



low point in the economic cycle, not least in the less favoured regions. We calculate, for example, that it helped to finance more than 10% on average



of gross fixed capital formation in Greece, Spain and Portugal.

BANK OPERATIONS OUTSIDE THE EUROPEAN UNION

Lending by the Bank outside the European Union in support of the Union's external cooperation and development policies amounted last year to ECU 2.3 billion, a decrease of some 20% on the previous year. This was largely due to the completion of the existing mandates and the delay in settling the new mandates and ratifying the Second Financial Protocol of the Lomé IV Convention for ACP countries. Of the amounts lent last year, a record ECU 1.1 billion went to countries in Central and Eastern Europe; nearly ECU 700 million to the Mediterranean region; just under ECU 400 million to ACP countries; and the rest to South Africa and Asia and Latin America.

I am glad that agreement on the new mandates and guarantee arrangements was finally reached by the

ECOFIN Council. This provides for lending of ECU 7.1 billion over the next three years, including ECU 3.5 billion for Central and Eastern Europe and ECU 2.3 billion for Mediterranean countries. The former will assume increased importance as negotiations for membership of the Union get under way, and we shall reinforce this by bringing forward to you later this year proposals for a substantial pre-accession facility. Our objective, by concentrating

on infrastructure investment, will continue to be to improve the economic links within and between these countries, and between them and the European Union, and to help them bring their environmental standards up to the required European Union level. In the Mediterranean, our focus will be on further promoting the Euro-Mediterranean partnership and in particular on promoting private investment in the region.

So far as the Second Financial Protocol of Lomé IV is concerned, I regret that only five Member States have so far ratified the Convention. I urge those who have not done so to proceed as quickly as possible. The Bank has now virtually completed the available commitments under the previous Convention and our lending in the Lomé countries will soon come to a halt.

I am satisfied that the new guarantee arrangements for lending outside the Union will give the Bank the security it requires. We will do our best to reach the indicative target of 25% for com-

mercial risk sharing by the Bank; but I must repeat that it will be difficult if not impossible to do that on an individual

AUDIT COMMITTEE CHANGES

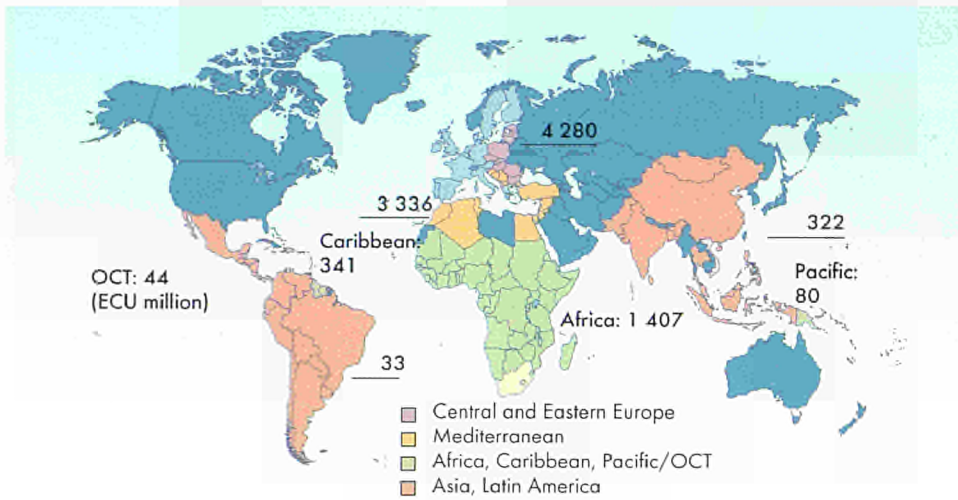
The Board of Governors appointed Mr Yrjö Tuokko, Managing Director, Tuokko Deloitte & Touche Oy, Finland, as successor to the outgoing Member, Dr Michael J. Somers, Chief Executive, National Treasury Management Agency, Ireland. The Governors appointed Dr Somers as an observer for one year on the Committee.

The other Members of the Audit Committee are Mr Albert Hansen, Secrétaire Général du Conseil du Gouvernement, Luxembourg, who takes over as Chairman, and Dr Emídio de Jesus Maria, Subinspector-Geral de Finanças, Inspeção-Geral das Finanças, Portugal.

The Members of the Committee are appointed by the Governors for a period of three years, which may be renewable. One Member is replaced each year and, following an agreement reached by the Governors in 1996, they also appoint an observer for one year.

The Audit Committee reports to the Board of Governors, verifying that the operations of the Bank have been conducted, and its books kept, in a proper manner. The Committee is assisted in its work by the Bank's internal auditing and monitoring bodies and the external auditors who for five years from 1997 will be Ernst & Young. (See EIB-Information No: 89, 3rd quarter 96, page 9.)

Financing provided outside the European Union (1992 - 1996)
ECU 10.1 billion



mandate basis. However, we shall report to the Governors and to the ECOFIN Council as requested in due course.

BANK BORROWING

To finance its lending last year the Bank launched bond issues equivalent to some ECU 18.6 billion on the capital markets, in 123 operations and 22 different currencies. European Union currencies, including the ECU, amounted (after swaps) to over 90% of this, including large benchmark issues. Outside the European Union, the Bank borrowed for the first time in Czech Crowns, South African Rand, and Hong Kong and New Zealand Dollars, taking advantage of favourable market conditions, and using "opportunistic" transactions where possible, in order to obtain funds on even more advantageous terms. This volume and variety of funding is unprecedented and reconfirmed the Bank as the world's largest multinational borrower. It was also done

with little increase in the resources of the Bank's Finance Directorate. The pace has continued this year with already over ECU 11 billion collected in 88 issues in 13 currencies. On the technical side we have also reviewed with the Board of Directors our treasury management and asset and liability management policies.

SPECIAL FEATURES

Some features of the Bank's operations in 1996 merit special mention.

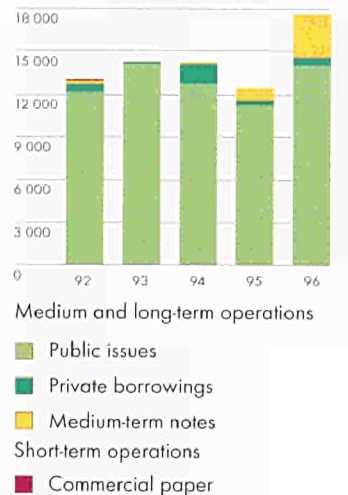
Trans-European Networks (TENs)

Further progress was made in this high-priority area. The Bank has now assessed all the 24 priority Essen Council TENs, and the Board of Directors have approved loans for 16 of them. In 1996 loans of nearly ECU 6.5 billion were approved, and in total since 1993, the Bank has supported TENs investment (including telecommunications) amounting to

over ECU 115 billion through over ECU 31 billion of loan commitments. Important new contracts signed in 1996 included the Spata Airport and ESSI Motorways in Greece; phase 1 of the Channel Tunnel Rail Link in the UK; the Öresund Link between Sweden and Denmark; and pipelines bringing natural gas from Russia to Greece and Germany, and from Algeria to Italy and, via Spain, to Portugal. An increasing number of these projects involve private-public sector partnerships, in which the Bank is developing special expertise.

Much remains to be done, and there are still some difficult planning, environmental and financial issues to be settled. For example, although the Bank has agreed to finance the planning stage of the proposed new railway line from Innsbruck through the Lower Inn Valley to the Brenner Pass, and is already financing the upgrading of the railway from Verona to the Brenner, many complex issues have to be settled before the whole Brenner TENs project can be taken forward. I

Breakdown of resources raised from 1992 to 1996



still believe, however, that delays in viable projects are not primarily due to lack of finance – certainly not of loan finance – but rather to a variety of technical, administrative and political reasons. These need to be resolved before definitive financing plans can be drawn up; and the Bank has played an active part in the new high-level working party under Commissioner Kinnock which is examining these issues.

Cooperation with the Banking Sector

The operations I have described could not have happened without the closest possible collaboration with the banking sector. This is a growing feature of our activities, and an essential element of the Bank's subsidiarity. 1996 saw a strong consolidation of this partnership, both in our direct financing of larger projects and our indirect lending to SMEs through banks. In 1996 commercial banks were an intermediary or guarantor for 50% of EIB loans; moreover, over two thirds of our lending was to private-sector borrowers, backed by banks, companies or other similar non-state organisations. A cardinal objective of our future strategy will be to develop this cooperation further so that the Bank can impart greater added value, sometimes in a catalytic role, by working with and through the banking sector.

Capital Market Operations

The Bank's funding activities during the past year were unprecedented in volume and variety. However, the most important feature of these activities was our positive support for the preparations for Economic and Monetary Union (EMU) and the Euro.

In March 1996, only a few weeks after the Madrid European Council decision on the creation of the Euro, the Bank launched an ECU 500 million issue that for the first time formally and explicitly committed the EIB to convert the Ecus into Euros on a one-to-one basis. This created a landmark precedent for other borrowers, boosting the trust of the financial markets in the future single currency.

We have subsequently carried this policy forward much more strongly. On 31 January this year we issued the first Euro 1 billion 7-year bond, subsequently increased to 1.3 billion, which will be denominated in Euro when stage 3 of EMU

comes into force in January 1999. In addition, we have launched a series of benchmark "Euro-tributary bonds" in Dutch Guilder, Deutschmark, French Francs and Escudos, which will be eligible for redenomination in Euro from January 1999. The fungibility of these issues with the Euro will enable the Bank to create its own benchmarks and yield curve early for the Euro and strengthen the markets' liquidity from 1999 onwards. The overwhelmingly favourable reaction of the market to these issues

(the Euro issue was subscribed more than two times over) has demonstrated their importance in the run-up to the single currency.

I shall say more about this later in the context of our future strategy. But these

developments illustrate the important role the Bank can, and must, play in establishing a credible Euro market – just as we did for the ECU in the 1980s.



THE BALANCE SHEET

As a result of these activities, total loans and guarantees outstanding at 31 December 1996 came to ECU 127 billion, compared with the statutory ceiling of ECU 155 billion. The Bank's gross operating surplus in 1996 was ECU 1 192.5 million, representing a return on own funds of 7.15% before provisions and exchange rate movements.

Following consultation with the Bank's external auditors and with the endorsement of the Audit Committee, and in line with the practice initiated in 1993, an increase of ECU 50 million is proposed in the fund for general banking risks (to bring it to a total of ECU 500 million), together with an additional ECU 50 million of specific provision in respect of specific loans and advances. Taking into account the decision, recommended by the Audit Committee, regarding the accounting treatment of prepayment indemnities received, the net result for the financial year amounted to ECU 1 092 118 660.

NATURE OF THE EIB

I hope that what I have said so far will give you some idea of the extraordinary variety and evolving nature of the Bank's operations. The EIB is the only MFI that lends significantly in



both developed and developing countries, including non-Member States, and also makes substantial finance available to both the public and private sectors.

To give you some other examples of the versatility of the Bank, we made a special effort last year to finance SMEs in Northern Ireland and the border counties of Ireland in support of the Anglo-Irish peace initiative; we committed three loans for projects in Gaza and the West Bank; we continued to appraise and administer grants and loan subsidies in the Cohesion countries under the European Economic Area (EEA) Financial Mechanism; and, with the World Bank, we have furthered the Mediterranean Environmental Technical Assistance Programme (METAP), by contributing to a new regional office in Cairo to help project preparation. We also demonstrated our commitment to the Mediterranean region by organising a forum - "The Mediterranean: Working in Partnership" - in Madrid in October last year, and will be repeating this by a similar forum in Stockholm this October on "Bridging the Seas in Northern Europe".

We have also maintained strong support for the European Investment Fund (EIF), of which we are a 40% shareholder, together with the European Commission and nearly 80 bank shareholders from every Member State. I will not speak at length on the EIF here; it has its own general shareholders' meeting tomorrow, over which I will preside. But the Fund is progressing well, with guarantee contracts of some ECU 1.5 billion already signed, and it has made a good start on the equity investments which you approved last year. Nevertheless, we plan to strengthen its management

and appoint a new Chairman of the Financial Committee following the expiry of Thomas Oursin's mandate.

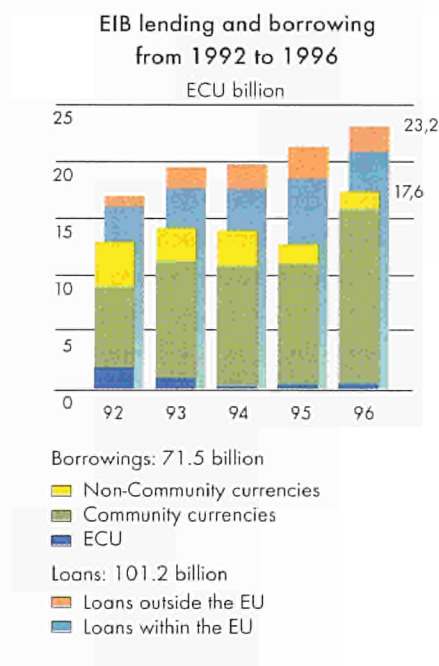
The above activities, and many more, represent not only a large increase in the volume of the Bank's work, but also in its complexity and resource intensiveness. For example, as more lending involves private finance, with more sophisticated financing arrangements, and the Bank intervenes at an earlier stage (especially to help get TENs projects moving), so the demands on professional staff increase in a manner not necessarily represented in the year-end loan figures. For example, the Bank's participation in the first phase of the new Channel Tunnel Rail Link (CTRL) pro-

ject will keep a tight grip on staffing and other resources and it remains the case that, with the exception of the much smaller Nordic Investment Bank (NIB), the EIB budget is still smaller than that of any of the other main international lenders. It follows that our productivity ratios - for example, administrative costs to outstanding loans or staff years per project appraised - are proportionately more favourable. We shall do our best to maintain this.

ORGANISATION AND MANAGEMENT

These results have not been achieved without further changes in organisation and management. During 1996 we established a fully independent Credit Risk Department, which reports on credit risks throughout the Bank, whether on lending in or outside the Union or on the funding side in treasury or swap operations. A major restructuring of the Finance and Treasury Directorate and associated IT systems is now almost complete, both to enable it to raise the increasing volume of funds on the best possible terms and to strengthen risk control and asset and liability management.

We have also substantially strengthened the Bank's independent audit arrangements, including the appointment of Ernst & Young as the Bank's new external auditors for five years starting from this year, and the recruitment of an experienced outside professional to head the Bank's Internal Audit Division. The appointment of an "observer" as a fourth member to the Audit Committee, which is for decision by you later in this meeting, will also strengthen its resources and experience.



ject has required a team of four working intensively over twelve months.

Some staffing increases have been necessary to cope with this and to ensure that the Bank's risk management accords with best industry standards; and some more will be necessary. But the Management Committee

In the wider area of Human Resources management, I have recently launched a major review with the objective of gearing our policies on recruitment, mobility, career development and training more directly to operational requirements and individual expectations, and making better and more flexible use of the skills we already have available. This will include an overhaul of the present staff appraisal system, which is essential to our policy of relating remuneration more closely to performance. All these steps are vital to maintain the motivation of staff in a fast changing environment and to discharge the Bank's tasks within an acceptable staffing and budget framework.

FUTURE CHALLENGES

Although there is much more to be done, I believe the Bank is well placed to face future challenges. In some respects, they will be "more of the same". Many main-line tasks of the Bank will continue, not least in such areas as regional development, TENs, energy and environment policy, promoting investment and job creation by SMEs, and supporting the Union's external aid and development policies. But the future holds more than this and I believe the Bank now has the opportunity to make a special contribution to some of the most radical and far-reaching changes in the history of the European Union.

MEDIUM-TERM STRATEGY

For this reason, I have initiated a major strategy exercise with the Board of Directors to determine the Bank's priorities in the next 5-10 years. On the present outlook, even on a no-

growth lending scenario, an increase in the Bank's capital under the present Statute will be necessary by the end of 1998. But proposals for this must be linked to a coherent medium-term strategy, which ensures that the Bank, using its accumulated experience and financial strength, can further the Union's priority economic objectives during that period.

The two most important developments in the European Union for the Bank in the medium term are EMU and future enlargement.

Economic and Monetary Union (EMU)

EMU will bring radical changes in the European Union's capital and financial markets, with the creation of a huge integrated financial market, the biggest government bond market in the world, increased competition, innovation and restructuring in the banking sector, and, as already in the United States, probably the progressive development of the capital market itself as a primary source of wholesale funds. This will have a variety of implications for the EIB's operations on the capital markets but we are preparing actively for this, and on balance I believe that the EIB as a top rank borrower may be favourably placed to raise funds at fine rates to channel into productive investment.

But of more direct relevance to the EIB's activity as a lender will be the effects of EMU on the volume and pattern of investment, particularly in regional development areas. Although some progress has been made - dramatically so in certain Member States - convergence between richer and poorer countries in the European

Union has been slow; and in many cases inter-regional differences have widened. During the transition and consolidation phase of EMU, it is possible that weaker regions in countries having to impose deflationary measures in order to meet and/or maintain EMU convergence criteria could suffer in terms of growth and employment as economic activity centralises in the more prosperous countries or regions. Unless private sector investment can quickly fill the gap, persistent regional differences will become an increasingly important policy issue.

Enlargement

Future enlargement of the Union is also directly relevant to this. Successful integration of countries in Central and



Eastern Europe and elsewhere into the Union will be one of the greatest steps to achieve the original goals of the Treaty of Rome - creating a framework for economic and social progress throughout the European continent and preserving and strengthening peace through the common pooling of resources. But at the same time, despite the forecast of faster growth in most of these countries than in the EU, enlargement will pose important challenges for regional development policies. To make only one point, the Union is likely to gain over 70 million new citizens with a per capita income at the time of accession

of only about one third of the EU average.

These factors will, of course, need to be taken into account in the imminent review of the Union's regional and structural policies, particularly in relation to the scope for grants in future Community budget discussions. But on any hypothesis I suspect the need for continuing support from the EIB as a financial intermediary to sustain productive investment both within the Union and in the new Member States, particularly in the less prosperous areas, could become even greater.

How this can be achieved is at the heart of the strategy discussions in which we are currently engaged with the Board of Directors. A wide range of issues is under consideration. This includes the need further to modernise and adapt the Bank's skills, products and procedures; the nature of the Bank's cooperation with the Commission, regional development policies, and the EIF; and how the Bank can add value by working even more effectively with the banking sector, particularly in the promotion of public-private financing and of SMEs.

So far as the Bank's activity on the capital markets is concerned, our first task will be to maintain our AAA credit rating if we are to obtain funds as cost-effectively and cheaply as possible. This implies maintaining a strong capital position and an unchanged gearing ratio. But at the same time key policy objectives will continue to be to give strong public support to the development of the Euro so that in January 1999 there is already a strong and liquid Euro market; and also to help develop further emerging capital markets both in the Union and



The Chairman-in-office of the Board of Governors, Mr A. Sousa Franco and Sir Brian Unwin, President of the EIB.

in the prospective new Member States.

I am not bringing specific proposals to you today. My intention is to present an agreed strategy to you at your meeting this time next year, linked to proposals for the next capital increase. The work programme with the Board of Directors will also provide for reaching any decisions that need to be taken before then. It is premature to speculate on the nature of the capital increase now, but I believe it must be sufficient to be seen to carry the Bank well beyond the introduction of EMU and the next enlargement; and the question of its financing must, of course, take account of the Bank's operating surplus and its capital requirements in a medium-term perspective.

However, as I have demonstrated, the Bank is in a sound financial position and I see no reason in principle why it should not draw on this strength to fund the paid-in element of the next capital increase out of its own resources. This is why, on the suggestion of the Management Committee, the Board has already proposed to you that the Bank itself should now fund the outstanding payments amounting to ECU 215 million of the 1990 capital increase.

CONCLUSIONS

1996 was another intensive year for the Bank. What perhaps distinguished it particularly from previous years was the emphasis on, and preparation for, the historic changes in the European Union to which we are now moving. As I hope I have shown, the Bank is well equipped to make an important contribution to these, and we are determined to do so.

It remains true, however, that the achievements of the past, and our ability to match them in the future, depend critically on the professionalism, productivity and commitment of our staff. That has been unwavering, and once again I want to express, on behalf of the Management Committee, our warm thanks to all of them for their high performance at a time of sometimes bewildering complexity and change. I should also like for my part to thank the Management Committee for their support to me during the past year; and on their behalf to thank the Board of Directors and you, the Governors, for your strong encouragement and support." ■



EIF more than doubles signed Guarantee Portfolio while increasing support to SMEs

In 1996, its second full year of operation, the European Investment Fund (EIF) took its portfolio of signed guarantees from over ECU 600 million to almost ECU 1.5 billion, while signing the first contracts under the Growth & Environment Pilot Project, a new initiative supporting investments by SMEs in favour of the environment and launching its equity operations. "The total 1996 performance in both EIF's fields of operations, TENs and SMEs, was most encouraging", Sir Brian Unwin, Chairman of the EIF Supervisory Board, declared during the Annual General Meeting which he chaired at the Bank in Luxembourg on Tuesday, 10 June. The Meeting approved the appointment of Mr Gerbrand Hop, a Dutch national, as the new Chairman of the Financial Committee, succeeding Mr Thomas Oursin with effect from September 1997.

The 1996 Annual Report, which was approved by the Annual Meeting, announced a total volume of guarantee transactions signed in 1996 of ECU 833 million in 22 operations. The proportion in favour of SMEs rose from 10% in 1995 to 30% in 1996.

TENs

The EIF further developed its operations in favour of Trans-European Network infrastructure projects in 1996 and played a key role in encouraging the participation of private sector investors in road and rail projects, including, in partnership with the EIB



Mr Gerbrand HOP

and Kreditanstalt für Wiederaufbau, the design and pre-construction phase of the Channel Tunnel Rail Link Project in the UK, one of the priority TEN projects agreed by the Heads of State and Government at the Essen summit.

Further development is expected on the Growth & Environment Pilot Project where additional budgetary resources have been made available by the European Commission. This Pilot Project, an initiative of the European Parliament and an example of co-operation between the European Commission and the European Investment Fund, is currently operational in nine EU countries (situation end of June 1997). The project provides for EIF guarantees on investment loans by banks for new environmental investments by SMEs.

EQUITY OPERATIONS

Another SME activity initiated last year, is the direct participation of the EIF in venture capital funds, so-called equity finance. In this way the EIF contributes to the provision of equity to the SME sector, with special emphasis on funds supporting innovative companies from the early stages of their development.

The EIF is authorised to commit ECU 75 million to equity participations up to end-1998. The first six operations have been signed in the first half of 1997 for a total of ECU 16.6 million. These concern equity stakes in venture capital funds in Belgium, France, Scandinavia and the UK.

The EIF, as a public-private partnership with three main shareholders (the EIB, the European Commission and a group of 77 financial institutions) works under market conditions and is therefore expected to operate on a profitable basis. Total revenues from all operations reached ECU 18.2 million and the net profit in 1996 was ECU 11.5 million. By the end of June 1997, the EIF's portfolio of signed contracts since inception had reached over ECU 1.8 billion, distributed over the three TEN sectors, transport (28%), energy (28%) and telecoms (10%), as well as SMEs (34%).

LOOKING TO THE FUTURE

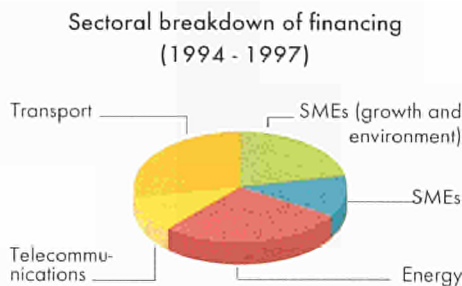
The EIF now has guarantees outstanding in fourteen countries of the European Union. In 1996 it issued its

Breakdown of financing by country (1994 - 1997)



first guarantees outside the European Union, including one in Slovakia. In this energy project the EIF is supporting the provision of natural gas supplies to Germany and Austria from Russia via the Ukraine.

Finally, the Annual Meeting approved the appointment of the three members of the Financial Committee, who are appointed for three years. With effect from early September 1997, Mr Gerbrand Hop (52), nominated by the EIB, will replace Mr Thomas Oursin as Chairman of the Financial Committee. Mr David McGlue (50) has been reappointed following a proposal of the



European Commission and Mr Michel Berthezène (51), replacing Mr Francis Lagrange, has been appointed following a proposal from the 77 Financial Institutions, all shareholders of the EIF.

Since the Annual General Meeting the EIF, like the EIB, has featured in

the conclusions of the Amsterdam summit. In the European Council's Resolution on Growth and Employment published on 17 June 1997, the important role of the EIB and the EIF in creating employment through investment opportunities in Europe is explicitly recognised. The EIB was urged to step up its activities in this respect and "to examine the establishment of a facility for the financing of high-technology projects of SMEs in cooperation with the EIF, possibly making use of venture capital with involvement of the private banking sector". The EIF has already started work on its response to this request. ■

Appointments at the EIB

The following appointments have been made at senior staff level at the European Investment Bank during the first half of 1997.

As of 1 March, Dominique de Crayencour was appointed Director of Information Technology after Rémy Jacob took up the post of Director of Corporate Affairs. (See EIB Information N° 91, 1/1997, page 9).

Dominique de Crayencour's career at the EIB commenced in 1980 as Loan Officer for the Maghreb countries and Portugal within the Directorate for Lending Operations outside the Community. In 1986, following Portugal's accession to the EU, he moved to Lisbon to establish the local EIB representative office. Four years later, he was called back to



head the Organisation and Methods Division up to 1993, when he was appointed Head of the Financial Institutions Division in the Credit and Monitoring Department.

Alessandro Morbilli took over as Director General of the Legal Affairs Directorate on 1 May, following the retirement of Bruno Eynard who had served the Bank with distinction from September 1968 to May 1997 and, in particular, over his last four years with the EIB, as Director General of Legal Affairs.

Alessandro Morbilli had been Director of the Administrative Services Department since 1993. He first joined the EIB in 1971 as Legal Adviser and in 1981 was appointed Head of Coordination of the Directorates



for Lending Operations within the Community. Two years later, he joined the Department for Italy, working - for a period of ten years - as Head of Division for initially, Financing Institutions and later on, Credit Monitoring.

Adriaan Zilvold is Alessandro Morbilli's successor as Director of the Administrative Services Department. He took up his new appointment on 1 July.

Adriaan Zilvold joined the EIB in 1976 as Loan Officer in the Directorate for Lending Operations outside the Community. Initially, he was engaged in Bank operations in Greece and later joined the team dealing, inter alia, with the Maghreb and Mashreq countries. He went on to work as Loan Officer for the former Yugoslavia for four years prior to his appointment in 1987 as Head of the Internal Services Division. ■



The EIB's Information Policy

Brochure on Information Policy and Rules on Public Access to Documents

Over the years, the European Investment Bank has implemented an active information and communications policy to highlight its mission, organisation and operations. The objectives, instruments and scope of this policy are now presented in a newly published brochure which also includes the Bank's *Rules on Public Access to Documents*. The publication is available on request from the EIB's Information and Communications Department (1).

The EIB is committed to a public information policy aimed at improving knowledge and understanding of its mission and its activities in support of European Union objectives. Its policy is designed to support the Union's commitment to increasing the transparency and openness of its institutions, as laid down in the *Treaty on European Union* (2) as well as in other EU documents. The Bank's information policy is also attuned to responding to the increasing public interest in its expanding role and activi-



ties in support of internal and external EU objectives.

INFORMATION POLICY: SCOPE AND GUIDELINES

The brochure spells out the information policy objective of informing the public at large as well as specific interest groups, including public and private-sector operators, the banking community, other EU institutions and, of course, the Bank's shareholders. Information provided covers an extensive range of topics but, in line with the EIB's general emphasis on supporting European integration, it focuses in particular on the Bank's contribution to EU policy objectives.

In its day-to-day information activity, the EIB strikes a balance between the requirements inherent in its role and

mission as a European Union institution, including transparency, and those linked to its activity as a bank, including confidentiality. While providing as much information as possible to the public through a comprehensive set of printed, electronic and audio-visual media, the EIB also has to respect its obligation to protect the interests of its shareholders and clients. In practice, this means that requests for access to documents not expressly intended for publication may have to be denied. Such requests are handled by refer-

ence to the Bank's *Rules on Public Access to Documents*.

NEW INITIATIVES

In recent years, the EIB has launched several new initiatives to increase the availability of public information on its activities, in particular through extending and diversifying information sources and opening these up to a wider variety of audiences. In July 1996, the Bank established a dedicated server on the Internet, providing – in English and French – key data and details on its lending and borrowing operations, organisational structure, and cooperation with other multilateral financing institutions. It also contains the EIB's main publications, such as the *Annual Report*, *Statute*, and the three latest issues of *EIB Information*, plus a review of the Bank's press releases by country, sector and EU objective.

The Brochure on Information Policy outlines the facilities used by the EIB for disseminating its public information, ranging from a list of its publications, to news media instruments, electronic media, audio-visual material and other information activities. It also covers the *EIB Forum* (3), a yearly two-day event, bringing together key personalities

(1) Ms Yvonne Berghorst, fax number -352 4379 3189.

(2) Declaration N° 17 to the Final Act of the Treaty on European Union.

(3) See EIB Information N° 91 for the EIB Forum 1996 "The Mediterranean: Working in Partnership" held in Madrid on 24-25 October 1996.

and professionals, intended to contribute to public debate on key European topics. It mentions staff contributions to external events, arrangements for welcoming groups of visitors to the Bank, as well as the latter's participation in fairs and exhibitions. In addition, the publication deals with the Bank's contribution to the public information policy of other EU institutions, in particular the European Commission. Inter-institutional cooperation, primarily focused on information for the public at large, takes the form of printed and electronic publications, audio-visual material and joint European Union presentations at fairs and exhibitions.

HOW TO LEARN MORE ABOUT THE EIB

The brochure contains practical details on how to obtain information from the EIB. Requests for general information are handled primarily at the Bank's Headquarters in Luxembourg, by the *Information and Communications Department*. Most initial enquiries are dealt with by the *EIB Information Desk*. Media relations, broadly broken down on a geographical basis, are listed in the brochure as are the Bank's external Offices. Its Representative Office in Brussels, mainly focusing on inter-institutional representation, and the Offices in Rome, Athens, Lisbon,

London and Madrid, primarily handling operational issues and relations, may also be contacted for publications.

The EIB's information policy reflects the Bank's nature and the dynamics of its activity, as well as new EU policy initiatives, and takes full advantage of innovative technological developments to support this activity, in particular in the realm of electronic media. In this evolving process, the Bank is constantly adopting new ways and means for its information policy to maximise communications with the general public, its stakeholders and shareholders. Access to timely information is and will remain of major concern for the EIB. ■

First half of 1997: Lending reaches ECU 9.4 billion

During the first half of 1997, the EIB advanced loans totalling ECU 9 354 million for capital investment contributing towards attainment of the European Union's policy objectives.

Within the European Union, finance contracts signed totalling 8 924 million encompassed 14 countries and broke down as to 6 252 million in individual loans and 2 672 million in global loans concluded with EIB partner banks or financial institutions. Global loans under drawdown as at 30 June provided 1 880 million in support of some 6 950 smaller-scale ventures, undertaken by both SMEs (5 940 firms) and local authorities (infrastructure).

Individual loans concluded for infrastructure projects accounted for 80% of the total.

The communications sector received 2 808 million, as follows:

- rail transport, in particular construction of the link between Heathrow Airport and Paddington Station in London;
- road and motorway transport, including upgrading to motorway standard of the Vierzon-Montauban section of the RN20 in France, modernisation and widening of the M6 between Glasgow in Scotland and Carlisle in England, continuation of the works on the Patras-Athens-Thessaloniki priority TEN in Greece and construction in Finland's Arctic region of a section of the E4 motorway between Kemi and Tornio, close to the Swedish border;
- urban transport, notably the Rennes metro in France and building of a



motorway tunnel under the Elbe in Hamburg;

- shipping, with financing of construction of an icebreaker at the Rauma shipyard in Finland, which will improve the safety and reliability of sea links between Finland and neighbouring countries;

- telecommunications, where network modernisation has continued in Sweden and Portugal.

In the **environmental infrastructure** field (984 million), mention should be made of the first EIB loan to strengthen river dykes in the Netherlands, along the Rhine, the Waal, the IJssel and the Meuse, in order to prevent flooding of this region.

In the **energy** sector (1 223 million), loans granted by the EIB included those in Spain for installation of three new major sets of windmills south-east of Pamplona (Navarra), in Sweden for improving the power generation and supply network and cooling facilities in Göteborg, the country's second city, and in Germany for the NETRA gasline, which will convey Norwegian gas from the terminal on the North Sea coast, near Dornum, and German gas to the country's eastern Länder.

Industry received 1 065 million. During the second quarter, loans were



advanced inter alia for construction of a plant for manufacturing state-of-the-art semiconductors in Rousset, in the south of France, for production of a small city car in Lorraine and for various projects in the chemicals and electrical engineering sectors.

Finally, with regard to **services**, the EIB widened the range of its financing by granting, in Spain, loans for building work and the installation of equipment in technical institutes and universities in

LARGE-SCALE EIB SUPPORT FOR TRANSPORT INFRASTRUCTURE IN THE NORDIC COUNTRIES

Inauguration of the fixed link over the Great Belt on 1 June 1997 marked an important date in the establishment of pan-European communications networks in the Nordic countries, as the 18 kilometre-long structure between eastern and western Denmark will significantly improve goods and passenger traffic flows both within Denmark and between the other Nordic countries and mainland Europe. The EIB, which provided loans amounting to ECU 1.5bn towards total capital investment of ECU 5.5bn, has been the leading source of finance for this project, thereby emphasising the importance of this link for the region and the trans-European networks (TENs).

Together with the bridge over the Øresund, a priority TEN, which is to join Denmark to Sweden by the year 2000, the Great Belt link will provide for uninterrupted road and rail travel between Northern Scandinavia and the rest of the European Union. So far, the EIB has supported work on constructing this second fixed link across the Scandinavian straits with loans equivalent to ECU 580 million.

In addition, infrastructural components of the "Nordic Triangle" – rail, road and sea corridors linking the four Nordic capitals of Oslo, Stockholm, Helsinki and Copenhagen – have, over the past two financial years, received loans totalling ECU 160 million for the sections in Sweden and ECU 380 million for capital works in Finland. The stretches already financed and currently being upgraded or extended include the E4 motorway between Stockholm and Helsingborg and the E18 motorway, the main East-West highway in Finland. In the rail sector, modernisation of major sections of Sweden's east and west coast railway lines and, in Finland, the Turku-Helsinki-Russian border line have already been funded by the EIB.

In Norway, an ECU 30.6 million loan is supporting work on improving the E6 between Oslo and the Swedish border.

All these schemes are an extension of the EIB's earlier assistance for improving transport infrastructure in Denmark, where communications projects of relevance to Europe as a whole have received ECU 2.8bn since 1992, helping to finance, in addition to the very large-scale work over the straits, the significant railway electrification programme and expansion of road and motorway networks. Finally, in May 1997, an initial loan was granted for extending Copenhagen Airport, one of the hubs of the region's international air traffic.

Last of all, in the Arctic areas, which depend on reliable sea links for the bulk of their exports, the security of traffic between Sweden and Finland will be improved with the commissioning by the Finnish Maritime Administration of a new icebreaker cofinanced with an EIB loan, the first to be denominated in Euros (26.7 million).

Andalusia, as well as construction of a new university hospital in Santiago de Compostela (Galicia) and, in the United Kingdom, for financing European film productions aimed at the general and family entertainment market.

Outside the Union (430 million), the Bank provided finance during the second quarter for improving power supplies in southern Algeria, rehabilitating sections of the rail network and supplying drinking water to urban areas in Morocco, developing natural gas fields in South Africa, improving the Czech section of the Berlin-Prague-Vienna rail link in the Czech Republic and construction of a flat-glass plant in Cuernavaca in Mexico, contributing towards the development of the Mexican economy by establishing a joint venture between a major European Union company and local partners. Lastly, development of a tyre company in Cameroon and rehabilitation of the energy sector in the Comoros received assistance in the form of risk capital.

BORROWINGS ON THE CAPITAL MARKETS

Borrowings issued during the first half of 1997 totalled ECU 14 billion, with corresponding signatures amounting to ECU 13 billion. Representing a 35% rise on the same period in 1996, these operations were undertaken in 17 currencies, with more than 80% in those of European Union Member States.

This strong surge in issuing activity is attributable both to funding requirements for loan disbursements, themselves on an upward trend, and in particular to the EIB's policy of taking advantage of opportunities available on the various markets contributing significantly towards reducing the Bank's borrowing costs.

These opportunistic borrowings are notably floated via multiannual medium-term note or debt-issuance programmes. Indeed, in May of this year the EIB pioneered the first debt-issuance programme denominated in GRD, which it has now activated, a facility certain to contribute to development of the Greek capital market.

In line with its strategy regarding the Euro market, the EIB launched a total of 4.8 billion in issues denominated in Euro and tributary issues in major European currencies (NLG, FRF, DEM, PTE, GBP, ITL).

The Bank's strategic approach has also concentrated on emerging markets in Central and Eastern European Countries, especially Hungary and Poland.

A memorandum was signed, in April, with the National Bank of Hungary and the body responsible for supervising the Hungarian capital market, laying down the principles and procedures for arranging a medium-term note programme.

Before being authorised to enter Poland's capital market, the EIB floated on the international market an issue in DEM, with the interest rate and repayment of principal indexed to the Polish zloty. ■



ECU

Below are the ECU values in national currencies, as at 30 June 1997; these rates are applied for the third quarter of 1997 in preparing financial statements and operational statistics of the EIB:

DEM	1.97214	BEF	40.7289
FRF	6.64615	LUF	40.7289
GBP	0.674136	ITL	1927.39
NLG	2.22080	ESP	166.695
DKK	7.51168	PTE	200.062
IEP	0.738442	GRD	309.727
SEK	8.63692	ATS	13.8765
FIM	5.90343	USD	1.08300

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