



EIB INFORMATION

1 - 1997 · N° 91
ISSN 0250-3891

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

EMU, Capital Markets and the EIB

EMU will be a major step on the way to European integration. It will have important economic consequences, both during the transitional period and after introduction of the sin-

gle currency. The transition to EMU and its implementation are confronting European economies and governments with a series of unprecedented challenges, the most important being the need to trim budgets in a period of economic weakness and to agree on clear rules ensuring continued budgetary discipline once the *euro* has been introduced. Equally, EMU will have a profound impact on financial institutions. It will reinforce trends already affecting the European banking community, such as globalisation of markets, a more competitive environment and the move towards more institutionalised management of savings.

EMU's objective of strengthening European integration has been the very task of the EIB since its foundation. Contributing to EMU's success, therefore, is part of the Bank's mission which it will pursue by further promoting balanced regional development and social cohesion in the European Union. EMU will be a challenge for the Bank and, at the same time, offer new opportunities for enhancing its role.

This article will focus on EMU's impact on the capital markets and EIB operations. In addition, it will

raise a few technical issues (see box article) with regard to the transition to the *euro*.

EMU'S IMPACT ON THE CAPITAL MARKETS

EMU will bring an end to the fragmentation of European capital markets along currency lines and result in the creation of a huge integrated financial and banking market in the Union, bound together by one single currency. For example, the market for government bonds issued by countries participating in EMU is set to become the largest bond market in the world once

Contents

- **EMU, Capital Markets and the EIB** 1
- EMU will have a profound impact on financial institutions. Competition is set to increase, leading to greater specialisation. The EIB is well-equipped to contend with this new environment and will continue to accord top priority to the balanced development of the EU's regions.
- **Regional development: a priority objective for the EIB** 5
- Update on EIB activity in support of infrastructure and productive-sector projects as well as interaction with the "Structural Funds". Since the reform of these Funds in 1989, the EIB has lent more than ECU 71 billion for projects furthering regional development. The loans in question have assisted capital investment in excess of ECU 210 billion.
- **Trans-European networks: new brochure** 9
- **New appointments at the EIB** 9
- **EIB Forum** 10
- The EIB Forum 1996, devoted to "The Mediterranean: Working in Partnership", brought together over 350 eminent personalities in Madrid.
- **EIB lending reaches ECU 23.2 billion by 31 December 1996** 12



bonds currently outstanding are re-denominated in *euro*. If all Member States were to join the currency union, the government bond market (measured by all government debt with a maturity of more than one year) would total ECU 2 400 bn, as compared to an equivalent figure for the US of ECU 2 000 bn.



Due to its significant volume, the *euro*-financial market will be much more liquid than today's national markets, i.e. supply and demand for all types of financial assets will be much greater, resulting in steadier price movements. More liquid markets will, in turn, stimulate the development of new financial instruments including a broader spectrum of maturities on bond markets.

As a result of both higher liquidity and a greater variety of financial instruments the *euro*-market should become more attractive to foreign investors as well and, hence, draw in more investment capital than the EU's national currencies and markets do at present. The new *euro*-bond market, therefore, has all the potential to expand rapidly and to establish the *euro* as *the* world's alternative reserve currency to the US Dollar.

COMPETITION WILL BE KEENER

This large financial market should lend impetus to the existing trend towards more institutionalised management of savings, and hence towards investment funds and other forms of professional management. Competition between these institutions can be expected to increase further, leading to greater specialisation in the management of financial activities. With investors

becoming more sophisticated or paying even more attention to the performance of their asset managers, competition will be keener. As a result, it can be expected that a wider range of financial instruments will become available to investors and borrowers alike. This should contribute to improved allocation of financial resources,

if not their optimum use, and ultimately to more promising economic development.

BORROWERS WILL BE RE-RANKED

In the *euro*-financial market with a highly efficient financial industry, the interest rate which a borrower will have to pay for a loan for the same maturity will increasingly depend, above all, on his credit-rating and no longer on a mixture of creditworthiness, currency considerations and domestic reputation. As a consequence, there will be a re-ranking of borrowers. Public borrowers will no longer enjoy the privilege of being considered the highest credit-rated borrowers in their country because of their sovereign status, which has enabled them occasionally to fund or reduce their debt via inflationary policies. Instead, they will be ranked according to their capacity to service debt, notably in terms of the strength of their economies, budgetary discipline, the level of debt and debt servicing. In other words, in *euro*-land governments are likely to be rated on much the same criteria as are applied today when they issue bonds in foreign currencies.

The larger and more liquid *euro*-market may provide a strong incentive for private companies to bypass banks and

to raise funds directly and more cheaply on the capital market. Financially robust companies from comparatively weaker countries could be the major beneficiaries since their countries' credit-rating will no longer impose a ceiling on their own credit-rating which could be upgraded. However, not only large companies will benefit from easier access to the market. Rather, it seems likely that, in *euro*-land, a whole industry catering for the needs of second-tier firms will start to blossom and this will reduce the minimum size requirement for borrowing directly in the market.

The development of *euro*-financial markets as a competitive source of financing for private companies should be further stimulated by reduced government borrowing requirements. Under the terms of the Maastricht Treaty, the deficits and public debts of the national governments are being trimmed. The introduction of a stability pact linking countries participating in the single currency should reinforce this trend and leave room for the development of funding investment by commercial and industrial companies directly from the capital markets.

As a result, in the *euro*-financial market competition should become more intense, both among banks as well as between banks and the capital markets.

IMPLICATIONS FOR EIB OPERATIONS ON THE CAPITAL MARKETS

Aggregate EIB lending currently exceeds ECU 20 billion per year. An efficient AAA-rated financial intermediary, the Bank borrows some ECU 18 billion annually in 20 or so different currencies, with those of EU Member States representing some 80 per cent of its borrowings (for further informa-

INTRODUCTION OF THE EURO THE COMMISSION SETS OUT A LEGAL FRAMEWORK

On 16 October 1996, the European Commission adopted proposals relating to the legal framework for use of the euro. The aim of the proposed texts, eagerly awaited by consumers, the corporate sectors and banks alike, is to clarify the step-by-step arrangements leading to introduction of the European currency:

- as from 1 January 1999, the countries in the euro zone will have only a single currency, the euro; former national currencies will continue to be legal tender but, as from that date, will become simple subdivisions of the euro;
- euro notes and coins will be introduced on 1 January 2002 at the latest and will immediately become legal tender; they will circulate alongside national notes and coins for a maximum of six months, after which they will be the only legal tender;
- as from 1 January 1999, the euro will replace the ecu basket at the conversion rate of one for one;
- the continuity of contracts initially denominated in ecus or national currencies will be guaranteed upon introduction of the euro: it will, therefore, not be possible to use this changeover as a pretext for calling existing contracts into question.

These proposals received favourable consideration by the European Council at its meeting in Dublin on 13/14 December 1996.

tion see: "EIB Info" N°88). The outstanding debt amounts to almost ECU 100 billion, making the EIB the sixth largest borrower within the European Union, in relation to sovereign issuers, and the leading one among the Multilateral Financial Institutions.

Since the early days of the European Monetary System, the EIB has been an active promoter of both lending and borrowing in ECU. Total loans granted in ECU add up to some 13 billion and in 1996 the ECU ranked fifth among the currencies used by the EIB for its disbursements. Total outstanding debt in ECU amounts to 9 billion.

As a major lender, borrower, investor and user of derivatives in European currencies including the ECU, the EIB has a vested interest in EMU which should further enhance its role as a

major financial intermediary in Europe. The EIB was the first borrower committing itself explicitly to substitute its outstanding debt denominated in ECU for the *euro* on a one-to-one basis as soon as monetary union becomes a reality, thus reassuring investors in ECU bonds and underlining its support for EMU (see "EIB-Info" N°90).

The single currency will considerably simplify the EIB's operations and, in particular, its asset and liability management, given that most of its business could be conducted in one currency only. Furthermore, since in *euro*-land's more competitive environment, credit quality will be even more critical for borrowing, the EIB, with its high credit standing resulting from its sound loan portfolio plus the strength of its shareholders, is in an excellent position to benefit from the deeper and more liq-

uid *euro*-market in terms of further improving its relative borrowing costs.

The EIB's aim will be to launch, and feed the market with, *euro*-benchmark issues, significant in size and for an even broader range of maturities, so covering the entire yield curve. It will both ensure appropriate liquidity, and the good standing of its bonds, on the secondary market and encourage use of its issues as a basis for futures contracts. The EIB's bonds can, therefore, be expected to continue to remain the best complement to EU government bonds in Europe as well as among US and Asian investors, and could possibly become even higher rated than some government bonds. The resultant, even lower relative borrowing costs will provide the EIB, in its capacity as a major financial intermediary, with the opportunity to expand its lending activities further and, in particular, to offer new financial services unavailable to most borrowers on appropriate terms on the market, while still maintaining its prudent financial policies.

NEW OPPORTUNITIES FOR LENDING

The EIB's lending policy and instruments will, of course, have to adapt to



the changing environment. EMU will offer many of the Bank's customers the possibility of borrowing on an increasing scale directly from the larger *euro*-market, thus reducing the EIB's scope for lending to large companies. How-

ever, it should also offer new opportunities for the EIB to diversify its products in, for example, accompanying its clients onto the bond market. In addition, lower relative borrowing costs will enable the EIB to expand its global loan business benefiting small and medium-sized companies.

Public-sector investment, which has long been the mainstream of the Bank's business, may well remain flat in the years ahead. Governments participating in EMU will have to maintain tight fiscal rectitude and there will thus be less scope to embark on significant investment programmes, whether projects are being financed directly from budget allocations or supported via the Bank. However, this need not entail a reduction in the EIB's scope for lending. A further decline in public investment may well be offset by an increasing trend towards private or public-private investment for infrastructure projects, resulting from growing recognition that many activities previously considered as natural state monopolies could better be provided by the private sector. A trend towards privatisation of such activities is evident already in such sectors as telecommunications, water and waste treatment and public transport. The Bank has already acquired considerable experience in financing projects in these sectors and has proved to be innovative in tailoring financial packages with other financial intermediaries and guarantors for the specific needs of the individual projects and promoters. The Bank, therefore, is well placed to expand its activities in this area, which is still in its early growth phase in the European Union. EMU might even lend special impetus to Bank involvement in this sector in all those countries where governments and other public authorities are less than AAA-rated, given that there would also be more advantages

to securing project financing from the EIB and other banks.

REGIONAL DEVELOPMENT WILL REMAIN A CORNERSTONE

Contributing to balanced regional development within the European Union will remain a cornerstone of the Bank's lending. Since EMU will not necessarily reduce regional disparities within Member States and those staying out of EMU for a longer period may even face additional disadvantages, the European Union's regional and structural policies will have to continue. However, there is a possibility that these policies might be revised, notably the Cohesion policy (planned to be phased out by the end of 1999), which could lead to a lower overall volume of grants from budget resources. As infrastructure needs have to be accommodated somehow, this could broaden the scope for EIB lending, in particular in supporting private-public partnerships promoting public utilities.

Looking further ahead, with some Central and Eastern European countries likely to join the EU in the near future, there should be ample opportunities for the Bank to extend further its existing financing in these countries to modernise their currently inadequate infrastructure.

EMU and increasingly competitive pressures on the financial markets will clearly affect the EIB's lending business. However, at the same time, fresh opportunities for borrowing on even more favourable terms are likely to emerge, providing the EIB with the chance to diversify its lending and to offer the financial services needed in the new *euro-land* in order to fulfil its basic objectives. ■



MORE ABOUT EMU:

EIB PAPERS is launching a new series with a special first issue devoted to EMU.

Contributors and subjects:

- Daniel Gros, *The steeple chase towards EMU*
- Ole J. Rummel, *On the feasibility of EMU with diverse European economic transmission mechanisms*
- Bernhard Winkler, *Is Maastricht a good contract?*
- Paul de Grauwe, *How to fix conversion rates at the start of EMU*
- Luis Gonzales Pacheco & Alfred Steinherr, *A proposal to stabilise the value of the ECU*

This special issue will be introduced with a preface by Mr Wolfgang Roth, Vice-President of the EIB.

For copies, please contact Ms D. Venturas (fax 00352/4379-3492).

Regional development: a priority objective for the EIB

From the very outset, one of the primary objectives of the Treaties establishing the European Community has been to build a united and interdependent Europe in which regional disparities would be reduced. It is therefore not surprising that the European Investment Bank, as the Union's financing institution, devotes the largest proportion of its lending to correcting regional imbalances.

The Bank's activity in this field has been broadened in scope since the Maastricht Treaty, which came into effect in November 1993, underlined the need to strengthen economic and social cohesion in tandem with the creation of a single economic area. Working closely with the European Commission, the EIB helps to redirect the resources it raises on the financial markets towards funding numerous productive projects in the Union's least prosperous areas, home to almost half the Community's population.

ACHIEVING A DEFINITE ECONOMIC IMPACT

Since 1989 when the Structural Fund reforms were ushered in, the Bank has advanced more than ECU 71 billion in loans (of which 12.15 billion in 1995) for investment furthering regional development, making up nearly 70% of total EIB financing in the Member States of the



Union. This lending has gone to projects costing in total over ECU 210 billion.

Schemes which qualify for funding in the light of their contribution to regional development are selected for their location in an area eligible for structural support measures (see box article, page 7), for their positive impact on the area's economy or for their place within a sector which has an important contribution to make to the area's development. In this connection, drawing on the proceeds of its borrowings rather than furnishing grant aid, the Bank provides support for capital investment likely to generate long-term activity by virtue of its technical, economic and financial viability and its compliance with the most advanced environmental standards in the Union.

This assistance concerns projects of widely-differing sizes, undertaken in a broad range of economic sectors by both public and private operators. Whilst large-scale investment (costing over ECU 50 million in all) attracts direct funding from the Bank, small and medium-scale projects receive EIB backing by means of the global loan facility. Global loans are deployed by a network of some 130 banks and credit institutions throughout the Union. The proceeds are on-lent to final beneficiaries by these intermediaries' branch offices, which are in touch with the local business scene and the needs of small and medium-sized operators (1).

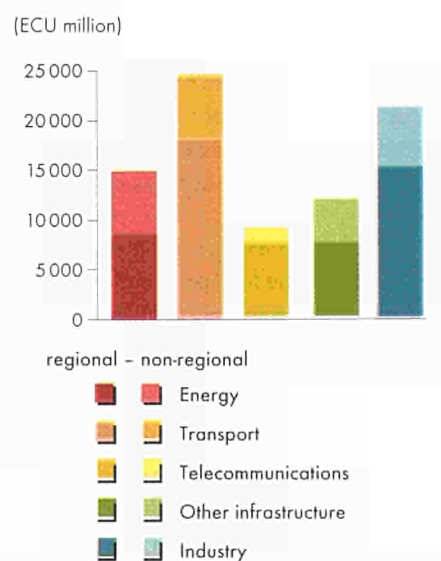
The impact of EIB funding can be gauged by the contribution of ventures financed towards gross fixed capital formation in the Union. These projects accounted for nearly 5% of GFCF in the fifteen Member Countries in 1995, but the figure is far

higher in the less-advanced countries: 20% in Portugal and 11% in Spain, Greece and Ireland.

EFFECTIVE INTERACTION WITH THE STRUCTURAL FUNDS

Unlike budgetary aid and grants provided through the Structural Funds, EIB financing is not subject to any country or sectoral quotas; it answers economically-justified needs and is targeted, on a case-by-case basis, at individual projects. How-

Regional development financing as a proportion of total activity by sector (1986-1995)



ever, in pursuing the same objective, the Bank and the European Commission, responsible for managing the budget, work closely together in ensuring an optimum mix of loans and grants and the most productive use of EU resources, in line with the types of investment assisted by both institutions.

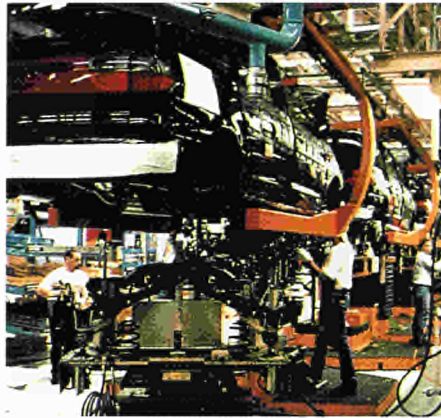
This combined approach is reflected in the growth in joint funding through EIB loans and Structural Fund grants which, in

(1) See EIB Information No. 86, November 1995, page 7.

1995, added up to 39% of lending in areas eligible for Community structural measures (compared with 31% in 1994 and 25% on average between 1989 and 1993).

In order to achieve this high degree of complementarity, the EIB is involved in the various stages of preparing and implementing Community structural aid programming led by the Commission in consultation with the national or regional authorities in the Member States concerned. On the strength of the initial indicative figures for loans in support of projects featuring in the development plans put forward by the regions eligible, the Bank and the Commission agree on the fine-tuning of Community assistance in accordance with the capacity of the projects to sustain repayment of funds borrowed. Next, the EIB helps to monitor implementation of the "Single Programming Documents" and the "Community Support Frameworks" (CSFs), contributing its expertise and knowledge along with the operators concerned to evaluate local situations and participating, where necessary, in the committees supervising and monitoring these instruments.

It should be pointed out, however, that the Bank remains the final arbiter of its financing decisions, adopted on a project-by-



project basis by the EIB's Board of Directors after taking into account the opinion of the Commission and the Member State concerned. Hence, the Bank can decide against an indicative financing proposal, should it turn out that the project offers no tangible economic benefits or if its implementation is not such as to allow loan repayments to be sustained. On the other hand, the Bank may at any time decide additionally to finance an investment scheme meeting the regional development objective, but outside the ambit of structural aid planning.

Under the cooperation arrangements with the Community's structural instruments, the Bank also actively assists with implementing the Cohesion Fund (see box article, page 7), having signed a cooperation agreement with the Commission in September 1992 on providing its technical, economic and financial expertise in appraising projects. Since 1993, the EIB has scrutinised nearly sixty requests for financing, including 25 in 1995, chiefly for projects in Greece and Spain.

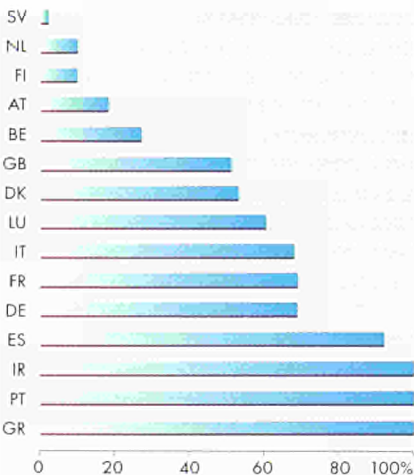
Lastly, the EIB, acting on behalf of the EFTA countries and in close coordination with the Commission, is continuing to manage the "Financial Mechanism" set up in conjunction with the European Economic Area (EEA) (2). Close on ECU 500 million of loans carrying a 2% interest rebate and over ECU 140 million of grants have thus been advanced by the EIB since this

mechanism came into effect on 1 January 1994.

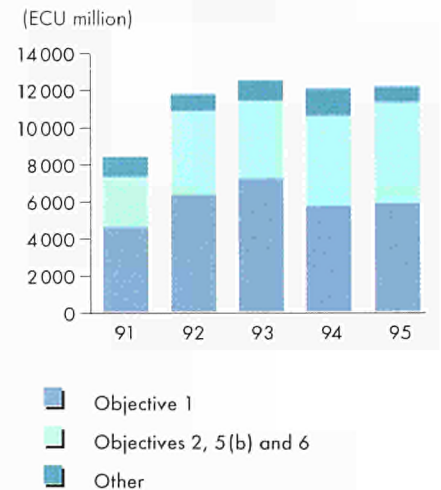
A WIDE RANGE OF PROJECTS SPANNING OVER TWO THIRDS OF THE UNION

Areas eligible for support under the Community Structural Funds make up nearly two thirds of the Union's territory, in which half the Community's population lives. Altogether, these regions absorb almost 70% of EIB financing, breaking down in roughly equal proportions between Objective 1 areas and Objectives 2 and 5(b) areas, eligible for EIB assistance. Over the years, there has in fact been continued growth in financing for industrial or rural redevelopment areas (Objectives 2 and 5(b)) owing mainly to the accession of the new Member States

Regional development financing as a proportion of total activity by country (1986-1995)



Regional development financing: breakdown by Structural Fund areas



(Sweden, Austria and Finland) and the substantial capital expenditure undertaken in Germany, France and the United Kingdom. On the other hand, the volume of assistance going to priority Objective 1 areas remains pronounced (ECU 5.8 billion in 1995), principally in support of economic infrastructure in the "Cohesion" countries (Portugal, Spain, Greece and Ireland) and Germany's eastern Länder.

For obvious reasons, EIB financing in support of regional development is focused

(2) See EIB Information No. 84, June 1995, page 10.

on the basic infrastructure sectors. Nearly 42% of the funds have gone to these sectors to foster integration of regions situated on the periphery of the Union: transport (motorways and rail links in Spain (3), Portugal (4), Greece and Ireland; ports and airports in Spain, Italy and the United Kingdom) and telecommunications (Portugal, Spain, Greece, Germany's eastern Länder, etc.), making it much easier for businesses to set up or for new activities to develop.

In the same vein, the EIB has earmarked 15% of regional lending activity for developing electricity and above all gas transfer networks (especially in Germany's eastern Länder (5), Greece and the Iberian peninsula) to promote the use of a non-polluting and abundant source of energy available from regions on the outskirts of the Union (North Sea, Maghreb countries and Russia), where EIB financing has also centred very much on harnessing deposits. Lastly, the funding of projects aimed at protecting the environment accounts for some 13% of regional development activity, including water and waste management (United Kingdom, Denmark, Belgium, France, Spain, etc.), safeguarding the environment at industrial and energy generating plants (France,

(3) See EIB Information No. 90, 4th quarter 1996, page 1.

(4) See EIB Information No. 88, 2nd quarter 1996, page 5.

(5) Since 1990, the Bank has invested almost ECU 6 billion in Germany's eastern Länder.



THE STRUCTURAL FUNDS AND REGIONAL POLICY OBJECTIVES OF THE UNION

The regional policy of the European Union is designed to help redress regional structural imbalances affecting many of the EU's regions, through recourse to:

- the "Structural Funds" financed out of the Community budget:
 - The European Regional Development Fund (ERDF): established in 1975, it provides grant aid for craft and industrial activities and for infrastructure (including the TENs) associated with regional development as well as, in Objective 1 areas, for education and health;
 - The Cohesion Fund: set up in 1993 and operational as from 1994, it provides grants covering up to 85% of public spending on improving transport infrastructure and protecting the environment in four Member Countries: Spain, Greece, Ireland and Portugal;
 - The European Social Fund (ESF);
 - The European Agricultural Guidance and Guarantee Fund (EAGGF) - Guidance Section;
 - various Community programmes: the Integrated Mediterranean Programmes (IMPs), the Financial Instrument for Fisheries Guidance (FIFG), Interreg, Envireg, etc.
- action by the European Investment Bank in support of regional development.

The need to foster a policy of economic and social cohesion, defined by the Treaty on European Union (which came into force in November 1993), gave rise to a substantially increased budgetary appropriation for Community structural measures: ECU 164.3 billion for the period 1994-99.

Four key principles govern implementation of the Structural Funds:

- *Concentration* of assistance on six regional development objectives:
 - reshaping the economies of regions lagging behind in their development (Objective 1),

- redeveloping areas affected by industrial decline (Objective 2),
- combatting long-term unemployment, fostering occupational integration of young people and assisting people threatened with exclusion from the labour market (Objective 3),
- helping workers adapt to changes in industry and production systems by means of preventive measures to combat unemployment (Objective 4),
- adapting processing and marketing structures in agriculture and fisheries (Objective 5(a)) and economic diversification in vulnerable rural areas (Objective 5(b)),
- developing regions with very low population density (Objective 6).

- *Additionality*: Community aid serves to complement investment undertaken by the Member States, regions or operators (co-financing of projects or programmes).

- *Partnership*: between the Commission and the competent authorities of each Member State, at national, regional or local level.

- *Multi-annual programming* of operations funded from European budgetary resources.

The EIB, as the financing institution of the Union, devotes almost two thirds of its annual activity to regional development; it complements support provided through the Funds with loans financed from borrowings on the capital markets, the proceeds of which are advanced on the best terms available on the market and on a non-profit-making basis. The Bank works in close association with the Commission to achieve an optimum mix between loans and grant aid.

Cooperation between the EIB and the European Commission focuses on Objectives 1, 2, 5(b) and 6, mainly in conjunction with the ERDF and the Cohesion Fund.

Greece and Italy) and promoting urban development works in twenty or so towns and cities in Spain, Portugal, Greece, the United Kingdom, France and Germany (6).

The EIB has also invested in a whole host of schemes in productive enterprise, attracting around one third of its assistance in regional development areas. The lion's share of this funding has gone to large-scale facilities, chiefly in the motor industry (Germany, Spain, Italy and France), chemicals, pharmaceuticals and aeronautical engineering (France, Spain and the United Kingdom), electrical engineering and agri-foodstuffs (Italy, in particular). In addition, approaching 30 000 small and medium-sized enterprises located throughout the assisted areas have received investment funding through the EIB's global loans. With a view to bolstering employment, priority has been given to firms with fewer than 50 staff (82% of allocations), in particular when the subsidised lending facility for job-creating SMEs came into operation in 1994-1995 (7), involving more than 4 400 investment schemes creating some 45 000 new jobs.

EIB ASSISTANCE: A PROCESS OF CONSTANT EVOLUTION

During the close on 40 years it has spent working to further the objectives of the Union, the EIB has constantly tailored its lending policies and instruments to the changing needs of the European economy and operators. More than any other objective, regional development therefore reflects changes in the process of European integration, chiefly those resulting from the successive Community enlargements which have led to a steady increase in the number of and territory covered by the areas qualifying for structural assistance from the Union, in particular the priority areas (Objective 1).

Another more recent development is the growth in projects undertaken by private promoters at a time when debt and budget policies are obliging Member States



and regions to scale down their capital expenditure. Against this background, Community budgetary funds available to the less-advantaged regions of the Union, substantially increased by the Edinburgh European Council (see box article, page 7), are used primarily by the States to support their public-sector projects, whereas the EIB deploys its assistance, wherever possible, in favour of investment in productive enterprise.

The continuing process of European integration calls for a broader-based approach to regional development. Many of the EIB's loans have a direct positive impact on regional development even though they are not located in assisted areas. This is the case, for example, for the trans-European transport, energy and telecommunications networks (TENs), which have received over ECU 23 billion of EIB funding since 1993, plus ECU 6 billion for regional infrastructure, largely situated in regional development areas, facilitating access to the TENs (8). Even where they are not located in assisted areas, these networks are instrumental in improving economic conditions there, notably through their beneficial effect on the volume of trade and on achieving a more balanced pattern of business investment throughout the Union.

For similar reasons, the EIB supports industrial investment which, although not situated in areas qualifying for Structural Fund measures, serves to boost employment levels in regional development areas. The investment in a Rhône-Poulenc plant at Péage de Roussillon in France is an example of this approach. The same

holds true of SMEs whose business often depends on the growth of large production plants for sub-contracting work. With a view to finding the best way of accommodating the financing needs of small and medium-sized industrial enterprises, the Bank is currently considering the case for widening the scope of its criteria for providing global loan funding.

Mention should also be made, lastly, of the impact of EIB financing on the countries adjoining the European Union, designed to boost trade with the EU. This applies in particular to the loans made to Central and Eastern Europe (nearly ECU 4 billion since 1991) and to the non-member Mediterranean countries (ECU 3 billion since 1991), conceived in the run-up to accession or European partnership as a means of developing communications infrastructure and strengthening the private sector (9). This assistance often gives rise to joint ventures between European and local operators which benefit activity in outlying regions of the Union, such as Germany's eastern Länder and the southern regions of Spain, France, Italy and Greece.

The emphasis on achieving well-balanced development of the regions within the Community, the EIB's foremost objective, is therefore going hand in hand with action in support of other Community objectives, both within and outside the EU, constantly with a view to strengthening the economic and social cohesion of the Union and expanding Bank activity. ■

(6) See EIB Information No. 88, 2nd quarter 1996, page 9.

(7) See EIB Information No. 82, November 1994, page 7.

(8) See joint EIB and European Commission booklet, "Trans-European Networks: Infrastructure for the 21st Century", available on request from the Bank's Information and Communications Department. Fax: ++352/4379-3188.

(9) See booklets, "Fostering a Euro-Mediterranean partnership" and "Financing Facilities in Central and Eastern Europe", available on request from the Bank's Information and Communications Department. Fax: ++352/4379-3188.

A new brochure

Infrastructure for the 21st century: Trans-European networks for transport and energy.

The European Commission and the EIB have jointly published a brochure explaining the European Union's transport and energy TENs projects. The booklet (12 pages) leads the reader through the different stages of the TENs



programme, explaining its objectives, and taking stock of what has been achieved so far and who contributed to that. It has been written for the public at large.

The brochure is available in the eleven languages of the European Union and can be ordered free of charge at the following addresses:

European Investment Bank
Information and Communications
Department, Information Desk
100, bd Konrad Adenauer
L-2950 Luxembourg
Tel.: (352) 4379-3122
Fax: (352) 4379-3189
Internet <http://www.eib.org>.

European Commission
200, rue de la Loi
B-1049 Brussels
Tel.: (32) 2 299 11 11
Fax: (32) 2 295 01 38
Internet <http://europa.eu.int>.

New appointments at the EIB

Jean-Louis Biancarelli, Martin Curwen and Rémy Jacob have all taken over new managerial appointments at the European Investment Bank.

Jean-Louis Biancarelli succeeds Rex Speller as Director of the Department for Lending Operations in the non-member Mediterranean Countries. Rex Speller is retiring from the EIB after 23 years' service, devoted mainly to operations outside the European Union.



Jean-Louis Biancarelli

Jean-Louis Biancarelli joined the EIB in 1977 after holding the post of project officer at the World Bank for Africa and the Middle East and, subsequently, Latin America. He continued to perform similar duties at the EIB, dealing more particularly with certain African countries,

before being entrusted, in 1983, with responsibility for operations in Southern Africa. From 1986 to 1992, he was Head of Division, responsible for operations in France, prior to his appointment as Director for Lending Operations in Africa in June 1992 and then as Director for Lending Operations in the African, Caribbean and Pacific Countries in 1994, a post now being taken over by Martin Curwen.

Martin Curwen left the Botswana Development Corporation in 1974 to join the EIB's Research Department. In 1978, he transferred to operations in Africa within the Directorate for Lending Operations outside the European Union. In 1984, he was appointed Head of the Southern Africa Division in the African, Caribbean and Pacific Department and, in 1987, assumed responsibility for



Martin Curwen

the Directorate's Coordination Division. In 1994, he moved to the General Secretariat as Director of Corporate Affairs.

Rémy Jacob has been appointed Director of Corporate Affairs within the General Secretariat; he commands 23 years' experience at the EIB in the fields of administration, human resources and information technology. He joined the Bank in 1973, in the General Accounting Division of the Finance Directorate. Three years later, he assumed responsibility for administrative services in the Human Resources Department. In 1983, he became Head of the Budget Division, which he left in 1987 to take charge of Personnel Administration. In 1993, he was appointed Director of Information Technology. ■



Rémy Jacob

EIB Forum 1996 focused on the Mediterranean

BEI/EIB
FORUM

MADRID 1996

The EIB Forum 1996 on "The Mediterranean: Working in Partnership", which was held on 24-25 October in Madrid(1), brought together over 350 delegates from the banking and industrial sectors, governments and the media from 26 countries as well as from international institutions. The aim of the Forum, as a meeting point for specialists working on the Mediterranean, was to contribute to reflections on the topic and, more specifically, to promote networking between regional and local public authorities and other economic players in the region and elsewhere in

framework of Mediterranean co-operation.

The decision to devote the 1996 Forum to the Mediterranean had been inspired by the fact that this region, the very cradle of our civilisation and culture, is of common interest to the European Union, its member countries and its partners, as well as to the European Investment Bank, as was pointed out by EIB President *Sir Brian Unwin* in his opening address. The Mediterranean, which is of great political and strategic importance for Europe as a whole, is

Partnership is also a crucial notion in the EU's Mediterranean policy, as *Manuel Marín*, Vice-President of the European Commission, highlighted. Trans-national projects in infrastructure and the environment are a key element of the Union's "Redirected Mediterranean Policy", launched in 1992. At the Barcelona Conference in November 1995, a fully-fledged Euro-Mediterranean partnership(2) was agreed which should change the existing North-South relationship of dependence into one of partnership based on mutual respect and interest. Its ambitious goal is to establish a free trade area by 2010 which should contribute to a zone of prosperity, peace, security and stability.

To bridge the considerable economic disparities between North and South, goodwill and resources from the outside are far from sufficient in themselves. Developing a free trade area will firstly require efforts by the Mediterranean countries towards continued economic reforms; transfers of foreign investment and expertise throughout the region will be highly supportive. Special attention has to be paid to accelerating North-South co-operation, for example in infrastructure where links at present are marginal. Another key issue in the region's economic development is achievement of a balance between such development and a fair distribution of its benefits; insufficient spin-off for the people in the region will endanger the Euro-Mediterranean partnership.



Opening session: from left to right, *C. Montoro*, Secretary of State for Economic Affairs (ES), *M. Colitti*, Honorary President of EniChem (IT), *W. De Clercq*, Chairman of the European Parliament's Committee on External Economic Relations, *Sir Brian Unwin*, *M. Marín*, Vice-President, European Commission, *M. Ponzellini*, *M. Ghannouchi*, Minister for International Cooperation (Tunisia) and *Prof. Bensalah Alaoui*, University of Rabat (Morocco)

the European Union. Some twenty prominent speakers addressed the audience, amongst whom *Manuel Marín*, *Jérôme Monod*, *Caio Koch-Weser* and *Antoine Pouillieute*, concentrating attention on four topics: the European Union's Mediterranean policy, the environmental preservation of a common heritage, trans-national projects, and the role of the banking sector within the

currently facing major demographic, cultural, economic and environmental problems. Accelerating partnership between the countries in the region is of crucial importance for sustainable economic development, balanced distribution of resources and, consequently, political stability. The future of the non-member Mediterranean countries and Europe is closely interlinked.

(1) See also "EIB Information", N° 89, Third Quarter 1996.

(2) The Barcelona partners are the European Union, Algeria, Cyprus, Egypt, Israel, Jordan, Lebanon, Malta, Morocco, Syria, Tunisia, Turkey and Gaza-West Bank.



The private sector has an important role to play in furthering the region's sustainable economic development. Its modernisation and growth require appropriate debt and equity instruments, and political stability. Particular attention has been paid to modernisation and liberalisation of the banking sector, so as to bring in foreign investors, promote the return flow of capital from the Mediterranean countries back into the region and attract institutional investors. Another topic was the expansion of bank credit to small and medium-sized enterprises (SMEs) which, as within the EU, is not however without risk. Venture capital funding by the EIB and the European Investment Fund (EIF), for instance, can help here.

The EIB, whose role in the Union's policies for promoting economic development in the Mediterranean region dates back to the early 1960s, is the leading source of multilateral financing in countries on both sides of the Mediterranean. It seeks to complement local and international sources of finance, with particular emphasis on the development of trans-national projects, inter-regional links promoting trade and environmental protection offering benefits to the region as a whole, as well as private-sector joint ventures. The Bank is also supporting the Middle East Peace Process, implementing, at the request of the Council, a mandate to lend up to

ECU 250 million in Gaza and the West Bank over the period 1995-1998. At the same time, it is financing reconstruction in Lebanon and trans-national joint ventures in vital areas such as infrastructure and industrial development. Together with the EU, which has committed itself to providing ECU 4.7 billion in grant aid over the years 1996-1999, the EIB, having already lent ECU 1 billion in non-member countries in the Mediterranean in 1995, will step up its financing operations to help the South's economic reform.

A particular highlight of the Forum was the address by guest speaker *Amin Maalouf*, awarded the "*Prix Goncourt*"

and author of "*Leo the African*", "*The Rock of Tanios*" and "*Les Echelles du Levant*". He underlined the need for mutual respect and dialogue between the different cultural entities in the Mediterranean where the three monotheistic world religions meet. Although a dialogue between parties with different cultural backgrounds would be even more difficult than establishing economic co-operation, as Mr Maalouf said, he basically expressed optimism about the region's future. It is offering those who are currently sharing its proximity a perspective of common Mediterranean kinship in a world of increasing globalisation.

The EIB Forum on the Mediterranean was the second of its kind, after that held in Amsterdam in May 1995 on the role of the private sector in financing large infrastructure schemes(3). As in the case of the 1995 Forum, the proceedings of this year's Forum will be published and distributed widely by the EIB to those directly interested in its activities, including parties with a professional interest in the region's development (4). ■

(3) See "EIB Information", N° 84, June 1995.

(4) The publication on the "EIB Forum 1996" can be ordered free of charge through the EIB's Information and Communications Department, fax 352 4379 3189.



EIB lending reaches ECU 23.2 billion by 31 December 1996

The total amount of loans advanced by the EIB during the 1996 financial year, in support of investment contributing to the policy objectives of the European Union and to its cooperation policy with non-member countries, runs to ECU 23.2 billion, up by 8.4% on 1995.

Within the European Union, the Bank provided loans adding up to ECU 20.9 billion, a rise of 12.6%, including 13.6 billion (70%) for projects fostering regional development.

Lending for transport infrastructure came to ECU 4.5 billion, of which 1.2 billion went to priority TENs. During the second half of the year, the EIB continued to give its backing to construction of two major fixed links in Scandinavia (across the Storebælt, the strait separating the two parts of Denmark, and across the Øresund, between Denmark and Sweden), as well as financing sections of motorway in Finland, France, Sweden, Spain and Greece.

Lending in the energy sector amounted to ECU 4 billion, of which 700 million was channelled to priority energy-supply TENs.

Projects attracting new loans signed in the second half included development of gasline networks in Portugal and Greece, establishment of strategic oil reserves in Spain, construction of combined-cycle, natural gas-fired power plants in the Netherlands, Italy and Portugal, as well as a lignite-fired power station replacing obsolete, polluting units north of Leipzig in Germany.

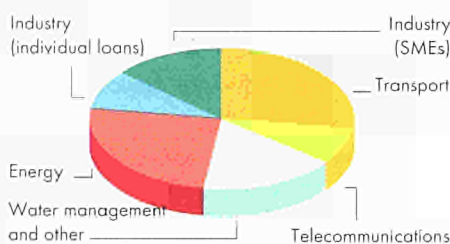
Posts and telecommunications received more than ECU 2 billion, with funds provided in particular for development of mobile telephony facilities, together with satellites and expansion of telecoms networks in Spain and Sweden.

In industry and the service sector, total financing over the year via individual loans reached 1.8 billion, going chiefly to the chemicals sector, the motor vehicle

construction and aeronautical industries, electrical equipment and paper production.

Global loans signed in 1996 (ECU 5.6 billion) plus ongoing global loans from previous years were drawn on to the tune of 4.4 billion in all to finance more than 13 000 ventures and schemes promoted by SMEs and local authorities.

**Sectoral breakdown
of financing provided**



Outside the European Union, by 31 December the EIB had made ECU 2 254 million available.

Lending broke down as follows:

- ACP: 393 million, using up the remaining resources available under the First Financial Protocol to the Fourth Lomé Convention.
- South Africa: 56 million for expansion of the telecommunications network.
- Mediterranean: 681 million, of which 562 million under off-protocol arrangements, for projects to improve communications and combat pollution in Algeria, Cyprus, Egypt, Lebanon, Turkey, Gaza and Morocco.
- CEEC: 1 076 million, chiefly for communications projects, in particular extension of trans-European networks and energy projects ensuring natural gas supplies.

ECU

Below are the ECU values in national currencies, as at 30 September 1996; these rates are applied for the fourth quarter of 1996 in preparing financial statements and operational statistics of the EIB:

DEM	1.91902	BEF	39.5045
FRF	6.49491	LUF	39.5045
GBP	0.803984	ITL	1 916.92
NLG	2.15249	ESP	161.446
DKK	7.37027	PTE	195.205
IEP	0.785235	GRD	302.974
SEK	8.33167	ATS	13.4997
FIM	5.74702	USD	1.2559

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

Material which appears in EIB-Information may be freely reproduced; an acknowledgement and a clipping of any article published would be appreciated.

100, bd Konrad Adenauer
L - 2950 Luxembourg
tel. 4379-1 - fax 43 77 04
H320 Videoconferences 43 93 67

Office for lending operations in Italy:
Via Sardegna, 38 - I - 00187 Rome
tel. 4719-1 - fax 4287 3438
H320 Videoconferences 48 90 55 26

Athens Office:
Amalias, 12 - GR - 10557 Athens
tel. 3220 773/774/775 - fax 3220 776

Lisbon Office:
Avenida da Liberdade, 144 - 156, 8º
P - 1250 Lisbon
tel. 342 89 89 or 342 88 48 - fax 347 04 87

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

Madrid Office:
Calle José Ortega y Gasset, 29
E - 28006 Madrid
tel. 431 13 40 - fax 431 13 83

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

Internet <http://www.eib.org>

Photos: pp. 1-3 EC, pp. 4-11 EIB photographic library

Printed in Belgium by Ceuterick on Arctic Silk paper
awarded the "Nordic Swan" environment label
IX-AA-97-001-EN-C

