

Information

European
Investment
Bank



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The EIB and its financial resources

The growth of the European Investment Bank's financing operations — annual lending doubled between 1973 and last year to reach 1 571.5 million units of account (u.a.); it quadrupled since 1970 (1) — has meant a corresponding development of its borrowings on the capital markets, which constitute the major part of its resources.

Annual borrowings have risen from an average of around 170 million u.a. in the second half of the 60s to around 500 million in 1971-73, 800 million in 1974-76 to reach more than 1 000 million in 1977. Funds raised during the first six months of this year total almost 830 million u.a.

Although the European Community borrows on the markets under other labels (the European Coal and Steel Community borrows for investment concerning these sectors; the European Economic Community has raised funds on its own name to provide temporary balance of payments support for certain Member States; EURATOM — the European Atomic Energy Community last year began raising funds to finance construction of nuclear plant), the EIB is not only the major Community investment financing body but also, and by some margin, the major Community borrower.

It is on this last aspect that this article concentrates, outlining the Bank's financial structure, how it operates on the capital markets and factors determining its credit standing.

The Treaty of Rome, under which the EIB was created in 1958, lays down that the Bank shall help the «balanced and steady development of the common market» by supporting investment projects serving three aims: advancement of economically weak regions; industrial modernisation and conversion; the development of facilities of common interest to several Member Countries or the Community as a whole (e.g. cross-frontier transport links and, particularly important these recent years, measures to reduce the Community's costly dependence on oil imports).

As the financial burden of these policies would fall unevenly from one country to another, the EIB was to help offset this

a) by bringing into the Community from outside additional capital for investment; and

b) by mobilising resources in parts of the Community where capital is readily available for investment and

transferring it to those areas where reverse conditions apply (in essence, another way of saying a transfusion from wealthier to poorer regions).

The Member States were to give the EIB its base by subscribing its capital, but the Bank would depend principally on borrowings for its resources; this was spelled out in Article 130 of the Treaty of Rome and Article 22 of the Bank's Statute (an integral part of the Treaty of Rome).

The decision to set up a Bank working with borrowed funds, rather than a «Caisse» dependent upon regular contributions by Member States, was significant in two ways.

Firstly it would enable the Community to pursue objectives demand-

(1) Part of this growth is, of course, accounted for by inflation; even so, financing operations have grown in real purchasing power by an average of 12% per year between 1970 and 1977.

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ing substantial investment capital without imposing undue strains on Member States' budgets.

Secondly, the financial discipline inherent in operating with borrowed funds was part and parcel of the idea that the EIB should be an autonomous body, able to select the projects it finances on the basis of their economic viability and merits and according to its own professional judgement. Insulating it from pressures which might be inconsistent with this approach, the Bank was given its own, separate legal entity and administration.

This has been detailed in previous articles in EIB-Information (see in particular N° 9) but it is useful to recall here that the Bank is directed and managed at three levels:

— a Board of Governors (composed of one Minister — usually the Finance Minister — from each Member Country) responsible for setting down broad policy guidelines; the Governors also have power to decide on any increases to the Bank's capital;

— a Board of Directors (17 nominated by Member States, 1 by the Commission of the European Communities) plus 10 Alternates (9 nominated by Member States, 1 by the Commission) who may vote in place of an absent Director; whatever national or other commitments they may have, the Directors of the EIB, when acting in this capacity, are responsible only to the Bank; the Directors have sole authority to decide on loans and interest rates applied by the Bank and to authorise borrowing operations;

— a Management Committee, composed of the EIB's President and four Vice-Presidents, the Bank's full-time «motor», responsible for day-to-day control, preparing decisions for the Board of Directors and then carrying them out.

The EIB's capital

The capital structure given to the EIB by the Member States consists of a subscribed capital, of which part is paid in, the remainder being subject to call, in whole or in part, by simple majority of the Board of Directors, should ever the Bank's obligations towards investors require this.

The undertaking on Member States to respond to such a call is written into the Bank's Statute (Article 5)

which, as part of the Treaty of Rome, is not a matter for discussion or negotiation. This said, however, circumstances in which service on the Bank's debt could be maintained only by calling on the Member States are so unlikely as virtually to be excluded; in reality the un-called capital constitutes a guarantee, backing EIB borrowings.

The capital subscribed in 1958 by the original «Six» stood at 1 000 million units of account of which the amount to be paid in was set at 250 million u.a. Since then there have been four increases a) because the amount outstanding on loans and guarantees provided by the Bank may not exceed 250% of the subscribed capital (Article 18 of the Bank's Statute), and b) following the accession to the Community on 1 January 1973 of the three new Member States — Denmark, Ireland and the United Kingdom — each of which contributed to the capital.

The latest increase, decided on June 19 this year, doubled the subscribed capital to 7 087.5 million u.a. and raised the amount to be paid in to 911.25 million u.a. (a table giving the full evolution of the Bank's capital structure was published in EIB-Information n° 13); this means that the Bank's statutory limit on outstanding loans and guarantees, following the 250% rule, is now 17 718.75 million u.a., which com-

pares with a total of 7 335.5 million u.a. reached at 30 June this year. Another reflection of the Bank's financial strength is in its retained earnings appropriated to statutory and other reserves.

Article 24 of the Bank's Statute stipulates that a reserve fund equivalent of up to 10% of the subscribed capital «shall be built up progressively» and that the Board of Directors may decide to set aside additional reserves.

The reserves have been built up mainly through the fact that the paid-in capital does not bear any interest but generates income for the Bank in being used for lending operations; this income, apart from adding to reserves, gives the Bank extra room for manoeuvre in permitting it to keep its lending rates low at the same time as covering its operating expenses.

At June 30 this year reserves stood at 590.3 million u.a., making a total of the Bank's own funds (i.e. capital paid in/to be paid in + reserves) of more than 1 500 million u.a.

The EIB's own funds thus constitute an important financial resource in themselves, but their main significance is that they help to assure the Bank's credit standing, enabling it to perform its basic function of raising the bulk of the funds it requires by means of borrowings on the capital markets.

Funds raised from 1961 to 30 June 1978

Year	Number	Amount (m u.a.)			Participations by third parties in EIB loans (m u.a.)	Funds raised (m u.a.)
		Private issues	Public issues	Total		
1961	3	7.6	13.8	21.4	—	21.4
1962	2	—	32.3	32.3	—	32.3
1963	3	8.0	27.2	35.2	—	35.2
1964	5	13.5	53.3	66.8	—	66.8
1965	4	—	65.0	65.0	—	65.0
1966	6	24.0	114.5	138.5	—	138.5
1967	8	40.0	154.5	194.5	—	194.5
1968	13	112.5	100.0	212.5	—	212.5
1969	9	63.7	82.3	146.0	—	146.0
1970	7	66.6	102.3	168.9	—	168.9
1971	20	208.0	204.9	412.9	—	412.9
1972	19	133.4	328.6	462.0	17.5	479.5
1973	22	207.0	401.0	608.0	4.3	612.3
1974	16	704.2	121.3	825.5	—	825.5
1975	26	318.6	495.1	813.7	17.0	830.7
1976	17	221.0	510.9	731.9	17.0	748.9
1977	31	321.9 ⁽¹⁾	707.6	1 029.5	132.0	1 161.5
1978 (Up to 30 June)	20	185.2 ⁽²⁾	610.8	796.0	33.8	829.8
1961 - 30. 6. 1978	231	2 635.2	4 125.4	6 760.6	221.6	6 982.2

⁽¹⁾ Including 87 m u.a. in medium-term interbank operations.

⁽²⁾ Including 27.5 m u.a. in medium-term interbank operations.

Borrowings began in 1961

During the first years of its existence, when lending activities were limited, the EIB was able to finance its operations from its own funds.

This was quite clearly a temporary situation and in 1961 the Bank floated its first bond issues, for 21 million u.a., since when there has been a steady increase in the amount of resources so raised each year. Cumulative borrowings came to 6 982.2 million u.a. at 30 June this year, of which the amount outstanding was 6 030.3 million u.a.

At the beginning a prime objective had been for the Bank to tap the US capital market; however, from 1964 to 1974, to stem an outflow of capital, principally for balance of payments reasons, the US Government applied an «Interest Equalization Tax» which effectively removed the attraction for US investors of most foreign issues.

This explains why the Bank turned very largely to the capital markets of the Member States during the early years and why, on the international markets, considerable effort has gone into raising funds via Eurobond issues.

In the last four-five years the steady trend has been to turn more and more towards national markets outside the Community and to broaden activities on the international markets.

The abolition of the Interest Equalization Tax has enabled the placing of several large public issues directly on the US domestic market. There has been a conscious effort, it might be said with an innovative approach, to open up new markets or establish on them an early EIB presence, as recent issues in Hong Kong, Singapore and Austria, Eurobond issues denominated in Yen, Sterling and French Francs, and dollar issues handled by exclusively Arab banking syndicates, all bear witness. At the end of August the EIB was the first borrower to make a US-dollar denominated international bond issue registered in Japan and offered for sale on the Japanese market.

A breakdown of Bank borrowings shows that currencies of Community countries, which once represented the bulk of EIB borrowings, are now in a minority position; in recent

years non-Community currencies have accounted for up to 65% of borrowings, the US \$ alone representing over 50%. At 30 June 1978 outstanding borrowings were denominated in a total of 12 currencies, the principal being US \$ (44%), DM (21%), Swiss francs (9%), Dutch guilders (8%).

The EIB now borrows on most world financial markets. The extent to which each of the principal currencies figures in Bank borrowing varies from year to year, according to the domestic monetary policies of the countries concerned and the international financial and monetary situation. The Bank borrows on the most favourable terms it can command at any given time (comparing interest rates, its own borrowers' currency preferences, issuing charges and handling commission) for the amounts and terms it must obtain to meet its requirements. A variety of borrowing techniques are used, although the principal means of raising funds is via public bond issues or private placements.

As a regular borrower, the Bank's first concern is the primary markets, on which it raises the bulk of its resources, although it also keeps a very close interest in the way its bonds perform on the secondary markets, as this has a considerable bearing on the prospects for its future issues.

Public issues are made mainly for raising large volumes of leading currencies: 200 to 300 million Deutsche Mark on the German market, 150 to 200 million US-dollars on the international market or the foreign issues — Yankee bonds — market in New York. However, it also floats public issues on national markets in which a «queue» system obtains (France, Belgium, the Netherlands, Japan and Austria) or in order to secure a longer term for its borrowings (Switzerland).

A sizeable volume of resources is raised by means of private placements, with or without the issue of negotiable certificates, with a bank or group of banks.

Certain operations lend themselves to direct negotiations with financial institutions (insurance and investment companies, pension funds, savings banks etc).

At 30 June this year, cumulative public issues totalled 4 125.4 million u.a. against 2 635.2 million u.a.

obtained via private placements; the latter figure includes 114.5 million u.a. in the form of short and medium term interbank deposits or placing of «notes» in one or two principal currencies.

Other resources have been secured (221.6 million u.a.) by the sale to third parties of participations in EIB loans (operations similar to those carried out by the World Bank and the International Finance Corporation, except that the EIB gives its own guarantee to these participations).

On the secondary markets, the Bank plays its part in standardising procedures and balancing out interest rates, at two stages:

a) when issues are floated, where it helps to even out terms and conditions on the markets by arbitrage between the various centres. Here it pays close heed to redemption and optional repayment provisions. On the international market, it has come to have widespread recourse to the technique of «purchase funds» (where the issuer undertakes, subject to a certain ceiling, to buy up bonds from the market when the rate drops below par);

b) at the negotiating stage, the Bank has in particular stepped in to align settlement procedures and to coordinate the activities of securities-clearing systems.

In 1969 the Bank first availed itself of the «global bearer bond», a special bond issued for the entire amount raised at the time when the loan issue itself is concluded, and surrendered some weeks later against final bonds.

Liquidity management

The EIB may make use of funds on hand for which it has no immediate need by placing these on the money markets, purchasing or selling securities, issued either by itself or by its borrowers, and generally by mounting any kind of financial operation consistent with its function.

Most of its liquid funds come about because long-term borrowings are usually amassed in large unit amounts; although these are raised closely in line with the Bank's requirements for lending their actual redeployment as loan disbursements must be subject to a certain amount of flexibility, according to

the dates of loan signatures and progress on the projects financed.

The Bank has set up a comprehensive worldwide correspondents' network, with which it deals most frequently as a placer of short and medium-term deposits, although from time to time it may also approach this source, as previously noted, for covering short and medium-term liquidity requirements.

Liquidities have been invested in a portfolio of securities which has been built up gradually, principally to hold the resources of the reserve fund; acquisitions are limited to securities carrying a first-rate signature and enjoying access to a large secondary market on which they may always be placed or dealt. At 30 June this year, the overall book value of the portfolio was 232.5 million u.a.

Increased activities

The volume of EIB borrowing can be expected to increase appreciably in coming years to fulfil wishes expressed by the European Council (Heads of State or Government of Community Member States) that the EIB further accelerate lending, particularly to support job-creating investment.

The ability to increase borrowing, at the same time maintaining an impeccable credit standing, rests partly on the strength of the Bank's capital, and reserves, and the broader aspect that, on any market on which it borrows, the EIB is seen as a Community body with nine States as its shareholders.

But the quality of the EIB's loan portfolio has a more direct bearing on the Bank's credit-standing; this quality results from a high degree of selectivity, beginning with a statutory requirement that the Bank finance only projects which lead to an increase in economic productivity.

This means that it lends for a full range of directly productive investment such as new, expanded or modernised factories, or indirectly productive investment such as improvements in transport, telecommunications, energy and water supplies. It does not lend for balance of payments reasons, treasury requirements, working capital or straight commercial transactions.

Loans are granted only after thorough appraisal of the economic, financial, management and technical aspects of the schemes concerned.

No project in the productive sector can be financed unless it appears sure to generate sufficient operating profits to cover loan repayments. In the case of infrastructure investment the direct financial return, as opposed to the broad economic benefits, may be difficult to judge, but here the debt servicing payments can be covered by an undertaking on the part of the Government concerned, or by other appropriate means.

Finally, as a lender operating on borrowed funds, the EIB must always demand adequate security for its loans. Under the terms of its Statute, when a loan is made to any body other than to a Member State

itself, the Bank must receive either a guarantee from the State in whose territory the project is being carried out, or other appropriate security which could, for example, be given by a public authority, major bank or an industrial or financial group with first class credit-standing associated with the project.

In fact, 85% of the Bank's outstanding loans in the Community at 30 June this year were either to or guaranteed by Member States or public institutions controlled by Member States. The remaining 15% were to or guaranteed by banks and parent companies; in a few cases real security has been taken. Where the EIB has given its own guarantee on finance provided for projects by third parties, it has itself taken appropriate counter-guarantees. In more than 20 years of activity the

Special Operations

Outside the Community

Apart from lending from its own resources, the Bank also acts as agent for and on the mandate of the Community or the Member States in handling certain budgetary funds for development financing.

At 30 June 1978 the cumulative figure for such operations stood at 541.5 million u.a. Because the Bank's own funds are not involved these so-called «Special Operations» have no influence on the EIB's borrowing activities on the capital markets. They are not included in the Bank's balance sheet and separate accounts are maintained by the Special Section of the EIB, established for this purpose by decision of the Board of Governors in 1963.

Special operations — different forms of finance on softer conditions than the Bank itself could give, bearing in mind that it must obtain the bulk of its own resources at market rates — have been carried out in Turkey, in countries which are signatories to the Yaoundé and Lomé Conventions and in certain Overseas Countries and Territories which are linked to Member States; they will also be extended to a number of countries bordering the Mediterranean when the Bank commences financing under the terms of cooperation agreements signed between these countries and the Community.

Special operations are designed principally to help in the financing of projects in which the economic benefits and return on capital will require many years to show through (very long-term loans with extended grace periods at low rates of interest) or to help new ventures get off the ground (contributions to risk capital). Fuller details have been given in EIB-Information N° 4 and 9.

Euratom

Other operations accounted for in the Special Section are loans signed jointly by the European Atomic Energy Community — EURATOM and the EIB for nuclear power projects within the Community.

These operations — three carried out up to 30 November this year, totalling 128.7 million u.a. — are funded from resources borrowed by EURATOM on the capital markets, the Bank assuring the project appraisal and loan management.

Bank has suffered no loss on any loan.

Since 1962, beginning with Greece, the EIB has also extended operations outside the Community in the framework of arrangements, providing in each case for lending up to specified amounts, negotiated between the Community and various countries with which it has special ties. Arrangements presently in force concern most of the countries in the Mediterranean basin and the African, Caribbean and Pacific (ACP) signatory countries to the Lomé Convention.

EIB operations in these countries financed from the Bank's own resources (i.e. essentially from borrowings on the capital markets, in the same way as lending in the

Community) stood at 30 June at 591.5 million u.a.

Such operations must accord with the same criteria of economic viability as applied to lending within the Community. The security which the Bank demands for its loans is normally reinforced by guarantees given by the Member States or the Community itself, covering all or part of the lending foreseen under these arrangements; in most cases the Community also provides an interest subsidy, at its own charge, in order to render the terms somewhat softer and more suitable for development assistance (see also «Special Operations», page facing).

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Summing up, the EIB works according to a simple cycle; to reimburse its borrowings on the markets the Bank depends upon its own judgement in making loans for sound projects to reliable borrowers.

The better the projects adopted by the Bank, the better its portfolio and the more willing investors to buy EIB bonds; this influences the rates the Bank must pay for its funds (which in turn dictate the degree of advantage it can pass on in the interest rates to its own borrowers) and the amount of funds which it can raise.

The good reception which EIB issues are given by investors on the world's capital markets is the key to the Bank's continued expansion.

Interlinking Community sources of finance ...

New Community Instrument and the EIB

The European Investment Bank is part of a family of Community sources of finance which pursue different but complementary goals.

On the one hand there are the European Regional Development Fund, the Social Fund, and, for aid provided under the Lomé Convention, the European Development Fund, all of which distribute grant aid from budgetary resources.

On the other hand there are sources of loan finance for investment which seek their resources by borrowing on the capital markets. At present these are three:

the European Investment Bank, the most important in volume terms, and, as mentioned at the beginning of the previous article, the European Coal and Steel Community and the European Atomic Energy Community — EURATOM. They are now to be joined, on an experimental basis, by a fourth source of finance, the New Community Borrowing and Lending Instrument (often referred to as the «Ortoli Facility») which is designed to promote investment in the Community in certain key spheres; in a number of respects it will be closely coordinated with the EIB's own activities.

In essence, the scheme consists of the European Economic Community raising funds on the markets, in its own name and on its own credit, which will be used to finance loans for investment projects supporting specified economic objectives — in the energy sector, for example, or industrial conversion and infrastructure helping regional development. The EIB has been given a mandate to make the loans on behalf of the Community in view of its long-standing experience in lending for projects in virtually all main sectors of the economy.

This plan, of which the first outline was proposed by the Commission of the European Communities in June 1977, was finally agreed upon by the Council of Ministers in October after examination in expert committees and deliberations with

the European Parliament. A global authorization has been given to the Commission to raise 1 000 million European Units of Account in the name of the Community; it is hoped that the first loan operations can be approved in the early months of 1979. After two years, or when 800 million has been borrowed, whichever comes earlier, the Council will examine the scheme's future.

The significance of this move, and how it dovetails with the Bank's ordinary operations, needs to be explained.

The New Community Instrument is a direct consequence of the position taken by the European Council (Heads of State or Government of the nine Community Member States) at its meeting in Rome in March 1977, where concern was expressed

at the slow and uneven growth of the economies within the Community.

At the outcome of this meeting, the Council called for action at Community level to help counter unemployment, generally sluggish investment in Member States and insufficient convergence in their economic performance.

The EIB's response has been to raise strongly the volume of its lending and broaden the scope of its operations, the principal beneficiaries being the least developed regions and also projects concerning the Community's energy supplies. At their meeting in June this year the EIB's Governors doubled the Bank's capital (see previous article) to raise its lending capacity; indeed this year overall lending is

expected to be in the region of 2 000 million u.a., compared to 1571.5 million u.a. in 1977 and 1273.3 million u.a. in 1976.

The Commission's approach was to propose a new source of loans additional to the action of the EIB, the European Coal and Steel Community and EURATOM.

The European Economic Community has already borrowed at relatively short term, to provide loans to Ireland and Italy for balance of payments support; the new concept is that the EEC should also use its credit to borrow at long term to finance investment. It is expected that, subject to cooperation between all concerned as to the timing and amounts of borrowing operations, the total resources raised on capital markets by all Community borrowers taken together will be increased.

A key point of the new source of finance is how it can be interlinked with the EIB's own activities. The EIB has a statutory obligation that as far as possible it should grant loans only on condition that other sources of finance also be used. Accordingly it limits its lending to a maximum of 50% of the fixed asset

costs involved; however, the sheer scale of certain projects — particularly in infrastructure — often means that the Bank's participation must be to a smaller degree. By using the New Community Instrument complementary to EIB financing, the Community will have the means to increase the level of support it can give to projects considered of special priority, deserving particular encouragement. In practice the system will work as follows.

Within the global ceiling of 1 000 million European Units of Account, borrowing will be authorized by the Council, on the proposition of the Commission, in tranches (block amounts) to finance loans in support of defined economic objectives. The Council will set down the guidelines to be followed by the Commission in determining the eligibility of individual projects. Before taking its decision on each tranche, the Council will seek the opinion of the European Parliament. The proceeds of borrowings will be passed over to the EIB which has been given a mandate to make individual loans on behalf of the Community for eligible projects.

In most respects the procedures for New Community Instrument loans

will be the same as those applying to loans from the EIB's own resources (logical, as quite likely a would-be borrower will be seeking both, either simultaneously or successively); the Bank will apply the same project appraisal criteria as for its ordinary loans.

The rate of interest charged on loans will be determined by the effective cost of borrowings plus a fixed spread not to exceed the average cost to the Bank of appraising and administering loans within the Community.

Requests for New Community Instrument loans may be submitted through the Commission, via Governments or by approaching the EIB directly, which is the usual practice for the Bank's operations.

Since the loans will be made for the account of and at the risk of the Community they will be accounted for separately in the Bank's Special Section (see box page 4).

The next step is for the Commission to submit to the Council its proposals for the first tranche which is expected to be for energy projects of Community interest.

EIB lending in Ireland

Since Ireland joined the European Community on 1 January 1973, loans provided by the European Investment Bank* for investment projects in this country have totalled 361.3 million units of account or £ Ir 224 million at exchange rates ruling at contract signatures.

Annual lending has risen steadily: it totalled £ Ir 11.1

million in the first year of Community membership; in 1977 it came to £ Ir 52.1 million; this year, up to 30 November, it amounted to £ Ir 78.5 million.

With just over 1% of the European Community's population, Ireland has accounted for close to 6% of the Bank's lending within the Community since 1973, a higher ratio than for any other Member Country.

Lending in Ireland approximates, again in per capita terms, to the level of Bank activities since 1973 in the Italian Mezzogiorno, with whose development problems Ireland's are often compared, although, of course, the dimensions are clearly different.

Measurement on such a basis needs to be qualified. A country with a small population in relation to its size and carrying out an ambitious development programme is perforce handicapped by the higher per capita cost of investment, notably in infrastructure. In this context, Ireland's population density, at around 40 per square km, is a quarter of the Community average; geo-

graphically the country may be compared in size with the Benelux but with only three million people has one eighth the population.

The small domestic market, low per capita income (in real terms, about 60% of the Community average) and the country's outlying position are among the difficulties which have to be faced. Unemployment (8.1% of the active population in September this year, against a Community average of 5.5%) has always been at high levels, despite emigration.

In other words, while the build-up of EIB lending in Ireland has been substantial, this is in response to needs which are equally so.

These needs were recognised when Ireland joined the Community: a Protocol was annexed to the Treaty of Accession relating to «certain special problems of concern to Ireland».

It noted that the Irish Government was engaged on a policy of industrialisation and economic development «designed to align the standards of living in Ireland with those of other European nations» and recommended the Community institu-

*) The EIB's capital, subscribed by the nine Member States, stands at 7 087.5 million u.a. of which the amount to be paid in is set at 911.25 million u.a.; Ireland's shares are, respectively, 52.5 million u.a. and 6.75 million u.a.

tions to take appropriate measures, within the terms of their Treaty of Rome obligations.

If the amount of EIB lending has risen steadily, this in turn reflects the vigour with which the Irish authorities have pursued their development goals. Output, investment, and exports are growing rather fast. Last year, Ireland achieved a 5.5% increase in its GNP, over twice the Community average.

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In making the move from a largely rural economy to a more industrial one, a major effort has been called for in building up the necessary infrastructure, in particular to improve the conditions for development in the more distant western and south-western parts of the country. EIB loans have been directed as follows:

— *Telecommunications*: £ Ir 67.5 million for development of the network in all parts of the country. The impact of heavy investment is clear to see; telephone density between 1973 and end-1977 rose by over 50% from 11 to 17 telephones per 100 people, but Ireland, to return to the earlier comparison, is less well-equipped than the Italian Mezzogiorno. Substantial further development is to be carried out.

— *Water supplies*: £ Ir 20 million for works carried out by Cork County Council (involving also Cork County Borough) to improve supplies in the Cork harbour area, principally to meet growing industrial needs; £ Ir 13.5 million to help Dublin Corporation and Dublin County Council reinforce the water supply/sewerage systems in the City, suburbs and nearby new towns to cater for the growth which is forecast for the area (a 25% rise in population between 1976 and 1991 plus accompanying industrial expansion).

— *Road/rail links*: £ Ir 23.1 million for seven major development schemes to the National road network (improving East-West trunk roads and routes to the North) plus smaller works concerning more than 40 other roads, opening up areas for industrial development; £ Ir 4 million lent to Coras Iompair Eireann, the

public transport authority, for railway modernisation.

— *Energy*: £ Ir 20 million lent to the Electricity Supply Board to build a 270 MW power station at Aghada, County Cork, which will be fuelled by natural gas from the Kinsale Head field, off the Cork coast; £ Ir 2.2 million lent to Bord Na Mona to exploit more of Ireland's peat resources, which at present fuel about 25% of electricity production.

— *Port development/sea links*: £ Ir 10 million for works carried out by the Cork Harbour Commissioners to create a deep water port for ocean-going vessels, the central feature of development of the whole harbour area; £ Ir 5 million for acquisition of a new car ferry which the British and Irish Steam Packet Company Limited (B+I line) will operate on its Ireland - Great Britain routes.

Lending for industry

Loans for industry total almost £ Ir 59 million and have been directed to a variety of investment, firstly for individual projects, as follows:

— £ Ir 17.2 million for construction of the Nitrigin Eireann Teoranta plant near Cork to produce ammonia and urea (for fertilizers), using the Kinsale Head natural gas as feedstock;

— £ Ir 7.5 million to assist Cement Limited to expand its works at Platin, County Meath;

— £ Ir 3.3 million for expansion of a dairy products factory belonging to Golden Vale Food Products (a company owned by 5 000 farmers in Counties Cork, Limerick and Kerry);

— £ Ir 2.8 million to Comhlucht Siuicre Eireann Teoranta — the Irish Sugar Company Limited — for modernisation of factories in Carlow (County Carlow) and Mallow (County Cork);

— £ Ir 800 000 for a factory to produce protein concentrates (used in animal feeds), built in Cork by the Irish Agricultural Wholesale Society Limited.

Secondly, to support capital investment projects of a more modest dimension, carried out by small and medium-sized enterprises in the manufacturing and food processing sectors, the EIB has this year provided global loans worth in total £ Ir 10 million to the Industrial Credit

Company Ltd and the Agricultural Credit Corporation Ltd; they select projects and parcel out the funds with the prior agreement of the EIB (minimum £ Ir 17 000 per sub-loan), giving priority to schemes which promise to make the most impact in terms of employment.

Although the EIB provides the finance to ICC and ACC in foreign currencies, the funds are on-lent in Irish pounds under special measures announced by the Minister for Finance in his budget speech in February to safeguard borrowers from exchange risks (eligible ventures must not employ more than 100 people or have fixed assets in excess of £ Ir 600 000). Funds provided through ICC are for 10 years at 9%, those through ACC for 12 years at 9.25%. Global loans granted to the same institutions in 1974, for a total of £ Ir 5 million, were only used to a limited extent due principally to lack of any exchange risk cover at that time.

According to recent figures, undertakings employing less than 100 people make up about 90% of Ireland's manufacturing firms. Food processing is a sector of key importance, accounting for a quarter of the country's industrial labour force and helping to exploit more fully the country's agricultural potential.

Advance factories

Advance and custom-built factories, first introduced in Ireland almost 20 years ago, are tried and tested instruments of regional development. Adaptable for a wide range of uses, ready for occupation with all services connected, they have been a highly effective and economically viable means of inducing industries to set up in areas where otherwise there would be difficulty in providing additional employment.

The EIB has granted three loans worth together £ Ir 12 million to the Industrial Development Authority, the Shannon Free Airport Development Company and Gaeltarra Eireann to help meet the cost of constructing over 80 factories. These are being built in all parts of Ireland, more especially in Dublin and other major towns, such as Cork, Galway and Limerick, but also a large number in the Irish language-speaking areas (the Gaeltacht).

Most such factories are let to foreign promoters who find evident advantages in being able to move into finished premises, avoiding some of the complications in setting up abroad, with usually the option to rent at first and purchase later, reducing start-up costs. Attracting foreign firms means not only an inflow of capital, but also of technical and engineering know-how and modern management expertise,

which strengthen Ireland's industrial base.

A rather unexpected spin-off has occurred as a result of Ireland gaining such wide experience in this field. Irish engineers, planners, surveyors and architects now advise several developing countries on the adaptation of the advance and custom-built factory technique to help in the solution of their own particular problems.

Lending rates

The EIB operates on a non-profit-making basis. Its interest rates follow closely movements on the capital markets, where it raises its funds. Generally loans are made at fixed interest rates which are not subject to revision; they are paid out at par, such that the borrower receives the entire nominal amount.

Repayment of principal can be deferred to start from the time when the project reaches completion and comes on stream, normally a period between 2 and 4 years. Thereafter, the loan is generally reimbursed in equal six-monthly instalments covering both principal and interest.

Different loan formats are available, according to the borrower's choice:

a) **multi-currency** loans, the most widely used formula, disbursed in currencies of the Member States of the Community and others, in particular the US dollar. For each currency and term there is a separate interest rate; therefore the interest rate on loans disbursed in these «currency cocktails» is the weighted average of the rates applicable to each of the component currencies and the corresponding maturities. The Bank may offer loans in

— *standard cocktails* where the composition and term, and hence the interest rate, are fixed in advance; current examples with interest rates as at 14 November 1978 are given below:

Term	8 years	10 years	12 years	15 years	20 years
Composition	50% US \$	35% US \$	35% US \$	42.5% US \$	60% US-\$
	50% DM	35% DM	35% DM	42.5% DM	25% DM
	—	15% FI	15% FI	15 % FI	15% FI
	—	15% Bfrs	15% Bfrs	—	—
Interest rate	8.10%	8.50%	8.60%	8.65%	9.30%

— *cocktails in varying mixes* from a wider range of currencies; these can be tailored to the borrower's own preferences, subject to the Bank's holdings, the interest rate varying case by case according to the currency mix and term decided upon.

b) **single currency** loans in currencies widely available.

c) **back-to-back** arrangements which can be made for major financing operations; the bank borrows for the specific purpose and lends the money on the same conditions, adding simply its own operating margin.

Unit of Account

Below are the values in national currencies of the Unit of Account used by the Bank, as at 30 September 1978; these rates are applied the present quarter in preparing financial statements and operational statistics of the Bank:

DM	2.54907	Bfrs	40.2016
£	0.666864	Lfrs	40.2016
Ffrs	5.69694	Dkr	7.05015
Lit	1083.29	£ Ir	0.666864
FI	2.77149	US \$	1.31593

Statistics summarising Bank activities in terms of units of account have been based on several different conversion rates applied since 1958. This, coupled with the effects of price trends, would suggest prudence in interpreting the significance of figures which relate to operations extending over many years.

The composition and hence value of the unit of account now used by the EIB is the same as that of the European Unit of Account.

New publication

EIB financing outside the Community: Mediterranean countries — a 12-page brochure setting out general terms/procedures. Available in the six Community languages, free on request.

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