

EUROPEAN
INVESTMENT BANK



ANNUAL REPORT 1966

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For its accounts and balance sheet the European Investment Bank uses the unit of account as defined in Article 4 § 1 of its Statute. The value of this unit of account is 0.88867088 gramme of fine gold.

In this report, conversions into units of account are made at the following par values :

1 unit of account (u.a.) =	{	50 Belgian francs
		4.00 Deutsche Mark
		4.93706 French francs
		625 Italian lire
		50 Luxembourg francs
		3.62 Netherlands guilders
		1 United States dollar
		4.37282 Swiss francs
		30.00 Greek drachmae
		9.00 Turkish pounds.

EUROPEAN
INVESTMENT BANK



ANNUAL REPORT 1966

BOARD OF GOVERNORS

Chairman : EMILIO COLOMBO (*Italy*)

Belgium : ROBERT HENRION, Minister of Finance, Brussels;

Germany : FRANZ-JOSEF STRAUS (1), Minister of Finance, Bonn;

France : MICHEL DEBRÉ, Minister of Economy and Finance, Paris;
Chairman until 21st June, 1966;

Italy : EMILIO COLOMBO, Minister of the Treasury, Rome;

Luxembourg : PIERRE WERNER, Minister of State, President of the
Government, Minister of the Treasury, Luxembourg;

Netherlands : HENDRIKUS JOHANNES WITTEVEEN (2), Minister of Finance,
The Hague.

(1) ROLF DAHLGRÜN, until 30th November, 1966.

(2) ANNE VONDELING, until 2nd December, 1966.
JELLE ZIJLSTRA, until 5th April, 1967.

BOARD OF DIRECTORS

Chairman : PARIDE FORMENTINI

Vice Chairmen : YVES LE PORTZ

ULRICH MEYER-CORDING

Directors :

FRANÇOIS BLOCH-LAINÉ, General Manager, Caisse des Dépôts et Consignations, Paris; (1)

N (2)

SJOERD BOOMSTRA, Director of External Finance, Ministry of Finance, The Hague;

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GIUSEPPE DI NARDI, Chairman, S.p.A. Navalmeccanica, Rome;

Alternates :

ROGER BOYER, Director of the Banque Française du Commerce Extérieur; Member of the Conseil National du Crédit, Paris;

MICHEL ALBERT, Director of Economic Structure and Development in the Directorate-General of Economic and Financial Affairs, Commission of the E.E.C.; (3)

OTTO WILLEM VOS, Director, Ministry of Finance, The Hague;

PIERRE GUILL, Director of the Caisse d'Épargne de l'État, Luxembourg;

LIONELLO FRONZONI, Representative of the Bank of Italy in Benelux and Financial Counsellor to the Italian Embassies in Brussels, The Hague and Luxembourg, Brussels;

(1) ANDRÉ DE LATTRE, until 21st June, 1966.

(2) FRANCO BOBBA, until 15th February, 1967.

(3) ALAIN PRATE, until 21st June, 1966.

ROBERTO DUCCI, Ambassador;

ALBERTO CAPANNA, General
Manager, Finsider, Rome;

HERBERT MARTINI, Member of
the Board of Management,
Kreditanstalt für Wiederaufbau,
Frankfurt-on-Main;

WALTER DUDEK, former Senator
for Finance, Hamburg-Harburg;

ALFRED MÜLLER - ARMACK,
former State Secretary, Cologne;

N (2)

MAURICE PÉROUSE, Director of
the Treasury, Ministry of Economy
and Finance, Paris;

ANDRÉ POSTEL-VINAY, General
Manager, Caisse Centrale de
Coopération Économique, Paris; (3)

HANS RANNOU, Ministerial-
direktor, Federal Ministry of
Finance, Bonn; (1)

FRIEDRICH BERNARD, Ministe-
rialrat, Federal Ministry of Finance,
Bonn;

JEAN SALTES, Chairman and
General Manager, Crédit National,
Paris;

N (4)

STEFANO SIGLIENTI, President,
Istituto Mobiliare Italiano, and
Chairman, Associazione Bancaria
Italiana, Rome;

ALDO BALDARI, Inspector Gene-
ral of the Treasury, Inspectorate
General for External Finance,
Ministry of the Treasury, Rome.

(1) FRITZ FECHNER, until 21st June, 1966.

(2) ERNST VOM HOFÉ, until 11 January, 1967.

(3) FRANÇOIS BLOCH-LAIN , until 21st June, 1966.

(4) JEAN RIPERT, until 15th March, 1967.

MANAGEMENT COMMITTEE

PARIDE FORMENTINI, *President*
YVES LE PORTZ, *Vice President*
ULRICH MEYER-CORDING, *Vice President*

DEPARTMENTS

General Affairs Office : HENRI LENAERT, Manager.
ARNOLD RIETZ, Deputy Manager,
Head of Personnel.

Loans in Member

Countries : HANS WERNER VON LINDEINER-WILDAU,
Manager.
ROMEO DALLA CHIESA, Deputy Manager.
ARMEL BELLEC, Deputy Manager. (1)

Loans in Associated

Countries : GUY TRANCART, Manager.
KARL-HEINZ DRECHSLER, Deputy Manager.
PIETRO BEMBINA, Deputy Manager. (2)

Finance and Treasury
Department :

GIANDOMENICO SERTOLI, Manager.

Research Department : PIERRE BARRE, Manager.

Legal Department : J. NICOLAAS VAN DEN HOUTEN, Manager.

Technical Advisers :

HENRI JEANDET.
HELLMUTH BERGMANN.
EUGENIO COMBONI.
JACQUES FAUDON.
MARCELLO GOFFI.

(1) MICHEL ALBERT, until 21st April, 1966.

(2) GUIDO MARTELLI, until 30th September, 1966.

AUDIT COMMITTEE

Chairman

KARL BERNARD Former Chairman of the Central Board, Bank
deutscher Länder, Frankfurt-on-Main;

Members

ADRIAAN M. DE JONG Former Executive Governor and Vice Presi-
dent, De Nederlandsche Bank, Amsterdam;

RENÉ BRESSON Président de Chambre Honoraire à la Cour des
Comptes; former Chairman of the Commission
de Vérification des Comptes des Entreprises
Publiques, Paris.

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As is the practice each year, the first part of the Annual Report surveys the activity of the Bank in 1966 against the background of the general economic evolution of the Community and the associated states, stressing more particularly the problem of investments and their financing.

The second part gives an account of the activity of the Bank and deals with loans and borrowings in the past financial year, as well as with operations carried out since its foundation.

In the third part, an analysis is made of the main items of the balance sheet and profit and loss account.

The report concludes with a study of the problems of industrial development in the associated African states and Madagascar.

ANNUAL REPORT 1966

I

THE ECONOMIC EVOLUTION IN THE COMMUNITY AND THE ASSOCIATED STATES

Community.

The economy of the Community as a whole was again characterised by expansion in 1966; the gross product in real terms increased by 4%, as in 1965, reaching 322 milliard units of account (1), or about 1,760 units of account per inhabitant. Among the Member States, however, different cyclical trends prevailed and even reinforced in the course of the year. From the summer onwards, there was a definite slowing-down in economic growth in the Federal Republic of Germany, taking the form, inter alia, of recessive trends in the field of investments; in the course of the second half-year, this situation led to a decline in industrial production and imports, a fairly definite relaxation on the labour market and diminished progress in private consumer expenditure. This had repercussions more especially on the economy of Benelux owing to its particularly close relations with the German economy. In Italy and France, on the contrary, economic expansion continued unabated.

In the two latter countries, the increase in the national product moved up from 3.5% in the previous year to about 5.5% in Italy and 5% in France, whereas it seems to have reached only 2.5% in Germany compared to

(1) Unless otherwise stated, the figures given in this Report are expressed in units of account (see definition page 2).

4.8%, 3% in Belgium against 3.3%, 1.5% to 2%, as in 1965, in Luxembourg and, while remaining at a satisfactory level, it nevertheless experienced a certain slowing-down in the Netherlands (4.5% compared to 5.4% in 1965).

For the Community as a whole, the increase in demand was of the same order of magnitude as in 1965, as a certain weakening in external demand was offset by a slightly more marked expansion in internal demand : exports to non-Community countries increased by 8.5% instead of 12% in 1965; consumer expenditure was accelerated, while investment expenditure developed at about the same pace as in 1965.

These general trends represent merely averages resulting from evolutions which are sometimes divergent. Thus, the more marked increase in consumption reflects mainly the effect of the more favourable trend in incomes on private demand in France and Italy. A smaller advance in investment expenditure in Germany is to be compared with more favourable developments in this field in the other countries.

Internal supply has proved fairly elastic in coping with an increased demand : industrial production went up by 5% as against 4.4% in 1965; the services sectors maintained their vigorous growth; only agriculture experienced a slower expansion by comparison with the previous year, in the course of which the production level had been particularly high.

Owing to a higher demand in France and Italy, imports of merchandise from non-Community States showed a slight acceleration, progressing by 7.5% in value as against 6.5% in 1965. Intra-Community trade again developed appreciably and formed, as in previous years, a factor of equilibrium although – inter alia under the influence of the cyclical evolution in Germany – it lost a little of its momentum in the course of the year : its rate of growth, which had been 13.5% in value from 1964 to 1965, fell to about 12% in 1966.

Although the expansion in demand slowed down in several countries in the course of the year and although the trends towards an improved equilibrium between supply and demand were strengthened, the price level increased by some 3.5% on the average for the Community as a whole,

as in the previous year, but with rates of increase differing somewhat from country to country ,ranging from 2.3% (Italy) to 6% (Netherlands).

The persistent increase in costs and prices results partly from earlier imbalances; however, it also stemmed from other factors, such as the increase in import prices and the rise in rents, certain agricultural prices and public service tariffs. Lastly, despite a considerable and fairly general relaxation on the labour markets, the increase in wage costs continued in all countries, including Italy, which was most favoured by growth, and where the increase in production led above all to an extension of working hours.

In the light of the problems raised by the evolution of the business cycle at the end of the year, the Council of the Community adopted, on 22nd December, 1966, upon a proposal by the Commission, a rather detailed recommendation to Member States which lays down inter alia the following guidelines in respect of the policy to be followed in 1967 : the reduction of inflationary pressures on prices and costs by pursuing appropriate measures remains one of the main goals of the cyclical policy of all the Community Countries; the deficits of the majority of the public authorities would need to be reduced, the struggle against the impediments to competition intensified and savings stimulated; the evolution of the volume of wages should remain in harmony with the growth of production thanks to the introduction of a more effective incomes policy.

The anxieties created by a certain cyclical weakening at both Community and world level, the increasingly pronounced interdependence among the economies of the six countries, the adjustment problems of an economic and social nature raised by the sectors which are more particularly threatened, are increasingly leading the Member Countries to envisage jointly the steps to be taken.

In the field of medium-term economic policy, the Committee set up in 1964 has continued its activities, so that it was possible to submit, in April 1966, the draft of an initial economic programme for the period up to 1970 to the Council of the Community which approved it on 8th February, 1967. The Committee also embarked on the study of the structural adaptation problems facing the enterprises of the Community

as a result of the widening of markets and the acceleration of technical progress, in a climate of growing international competition.

In the choice of its interventions, the Bank will be guided by the policy which the Member States jointly establish in this field, as well as by the ever-topical imperatives of regional development and reconversion of critical areas.

Associated States.

In the case of *Greece*, 1966 opened in less favourable conditions than had been the case in the previous years. Nevertheless, the results acquired in the course of the year made possible a certain recovery. Thanks to a marked expansion in industrial production (16% compared to 8% in the previous year), the gross domestic product advanced by more than 8% in volume compared to 7% in 1965. Prices continued to rise, but more moderately (3.6%). Above all, the monetary situation took a considerable turn for the better; the ordinary budget again yielded quite a large surplus and savings reached their highest level so far.

One of the weak points in the general situation remains the insufficiently rapid progress of exports which, despite the fact that a beginning has been made with diversification (new exports of metals, textiles and sundry manufactured products), still depend to a large extent on a few traditional agricultural products, such as tobacco, currants and even cereals. On the contrary, the elasticity of imports continues to be very high. The trade deficit was substantial in 1966, amounting to some 0.7 milliard dollars, and is still tending to increase. The “invisible” transactions and private transfers (maritime transport, tourism, remittances by workers abroad and by emigrants) – totalling some 0.5 milliard dollars in 1966 – offset a large share of the trade deficit. For some years now the balance has been financed by net entries of capital, for a large part from private sources. However, in 1966, the public indebtedness also increased by approximately 50 million dollars net. At this rate the monetary reserves, which had fallen by 31 million in the previous year, increased by 15 million dollars, excluding a payment in gold of 10 million to the International Monetary Fund.

In 1966, industrialisation made definite strides, thanks to the commissioning of several large aluminium, nickel, petrochemicals and fertiliser plants. In the agricultural sector, there was an increase in the area under irrigation. As regards services, and more particularly tourism, investments are in course of execution. With a view to a more thorough integration between Greece and its Community partners, the results already achieved will have to be consolidated and further efforts will need to be made in order to increase the productive investments and to continue the adjustment of production structures, which quite often only meet the requirements of a relatively narrow and protected market.

In *Turkey*, 1966 was characterised by a marked expansion in economic activity, ascribable on the one hand to a much more abundant harvest than in previous years and on the other, to appreciable advances in the industrial sector. According to provisional estimates, the gross national product increased in volume by 8.7% in 1966, as against 4.6% in the previous year.

Private consumer demand was very active : the incomes of farmers greatly increased owing to better harvests and the price support policy pursued by the government; wages, both in the public and in the private sectors, were also marked by substantial increases. The growth of expenditure for private consumption is estimated at 12% and public consumption increased at about the same pace. Nevertheless, the biggest advance was recorded in the investments sector. The government's effort in this field has resulted in an acceleration of the Plan's investment projects and public investments have advanced by about 20% by comparison with 1965. An upsurge of confidence has brought private investments – which increased by one quarter as against 1965 – to a level which is higher than forecast and has led to a wider diversification of initiatives.

Despite the vigorous trend of demand, the increase in prices was very small in the course of the year and expansion continued in a climate of relative stability, sustained by a cautious monetary and credit policy and accompanied by a more abundant supply resulting from national production and imports.

The balance of payments situation again deteriorated. Exports of merchandise amounted to 491 million dollars, or an increase of 6% by comparison with 1965, but they continue to relate essentially to agricultural products; as a result of a big increase in demand, for raw materials and semi-finished products as well as for capital goods, imports stood at 718 million dollars, showing a growth of 26%. Receipts in respect of remittances of wages by Turkish workers abroad again increased, reaching 115 million dollars compared to 70 million in 1965. The deficit in the current balance of payments climbed from 77 million in 1965 to 162 million dollars in 1966.

Foreign public credits and the credits of multilateral financing institutions, made available to Turkey within the framework of the Consortium, have for the most part served to cover deficits in the current balance of payments and to redeem existing debts. Imports of private capital linked with direct investments by foreign firms have slightly increased : 30 million dollars compared to 22 million in 1965. However, equilibrium was reached only by drawing some 30 million dollars from the exchange reserves, which are already very limited.

Taking into account the results for 1966, Turkey has achieved, in the course of the first four years of its Five-Year Plan, a real rate of growth averaging 6.4% per annum, which is an appreciable result, bearing in mind the running-in problems with which the country has had to cope.

As regards the *seventeen Associated African States and Madagascar*, the selling conditions of the main export products, which had deteriorated as far back as 1965 and which on the whole barely improved in 1966, continued to weigh heavily on the economic situation and on trade balances. This was offset to a certain extent by the growth in the quantities marketed, after a favourable 1965-1966 crop, especially as regards coffee and ground-nuts. However, poor climatic conditions, more particularly in Senegal and the Ivory Coast, were prevalent in 1966.

These general trends affect differently the first African countries to benefit from the Bank's loans : Ivory Coast, Cameroon, Senegal and Congo-Brazzaville.

In the *Republic of the Ivory Coast*, the cyclical downturn in 1965, which had taken the form of a decline in the primary and tertiary sectors, fortunately counterbalanced by the accelerated expansion of the secondary sector, also seems to be bound to affect the results for 1966. After a period of exceptionally rapid growth – the internal product rose by nearly 50% in volume from 1960 to 1964, – the levelling-off tendency is also affecting exports. The fall in cocoa sales in tonnage and value, despite a certain rally in prices, as well as the near-stagnation in banana shipments, are only partially offset by the progress in exports of coffee (the 1965-1966 crop showed a 35% increase over the previous year), timber, pineapples, cotton and natural rubber. Nevertheless, the Ivory Coast trade balance continues to show a substantial surplus.

For the first time since 1957, the trade balance of the *Federal Republic of Cameroon* closed with a deficit in 1965 due to a slight setback in exports, whereas imports, stimulated by public and private investments, climbed by nearly 14% in value. This trend seems to have prevailed in 1966 as well. The expansion which characterised the 1961-1964 period is continuing in the industrial sector, where considerable settlements of new enterprises are under way.

In the agricultural sector, the renewal of the cacao plantations, the reconversion of the banana plantations and implementation of the “oil-palm plan” are still in their early stages, while the production of cotton and arabica coffee is developing favourably. One of the strong suits of the Cameroon economy is the great diversity of agricultural possibilities, the systematic exploitation of which is provided for in the second five-year plan (1966-1971).

In the past few years, the *Republic of Senegal* has had to cope with some difficult problems, linked with the single-crop system based on groundnuts or resulting from the splitting-up of the West African economic area. After a period of near-stagnation from 1962 to 1964, a certain recovery – already perceptible in 1965 – developed in 1966, owing to the definite progress in the groundnut crop and the expansion of industrial production, thus appreciably reducing the deficit of the trade balance. However, the drought which ravaged the country in 1966 led to an abrupt fall in agricultural production which will weigh heavily on the evolution

of the economic and financial situation in 1967. This might deflect the execution of the second four-year plan (1965-1969) towards one of the medium or weak variants.

In the *Congo Republic (Brazzaville)*, a public sector the situation of which remains uncertain coexists with a private sector in full expansion as regards agro-industrial, forestry and, in the near future, mining activities. The difficulties encountered by the development of agricultural production in general contrast with the progress of sugar production and the timber industries (saw mills and plywood factories). The investments now being carried out with a view to exploiting the potash deposits, one of the country's main sources of wealth, will exert a considerable effect on economic development and the improvement of the trade balance.

INVESTMENTS IN THE COMMUNITY

According to provisional estimates, the gross fixed capital formation amounted to some 73 milliard units of account in 1966, for the Community as a whole, compared to 69.1 milliard the previous year. It has thus increased by about 6% in value and 3.5% in real terms. The rate of growth of investments, both in value and in volume, recorded in 1966 for the Community as a whole therefore remained appreciably the same as for the previous year.

The overall evolution showed accentuated discrepancies from one country to another : in Germany, the rate of expansion definitely slowed down and investment, in volume, hardly exceeded the 1965 level. In Italy, on the other hand, a recovery was observed after a considerable decline in the course of the two previous years. An acceleration was recorded in Belgium, the Netherlands and – although less markedly – in France, whereas the recession continued in Luxembourg.

GROWTH OF INVESTMENT IN THE COMMUNITY
(% by comparison with previous year)

	Value				Volume			
	1963	1964	1965	1966	1963	1964	1965	1966
Germany	5.7	14.5	9.1	3.0	2.8	12.0	6.9	0.6
France	13.5	15.9	8.5	9	7.5	11.7	5.4	6
Italy	16.7	0.7	-6.8	5.3	9.2	-7.3	-8.4	3.7
Netherlands	6.6	24.2	9.4	12.5	2.1	16.9	5.1	7.5
Belgium	3.4	20.6	5.6	7.5	-1.0	12.8	1.4	4
Luxembourg	23.8	7.6	-15.8	-3.5	..	..	-18	-6.5
The Community	9.9	13.0	5.9	6.0	5.3	8.4	3.5	3.5

As shown in the table below, investment by enterprises for the Community as a whole amounted to nearly 43 milliard, with its share in overall investments remaining 58% as in 1964 and 1965. By comparison with the previous year, the increase in investment by enterprises is estimated at 6% in value, or approximately 3.5% in real terms. Expenditure on housing construction, representing 26% of total investment, is said to have increased by only 3.5%, while the rate of growth in public investment is reported to be 7.5%.

INVESTMENTS IN THE COMMUNITY

	<i>Milliards of units of account at current prices</i>				<i>% of total</i>			
	1963	1964	1965	1966	1963	1964	1965	1966
Investment by enterprises	35.1	38.0	40.1	42.6	60.8	58.2	58.1	58.3
Housing	14.0	17.3	18.3	19.0	24.3	26.5	26.5	26.1
Public investment	8.6	10.0	10.6	11.4	14.9	15.3	15.4	15.6
Total	57.7	65.2	69.1	73.0	100.0	100.0	100.0	100.0

In *Germany*, the slackening-off in the expansion of investment, which had begun towards the end of 1965, continued in 1966, becoming accentuated in the course of the closing months to such an extent that it recorded a definite setback. It was especially marked in the field of equipment, where expenditure barely exceeded that of the previous year, and even declined in volume from 1965 to 1966. Construction, which had fallen off sharply in 1965 as a result of the curtailment of public works and the stagnation in residential building, retained in 1966 the relatively weak rate of growth of the previous year, and the decline of activity in this field was further accentuated in the course of the year.

The trend in orders reflected, even more than the evolution in investments, the weakening in the propensity to invest : at the end of 1966, order books for industrial equipment and permits for new buildings showed an appreciable decline by comparison with the end of the previous year.

In *France*, there was no noticeable change in the rate of growth of investment : 6% in volume in 1966, compared to 5.4% the previous year.

The evolution in the productive investments of enterprises, showing an increase of some 7% in volume compared to 2% in 1965, was sustained, on the one hand, by the continuation of large-scale programmes by public enterprises, but also – and more especially – after a period of near-stagnation lasting several years, by the quite marked rally in productive investments by private enterprises. It appears that the latter have extended their projects as a result of the high degree of utilisation of existing capacities, an improvement in self-financing possibilities and a more favourable outlook in respect of demand.

Whereas public building continued to advance in 1966, a certain stagnation affected the residential building field, where delays due to the reorganisation of the financing system and the growing number of unsold dwellings particularly affected activity in the “unaided sector”.

In *Italy*, investment showed a recovery in 1966 after the considerable fall in the two previous years. The increase, estimated at 3.7%, corresponds essentially to a rise of approximately 12% in purchases of capital goods after a decline of 14% in 1965; this increase reflects considerable rationalisation efforts, especially on the part of private enterprises. As for construction, it does not appear to have exceeded the 1965 level: the recovery trends, which became apparent in the fields of public works and industrial and commercial building, scarcely did more than offset a further setback in housing construction.

Despite the recovery, the level of investments in 1966 was still about 10% below the level reached in 1963.

In the *Netherlands*, investments showed a growth estimated at 7.5% in volume between 1965 and 1966, compared to 5.1% the previous year.

This overall situation stems mainly from the expansion in the investment activity of enterprises. Public enterprises continued, inter alia, very large-scale works undertaken in conjunction with the exploitation of natural gas deposits. Investment by private enterprises also increased more than in 1965, both as regards equipment and as regards construction, under the influence, on the one hand, of the rather favourable evolution of profits at the beginning of the year and, on the other, of the new measures taken to relax the policy of curtailing industrial building projects. A certain downturn in activity emerged however in the course of the year, as a result of the growing pressure exerted on profit margins by the continuous rise in costs and the increased financing difficulties linked with the dearness and scarcity of loan capital.

Residential construction, showing an 8% increase in volume by comparison with 1965, remained fairly dynamic, although with a rate of expansion which falls far short of the exceptional rates of previous years – 12% in 1965 and 29% in 1964. Lastly, budgetary difficulties led the government to apply, in May 1966, a certain check to the execution of public programmes. This move exerted its effects in the second half-year, especially as regards investments by local authorities.

In *Belgium*, the rate of growth in investment was more sustained than in 1965. The progress in productive investment by enterprises was still favourably influenced by the continuation of large-scale programmes by foreign firms, whereas the traditional sectors, which nevertheless maintained their rationalisation efforts, recorded only a small expansion in their investments. On the other hand investment by the public sector, which had diminished in 1965, showed a considerable recovery despite the financing difficulties which obliged the government, as well as the local authorities, to make cuts in their initial projects in the course of the year. As for residential construction, the stagnation already observed in the previous year persisted.

In the *Grand Duchy of Luxembourg*, the slackening in investment activity continued, showing a further recession of about 6.5% in volume after the 18% decrease of the previous year.

INVESTMENT FINANCING IN THE COMMUNITY

PUBLIC ISSUES OF SECURITIES

1. *Issues of national securities on the capital markets of Member States.*

The amount of public issues of securities, expressed in net value, i.e., after deduction of redemptions and, as far as possible, duplications, showed a decrease in 1966 of over 5%, compared to an increase of 12% in the previous year.

NET SECURITY ISSUES

(billiards of units of account)

<i>Types of securities</i>	1963	1964	1965	1966
Shares	2.05	2.88	2.94	2.52
Public loans (State or local authorities)	2.35	2.54	3.34	4.05
Borrowing by the economy (enterprises and credit institutions)	4.48	4.94	5.31	4.42
Total Community	8.88	10.36	11.59	10.99

This decrease affected exclusively the sector of the economy, whose calls on the market by issue of shares or bonds were reduced by some 1.3 milliard units of account, corresponding appreciably to one sixth of the amount raised in 1965. On the other hand placings of public loans, which had already increased by 31% in 1965, showed a further growth of over 20%.

SHARE ISSUES

(billiards of units of account)

<i>Country</i>	1963	1964	1965	1966
Germany	0.33	0.56	0.99	0.67
France	0.84	1.01	1.02	0.74
Italy	0.64	0.93	0.65	0.76
Netherlands	0.02	0.06	0.03	0.02
Belgium	0.13	0.23	0.14	0.20
Luxembourg	0.09	0.09	0.11	0.13
Total Community	2.05	2.88	2.94	2.52

Share issues decreased in 1966; this fall affected only the German and French markets, where stock market quotations, degrading since 1964, recorded a further decline of 14% and 8% respectively. On the

contrary, the more favourable situation of the Italian market – the only one in the Community to have ended the year with quotations showing some progress (+ 9%) – permitted calls which were definitely higher than those made in 1965; this progress was, however, cancelled out after the announcement of new taxation measures at the end of February 1967.

NET ISSUES OF BONDS IN THE COMMUNITY

(billiards of units of account)

Country	1963	1964	1965	1966
Germany	3.00	3.32	3.01	1.26
Public sector (1)	1.46	1.53	1.50	0.62
Economy	1.54	1.79	1.51	0.64
France	1.45	1.25	1.42	1.72
Public sector	0.49	0.17	0.11	0.22
Economy	0.96	1.08	1.31	1.50
Italy	1.72	2.32	3.13	4.42
Public sector	- 0.11	0.37	1.06	2.48
Economy	1.83	1.95	2.07	1.94
Netherlands	0.27	0.17	0.32	0.39
Public sector	0.28	0.13	0.15	0.18
Economy	- 0.01	0.04	0.17	0.21
Belgium	0.39	0.42	0.76	0.68
Public sector	0.23	0.34	0.51	0.55
Economy	0.16	0.08	0.25	0.13
Luxembourg	—	—	0.01	—
Public sector	—	—	0.01	—
Economy	—	—	—	—
Total for the Community	6.83	7.48	8.65	8.47
Public sector	2.35	2.54	3.34	4.05
Economy	4.48	4.94	5.31	4.42

(1) Including issues of bonds used partly to refinance loans to the Economy sector.

In *Germany*, in a very limited market, issues of fixed-interest securities scarcely exceeded two fifths of the placings effected in 1965, which themselves were in recession by comparison with the previous year.

This situation results essentially from several factors which had already contributed towards weakening the market in 1965 : continued tension in public finance, pressure exerted on liquidity by a restrictive credit policy and a balance of payments deficit during a large part of the year and, lastly, application of the "Kuponsteuer" to non-residents. It also seems that German savings, although abundant, proved reluctant to invest in fixed-interest securities, despite the exceptionally favourable rates which were offered.

In order to remedy this situation, a further issue pause for public loans, decided upon in the spring, was maintained until the end of the year, towards which period a slight relaxation was observable, partly connected with the return to a surplus position in external payments and hence with an additional supply of liquidities to the economy.

Practically the whole of the available funds were absorbed by the issues of mortgage and municipal bonds (88%, compared to 57% in 1965), which were nevertheless reduced from 1.7 to 1.1 milliard units of account from one year to the next.

The average rates offered to subscribers rose from about 7.6% in January to 8.6% in the course of August, subsequently reverting to 7.6% in December. At the latter date, according to the market quotations, the average yield was 7.7% for loans of the public sector and 7.8% for those of the private sector, or approximately the end-1965 levels, after maximum yields of 8.6% and 8.3% in July 1966.

In *France*, the market widened after the yields, still under close supervision by the authorities, were increased by 0.5% in the course of June, so as to take into account, inter alia, the trend in rates abroad; their level, which was brought on that date to about 6.8% for issues of the public sector and approximately 7.1% for those of the private sector, is now close to that to be found in the quotations.

The Treasury made slightly larger calls on the market than in the previous year, the proceeds of these loans again being intended for transfer to various priority sectors with a view to developing their equipment; the principal beneficiaries of the widening of the market were nevertheless the

specialised credit institutions which absorbed half the available resources; on the other hand, there was a slight decrease in placings of loans of nationalised undertakings and private industry.

In *Italy*, the market was characterised both by a new and considerable development of issues, the amount of which increased by more than 40% by comparison with 1965, and by larger borrowings by the Treasury or for its account (55% as against 34% in 1965, 16% in 1964 and nil the two previous years), partially offset, indeed, by the lesser calls of nationalised undertakings (IRI, ENI, ENEL), which represented only 11% instead of 33% in 1965. Demand by special institutions remained very active, whereas private borrowers once more abstained, owing to the tax burdens attaching to their direct issues.

Despite a certain resumption of exports of capital and the maintenance of yields in the region of 6.5%, i.e., at a relatively low level by comparison with those offered on certain neighbouring markets and on the international European market, placings with private investors, showing an increase of 900 million units of account, and which covered nearly half the calls, again exceeded – for the first time since 1963 – the subscriptions by the banking system, which themselves nevertheless increased by 16% between 1965 and 1966.

Although comparisons of this nature are made difficult by the differences still existing among the countries in the organisation of the capital markets, the Italian market thus emerges as by far the widest of the Community for fixed-interest securities, with 52% of the aggregate of issues of this type. This situation appears to depend upon the stability of the yields offered there, upon the tax exemption enjoyed in practice by income from this category of securities, the policy of remuneration of deposits and the rule applied by the commercial banks not to acquire participations and not to make long-term loans to industry, as well as upon a particular circumstance, the exceptional liquidity of the economy.

In the *Netherlands*, the market – widely influenced by the uptrend in rates in Germany and on the international market – had to cope with a demand for capital which is still very abundant on the part of the private

sector and by the N.V. Bank voor Nederlandsche Gemeenten for the account of local authorities.

The yields offered to subscribers, of 6.3% for securities of the public sector and 6.6% for those of the private sector in January, rose respectively to 7% and approximately 7.7% at the end of the year, when a certain relaxation began to be perceptible.

In *Belgium*, the volume of issues was fairly close to that of last year. The loans of the public sector, as in the course of previous years, absorbed the greater part of the available resources offered on the market. After the fall noted in the course of the two preceding years, the investors' interest seems to have turned once again towards purchases of foreign securities.

Owing to this, the yield at issue of government loans and loans of public credit institutions had to be gradually raised from 6.6% to over 7%.

In *Luxembourg*, only the Government placed a few bond issues directly with the banks and the social security fund. No loans was offered publicly.

Despite a reduced overall collection of capital, due essentially to the very tight situation which prevailed on the German market and which was only partially offset by the widening of the Italian market, the uptrend in rates, already noted in 1965, continued in 1966. After elimination of the exceptional peaks observed on certain markets as a result of circumstances which are unlikely to persist, the yields of the fixed-interest securities issued in the various currencies of the Community countries should be situated at levels fairly close to each other; this is at least the case for gross yields, as the treatment of incomes for tax purposes still differs greatly from one country to another and according to the nationality of the holder, which suffices to explain the existence of transfers on a considerable scale. The real cost of capital for the borrowers depends not only on the yield offered but also on the miscellaneous issue charges which vary appreciably according to the markets.

2. *Bond issues by international institutions and foreign borrowers on the markets of Member Countries.*

In 1966, only the Community institutions proceeded to public bond issues in three countries of the common market.

(millions of units of account)

	1965	1966
Germany	— (*)	— (*)
France	25	41
Italy	24	48
Netherlands	29	—
Belgium	10	10
Luxembourg	1	—
Total	89	99
<i>of which</i> European Investment Bank	45	75
European Coal and Steel Community	11	24

(*) After 1st April, 1964, when the introduction of a withholding tax (Kuponsteuer) on the income from German bonds held by non-residents was announced, DM loans issued in Germany by non-residents have been considered as "European issues", in view of the fact that they were subscribed, to a very high percentage, by non-residents.
Hence, the DM issues appear on page 35 under the section on the "European" international market.

Furthermore, three private loans, each of 24 million units of account, were placed in Italy by the Interamerican Development Bank, the European Coal and Steel Community and the European Investment Bank.

3. *Bond issues by residents of Member States on foreign markets.*

In 1966, Community borrowers made calls on the Swiss market amounting to 59 million units of account, as against only 20 million in 1965.

4. "European" international market.

Public issues on the "European" market (1) attained 1,096 million units of account in 1966, compared to 954 million in 1965, and were mainly expressed in dollars (77%). The chief beneficiaries of these operations were again American companies (41%), followed by Community borrowers (24%), of which the European Investment Bank (40 million) and the European Coal and Steel Community (55 million).

PUBLIC BOND ISSUES ON THE "EUROPEAN" MARKET
(millions of units of account)

	1965	1966
DM or DM option	384	166 (1)
Dollars	546	843
Florins (portions reserved for non-residents)	24	13
Units of account	—	74
Total	954	1,096
<i>of which</i> Community borrowers	205	266
— European Bank	20	40
— E.C.S.C.	38	55
— Others	147	171
American companies	297	454 (1)
<i>(of which, convertible bonds)</i>	110	182 (1)
Scandinavian borrowers	223	100
Japanese borrowers	25	—
Sterling area borrowers	107	135
Others	97	141

(*) These figures do not include two operations whereby American companies which already owned a participation in two German companies acquired almost the whole of the latter's capital by offering the other shareholders an exchange of their rights for convertible bonds issued or guaranteed by the parent companies, expressed in DM and of an overall amount of 182 millions units of account.

Issues for Scandinavian account again diminished and those for Japanese account entirely ceased, whereas operations by sterling area borrowers developed.

- (1) Market defined restrictively, as indicated in the previous report :
- Loans which cannot interest subscribers residing in the country whose currency is concerned, owing to the tax regulations applicable to them;
 - Loans issued with special monetary clauses (e.g., issues expressed in units of account, or with a multiple currency clause);
 - Loans reserved for non-resident subscribers.

The wideness of this market, as regards both supply of and demand for capital, clearly indicates its international character; indeed, it is reasonable to assume that a good deal of the funds which are invested there originate from outside the Community. Obviously, under these circumstances, the borrowers of the six countries would be unable to benefit from a privileged position on this market. However, without calling in question the fact that American investments in Europe often involve an appreciable technological contribution, the “ Union des Industries ” of the Community has recently expressed the fear that the calls which accompany them may be detrimental to the financing of European enterprises. At the same time, this organisation stressed the close link existing between this question and the creation of a genuine Community financial market. A group of experts, brought together upon the initiative of the Commission, devoted a study, published in November 1966, to the problems raised by the gradual development of such a market.

OTHER RESOURCES AVAILABLE FOR THE FINANCING OF THE ECONOMY

In order to meet its external capital requirements, mainly linked with the financing of investment, the sector of the economy – enterprises and households – thus assembled in 1966, by public placing of shares and bonds directly or for its account, just under 7 milliard units of account, or 1.3 milliard less than in 1965.

Furthermore it had recourse, as in previous years, to medium- and long-term credits granted by banks and specialised credit institutions, institutional investors and, in all the Member Countries with the exception of Belgium, by the Treasury.

It seems however that the enterprises have also had to finance their investments fairly frequently by contracting short-term commitments which, although constituting only a temporary solution, may play a useful role as temporary solution while awaiting a period of less tension on the financial markets.

Although the marked preference of the public for liquid and relatively short-term investments is a phenomenon common to all Member Countries, the persistent diversity from one country to another in the organisation of financial circuits, in the role played by the intermediary institutions collecting contractual savings and in the regulation of purchases of securities by credit establishments, obliges enterprises and households to make use, in order to cover similar requirements, of capital the nature, cost and period of availability of which still differ appreciably. For the operating conditions of the enterprises installed in the different countries this may lead to a certain disparity which, added to the still more considerable effects of the absence of harmonisation in the taxation field, will be felt to an ever greater extent as competition becomes keener.

1. *Medium- and long-term credits to the economy.*

The following table shows the increase since 1963 in medium- and long-term credits granted to enterprises and households in the Community:

(billiards of units of account)

<i>Country</i>	1963	1964	1965	1966
Germany	6.01	6.51	6.92	6.52
France	2.85	3.65	3.51	4.15
Italy	2.39	2.55	2.34	2.76
Netherlands	1.05	1.33	1.53	1.88
Belgium	0.63	0.75	0.71	0.93
Total Community	12.93	14.79	15.01	16.24

However, a part of the resources lent in this way results from the issue of securities already taken into consideration in the preceding section. The following table shows the net contribution of financial intermediaries to the economy, after elimination of this duplication.

(billiards of units of account)

Country	1963	1964	1965	1966
Germany	4.55	4.80	5.50	5.88
France	2.42	3.07	2.78	3.26
Italy	1.15	1.41	1.31	1.38
Netherlands	0.93	1.24	1.37	1.68
Belgium	0.54	0.73	0.57	0.82
Total Community	9.59	11.25	11.53	13.02

This net contribution is still considerable. In 1966, it reached 13 billiards, or about 13% more than in 1965.

It has increased in all countries, exceeding considerably – except in Italy owing to the large placings of bonds by the specialised institutions – the amount collected by public issue of securities and proving relatively more stable than the latter. Expressed as a ratio of the aggregate of external medium- and long-term resources of the sector of the economy, it represents approximately 60% in France, 70% in Belgium, 80% in Germany and nearly 90% in the Netherlands, as against only one third in Italy.

2. Short-term credits to the economy.

The increase in short-term credits to enterprises and households in the Community since 1963 is shown below.

(billiards of units of account)

Country	1963	1964	1965	1966
Germany	0.86	1.24	1.83	1.28
France	1.77	1.72	2.07	2.93
Italy	3.22	0.19	1.11	2.77
Netherlands	0.19	0.21	0.22	0.16
Belgium	0.16	0.01	0.10	0.28
Total Community	6.20	3.37	5.33	7.42

The increase in these credits was substantial in 1966 in Belgium, France and especially in Italy. It enabled enterprises to meet rising current requirements due to the development of economic activity but, as it was definitely higher in these three countries than the growth in the domestic product at current prices, it appears also to have served partly for financing investments.

In Germany and the Netherlands, on the other hand, owing to the effects of the restrictive monetary policy, the increase in short-term facilities in 1966 was on a lesser scale than in the course of the previous year and remained roughly within the limits of the advance of the domestic product.

CAPITAL MOVEMENTS WITHIN THE COMMUNITY AND BETWEEN THE COMMUNITY AND NON-MEMBER STATES

In respect of aid to the developing countries, the Member Countries of the Community were all net exporters of public capital in the course of 1965 (approximately 1.5 milliard dollars, as in the two previous years).

This public aid was supplemented by private export credits in a net amount of 434 million dollars, compared to 498 million in 1964. Of this amount, 370 million were guaranteed, of which 190 million were for terms of more than five years.

During the same period, on the other hand, the movements of long-term private capital (direct and portfolio investments, loans other than commercial credits, real estate operations, etc.) showed a fairly high surplus in favour of Germany, France and the Belgo-Luxembourg Economic Union. This surplus formed a far from negligible contribution to the financing of investment in these countries. Private capital movements were in equilibrium in the Netherlands. For Italy, the results appeared favourable but the figures do not take into account exports of banknotes by residents.

MOVEMENTS OF LONG-TERM PRIVATE CAPITAL
CONCERNING THE MEMBER COUNTRIES IN 1965

(millions of units of account)

I. Net foreign investments :					
Origin	Germany	France	Italy	Netherlands	B.L.E.U.
E.E.C.	289	161	97	135	48
Direct	84	89	38	15	50
Portfolio	64	54	15	65	2
Others	141	18	44	55	-4
U.S.A.	312	124	108	-54	64
Direct	245	103	58	27	42
Portfolio	63	-3	1	-109	4
Others	4	24	49	28	18
Other O.E.C.D. countries	272	227	178	214	22
Direct	111	133	178	20	8
Portfolio	4	62	-39	138	4
Others	157	32	39	56	10
Other countries	133	24	30	89	84
Direct	2	10	12	5	42
Portfolio	68	2	-4	30	-
Others	63	12	22	54	42
Total	1,006	536	413	384	218
II. Net investments abroad by residents :					
Destination	Germany	France	Italy	Netherlands	B.L.E.U.
E.E.C.	160	39	112	186	128
Direct	43	28	61	44	44
Portfolio	94	-13	4	71	52
Others	23	24	47	71	32
U.S.A.	42	1	5	-2	-16
Direct	10	2	10	4	2
Portfolio	28	10	-10	-4	-6
Others	4	-11	5	-2	-12
Other O.E.C.D. countries	161	113	70	70	-2
Direct	29	163	71	34	-2
Portfolio	75	-46	1	-25	-12
Others	57	-4	-2	61	12
Other countries	117	22	63	128	26
Direct	20	40	50	43	-4
Portfolio	65	-10	2	4	8
Others	32	-8	11	81	22
Total	480	175	250	382	136

NOTE : For Italy, foreign investments of Swiss origin were partially the counterpart of exports of Italian banknotes by residents. These banknote exports, which reached 313 million units of account in 1965, i.e., considerably less than in 1964, have not been included under the heading of Italian investments abroad in the above table.

Direct investments by Member Countries in other countries of the Community still remained at a very low level, bearing in mind the integration which is taking place. They only showed progress – and even then within narrow limits – in the case of investments in Germany and those originating from Italy.

In addition to these direct investments, there was a larger volume than in 1964 of security purchases, principally in Germany, France and the Netherlands, for Belgian, Dutch and German account.

Loans for the benefit of German borrowers showed an increase.

Direct American investments considerably increased in Germany (245 million dollars compared to 99 million); they decreased in Italy and remained of the same order of magnitude in the other countries.

American investors again engaged in heavy selling of Dutch securities, while purchasing German securities, although on a smaller scale. Loans granted by the United States to Germany and Italy, which had reached large amounts in 1964, showed a definite decrease as a result of the restrictions which the American banks had to apply for balance of payments reasons and also, in the case of Italy, owing to a less brisk demand for capital.

“Other O.E.C.D. countries” stepped up their direct investments in Germany and to a lesser extent in France – more particularly, the United Kingdom – and their portfolio investments in the Netherlands. Direct investments by France and Italy and portfolio investments by Germany in this area also increased. France, on the other hand, proceeded to further sales of sterling area securities.

Lastly, the “other countries” purchased some German securities, while direct investments in these countries by the Netherlands and especially by France showed progress.

II

ACTIVITIES OF THE BANK

LOANS

CONTRACTS SIGNED

In 1966, the Bank signed a total of 39 loan contracts for an amount of 197 million units of account, as follows :

- 29 loans under the heading of ordinary operations, for an amount of 135.4 million units of account;
- 10 loans coming under the Special Section, for an amount of 61.6 million units of account.

OPERATIONS APPROVED

In 1966, the Bank approved in all – ordinary and special operations together – 31 loans for an overall amount of 132.2 million, compared to 150.8 million in the previous year.

These loans apply to projects of which the total investment cost is estimated at 605.8 million. The average participation by the Bank therefore amounted to 22% of the cost of the projects.

ORDINARY LOANS.

Under this heading, the Bank approved 27 ordinary loans for a total of 118.7 million units of account (1) : 11 of these loans, totalling 69 million, were for projects in Italy, 1 loan for an amount of 4.8 million was for a

(1) It is recalled that, unless otherwise stated, the figures given in this Report are expressed in units of account (see definition page 2).

project in France, 5 loans totalling 10 million were for projects in Germany, 6 loans totalling 17.4 million were for projects in Greece and 4 loans, totalling 17.5 million, were for projects in the Associated African Countries.

The projects are :

<i>Italy :</i>	<i>Loans by the Bank (million u.a.)</i>
1. Modernisation of a pulp and paper mill at Isola del Liri (Latium). Promoter : <i>Società delle Cartiere Meridionali S.p.A.</i>	1.1
2. Adaptation of a project, previously financed by the Bank, for the construction of a porcelain factory at Chieti (Abruzzi). Promoter : <i>Società Ceramica Italiana Richard-Ginori S.p.A.</i>	0.4
3. Construction of an establishment for the cutting and galvanising of steel coils and sheets at Pomezia (Latium). Promoter : <i>Lavezzari Lamiere Sud S.p.A.</i>	0.8
4. Modernisation of a synthetic fibre factory at Castellaccio-Paliano (Latium). Promoter : <i>Bombrini Parodi Delfino S.p.A.</i>	0.6
5. Construction of new installations for the production of hydrogen peroxide and sodium perborate at Bussi (Abruzzi). Promoter : <i>Montecatini-Edison S.p.A.</i>	2.0
6. Construction of an establishment for the production of air conditioning appliances at Ariccia (Latium). Promoter : <i>Mc Quay Europa S.p.A.</i>	0.7
7. Irrigation and development of the Ogliastro perimeter (Sicily). Promoter : <i>Cassa per il Mezzogiorno.</i>	24.0
8. Modernisation of the Battipaglia-Reggio Calabria railway line, Eccellente-Gioia Tauro section (Calabria). Promoter : <i>Azienda Autonoma delle Ferrovie dello Stato.</i>	16.0

Loans by the Bank
(million u.a.)

- | | | |
|-----|--|------|
| 9. | Modernisation of a cement works at Vibo Valentia (Calabria). Promoter : <i>Società Italiana per Azioni per la Produzione di Calci e Cementi di Segni</i> . | 0.8 |
| 10. | Construction of a factory producing antibiotics and vitamins for zootechnical use at Capua (Campania). Promoter : <i>A.V.I.M. S.p.A. - Antibiotici e Vitamine per l'Industria Mangimistica</i> . | 0.6 |
| 11. | Construction of the motorway between Messina and Catania (Sicily). Promoter : <i>Consorzio per l'Autostrada Messina-Catania</i> . | 22.0 |

France :

- | | | |
|-----|--|-----|
| 12. | Irrigation of three sectors of the Central Garonne Valley (South-West France). Promoter : <i>Compagnie d'Aménagement des Coteaux de Gascogne</i> . | 4.8 |
|-----|--|-----|

Germany :

- | | | |
|-----|--|-----|
| 13. | Construction of a factory for the manufacture of calculating machines at Brunswick (Lower Saxony). Promoter : <i>Olympia-Werke AG</i> . | 2.0 |
| 14. | Construction of a factory producing plates and moulded or shaped articles in rubber at Helmstedt (Lower Saxony). Promoter : <i>Para-Gummiwerke Arthur Brügger GmbH</i> . | 1.5 |
| 15. | Construction of a factory producing steel drop forgings at Pfalzel (Rhineland-Palatinate). Promoter : <i>Rheinmetall Schmiede- und Presswerk Trier GmbH</i> . | 2.5 |
| 16. | Construction of a hollow glass factory at Neuburg-on-Danube (Bavaria). Promoter : <i>Glaswerke Neuburg a.d. Donau Werner Barlag KG</i> . | 1.5 |
| 17. | Construction of a gas production unit and reinforcement of the gas distribution system in West Berlin. Promoter : <i>Berliner Gaswerke (GASAG)</i> . | 2.5 |

Greece :	<i>Loans by the Bank</i> (million u.a.)
18. Construction of an integrated factory producing alumina and aluminium on the north shore of the Gulf of Corinth. Promoter : <i>Aluminium de Grèce S.A.</i>	10.0
19. Construction of a cement works near Patras (Peloponnese). Promoter : <i>Société Hellénique des Ciments S.A.</i>	1.5
20. Irrigation of the plain of Karditsa (Thessaly). Promoters: <i>Ministry of Agriculture and Ministry of Public Works.</i>	5.0
21. Construction of a factory for detinning tin waste at Eleusis (Attica). Promoter : <i>Elektrolytische und Industrie AG.</i>	0.1
22. Extension of a factory for plywood and veneer production near Chalkis, in the island of Euboea. Promoter : <i>Shelman S.A.</i>	0.6
23. Construction of a finishing, dyeing and printing workshop in a weaving mill at Kiphissia, near Athens. Promoter : <i>Société Frères Triantopouli.</i>	0.2

Associated African Countries :

Federal Republic of Cameroon :

24. Creation of a sugar industry at Mbandjock. Promoter : <i>Société Sucrière du Cameroun (SO.SU.CAM).</i>	2.0
25. Errection of the M'Bakaou barrage-reservoir and construction of the Edéa III factory at Edéa. Promoter : <i>Energie Electrique du Cameroun (ENELCAM).</i>	4.1

Republic of Congo-Brazzaville :

26. Operation of a potash deposit at Saint-Paul (Holle). Promoter : <i>Compagnie des Potasses du Congo (C.P.C.).</i>	9.0
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Republic of Senegal :

*Loans by the Bank
(million u.a.)*

27. Construction of a fertiliser factory at M'Bao. Promoter :
Société Industrielle d'Engrais au Sénégal (SIES). 2.4

* * *

With the exception of the loan concerning the project located in West Berlin (for which the borrower from the Bank is, for reasons of a legal nature, the "Land"), the loans in Germany are granted directly to the enterprises or institutions carrying out the projects. The same applies to France, as well as to Italy for the financing of works concerning agricultural development, railways and roads.

In Italy, the other loans concerning industrial projects coming within the sphere of activities of the Cassa per il Mezzogiorno were, as in the past, granted to this institution which then relends the respective amounts through the intermediary of the competent regional financing institution, i.e., in the course of the 1966 financial year, the Istituto per lo Sviluppo Economico dell'Italia Meridionale (ISVEIMER).

The relative importance of loans granted in favour of projects located in Southern Italy (58% of the ordinary loans) shows the constant interest attached by the Bank to the fulfilment of its mission of aiding the less-developed regions of the Community. The financing of Italian industrial projects – somewhat slowed down by the introduction of new procedures at the national level and by the cyclical slackening of the previous years – has this year again taken second place after the loans intended to facilitate the implementation of infrastructural works. The latter relate, on the one hand, to the agricultural development of a particularly depressed area of Sicily (the Ogliaastro perimeter), and on the other, the establishment and modernisation of road and railway infrastructures which, either directly (Messina-Catania motorway), or indirectly by reason of the improvement they entail for the links between Sicily and the mainland (completion of the doubling of the track between Battipaglia and Villa San Giovanni), encourage the economic development of this island.

The agricultural equipment project financed in France contributes to the development of the region concerned (Central Garonne Valley).

Among the projects financed in Germany, two relate to regions in Lower Saxony, close to the border of the eastern zone, which are experiencing special economic difficulties since their separation from their hinterland. One of these two projects, which moreover has the advantage of facilitating a redistribution of redundant colliery labour, was the subject of a parallel financing by the High Authority of the E.C.S.C. Two other loans have been granted in areas suffering from structural deficiencies, where special forms of aid are also planned on the part of the public authorities. Finally in Germany a loan was granted for a project concerning gas production and distribution in West Berlin.

The first four of the loans from which Greece has benefited in 1966 were granted either directly to private investors, or to the Government in the case of Karditsa, while the two remaining loans were granted to the Banque Hellénique pour le Développement Industriel, a government institution which has relented the respective amounts to the promoters.

The interventions in Greece were more considerable in the industrial sector, where they related inter alia to an integrated factory for the production of 200,000 tons of alumina and 72,000 tons of aluminium from local bauxite, a new cement works, with a capacity of 300,000 tons, near Patras, and a detinning plant. Two other loans, in the textiles and wood sectors, were granted to wholly Greek enterprises, very representative – owing to their medium size – of the structure of Greek industry.

By way of infrastructure, only one operation was financed, forming part of the irrigation programme, in accordance with the objectives of the Agricultural Development Plan in Greece.

The loans in the Associated African Countries were granted directly to the companies carrying out the projects. The Bank's new interventions are located in Cameroon, Congo-Brazzaville and Senegal. They concern three industrial projects and one infrastructure project : while ensuring the diversification of the economy of the countries concerned, the industrial investments which have been financed will improve their trade balance

either by increasing exports or by replacing imports by local production; the hydro-electric installations will make it possible to cope with the development of several urban centres and their industrialisation.

* * *

At the end of the 1966 financial year, the total of the ordinary loans approved by the Bank since the outset was 678.3 million units of account, distributed among 133 operations.

SPECIAL LOANS.

Within the framework of its Special Section – the characteristics of which were described in the 1964 Annual Report – the Bank approved four loans totalling 13.5 million units of account in favour of projects located in Turkey, in the course of the financial year.

The projects approved were :	<i>Loans by the Bank</i> (million u.a.)
1. Construction of a pulp and kraft paper mill at Çaycuma (near Zonguldak on the Black Sea). Promoter : <i>SEKA-Çaycuma Müessesesi, subsidiary of SEKA (Türkiye Selüloz ve Kâğıt Fabrikaları İşletmesi - Operation of Cellulose and Paper Mills in Turkey), a State economic enterprise.</i>	10.3
2. Enlargement of a window glass factory at Çayırova, near Istanbul. Promoter : <i>Türkiye Şişe ve Cam Fabrikaları A.Ş.</i>	2.1
3. Rationalisation and modernisation of a finishing workshop in a textile factory (cotton), located at Adana and execution in this workshop of new spinning and weaving units. Promoter : <i>Güney Sanayi ve Ticaret İşletmeleri A.Ş.</i>	0.4
4. Construction in Istanbul of a cotton waste spinning workshop, to form part of an integrated textile complex. Promoter : <i>Mensucat Santral T.A.Ş.</i>	0.7
	13.5

The Bank's operations in Turkey were carried out through the intermediary of the Turkish Government, in accordance with the system described in the 1964 Report. The loans approved in the course of the financial year relate solely to industrial projects. Large-scale infrastructure projects, including the Keban hydroelectric project, had been approved in the course of the previous financial year.

Up to the present, financing of private industrial sector projects required the drawing up of three contracts, namely : between the Bank and the Turkish Government, between the Government and the T.S.K.B. (Türkiye Sinaî Kalkınma Bankası – Industrial Development Bank of Turkey), and between the T.S.K.B. and the ultimate beneficiary.

At the request of the T.S.K.B. and with the agreement of the Turkish authorities, a simplification of this procedure has been examined, with the result that it has appeared feasible to work out a “general contract of financing” between the Bank and the Turkish Government. Such a contract would serve as a basis, for a given period, for the financing of industrial projects through the intermediary of the T.S.K.B. the credit opened by this contract becoming available as and when the Bank approves the projects. In application of these principles the Bank has decided to conclude with the Turkish Government a “general contract of financing” relating to an amount of 5 million units of account, for projects to be financed through the intermediary of the T.S.K.B. in 1967.

* * *

At the close of the 1966 financial year, the amount of special loans approved by the Bank since the outset was 67.8 million units of account, distributed over 13 operations.

LOAN OPERATIONS FROM 1958 TO 1966

Since its foundation and until the end of 1966, the Bank has approved 148 loans, two of which were cancelled after approval. The total number of operations was therefore 146, totalling 746.1 million, or an average of about 5 million per loan. Nearly a third of these 146 operations were for

an amount of one million or less, while the number of loans for amounts of 3 million or less represented 63% of the total.

The investments in which the Bank participated amounted in all to approximately 3.4 milliard : the Bank's share in their financing averaged 22%, varying considerably according to the nature and size of the projects.

The breakdown of loans approved, by country and by sector, is given in the two following tables :

BREAKDOWN BY COUNTRY
at 31st December, 1966
(*Ordinary and Special loans*)

<i>Country</i>	<i>Number of projects</i>	<i>E.I.B. loans (million u.a.)</i>	<i>Each country's share in the total (%)</i>
I. Ordinary loans			
<i>Member countries :</i>			
Belgium	1	4.8	1
Germany	11	51.2	7
France	14	84.7	11
Italy	85	458.5	61
Luxembourg	1	4.0	1
	112	603.2	81
<i>Associated countries :</i>			
Greece	14	54.2	7
Ivory Coast	1	1.0	—
Cameroon	4	8.5	1
Congo-Brazzaville	1	9.0	1
Senegal	1	2.4	1
	21	75.1	10
Total	133	678.3	91
II. Special loans			
Turkey	13	67.8	9
Grand total	146	746.1	100

BREAKDOWN BY ECONOMIC SECTOR
at 31st December, 1966
(*Ordinary and Special loans*)

Sectors	Number of projects	E.J.B. loans (million u.a.)	Each sector's share in the total (%)
AGRICULTURAL IMPROVEMENTS	9	106.6	14
POWER	16	136.1	18
TELECOMMUNICATIONS	1	16.0	2
TRANSPORT	14	194.2	26
of which :			
– Railways	7	107.2	
– Roads	7	87.0	
INDUSTRY	106	293.2	40
of which :			
– Mining	3	110.0	<i>corrected to 11.0</i>
– Iron and steel	3	48.9	
– Non-ferrous metals	4	14.2	
– Building materials	11	16.6	
– Glass and pottery	7	10.4	
– Paper pulp and paper	6	29.0	
– Mechanical engineering	21	36.8	
– Chemicals	22	92.2	
– Textiles and clothing	10	8.5	
– Food	14	22.9	
– Other manufacturing industries	5	2.7	
Total	146	746.1	100

*
* * *

As regards the terms of loans, taking into account the general evolution of financial markets, the interest rates to be applied for ordinary operations were fixed, as from 9th November, 1966, at 7%, whatever their duration.

ORIGIN AND EMPLOYMENT OF RESOURCES

On 31st December, 1965 the Bank's combined resources amounted to 532.9 million units of account, derived from paid-up capital, borrowings and accrued profit.

Although 1966 was marked by very pronounced tension on the majority of the capital markets, the Bank substantially stepped up its borrowing operations; the overall amount of funds collected reached 138.5 million, or more than double the overall amount of the loans contracted in the previous year.

These results would not have been obtained in such a difficult period without the close and effective collaboration instituted from the outset with the monetary authorities of the Member Countries. The Italian authorities enabled the Bank to benefit from a cyclical situation characterised by abundant liquidities and to have wide access to the capital market of this country – which is nevertheless structurally an importer of capital – both by the floating of two lire loans and by the placing of dollar bonds. Thanks to the large-scale recourse to the Italian market and to its borrowings on the French and Belgian markets, the Bank was able to bring up its resources to the level of its requirements, while refraining from contributing, by its calls, towards aggravating the tense situation on other markets, such as the Netherlands, which had been constantly open to it in previous years, and Germany, where real rates attained levels in 1966 which in fact made it impossible to have recourse to the country's capital market.

Details of the borrowing operations concluded in the course of the financial year are given below :

In May, the Bank floated a public loan in New York for a nominal amount of US \$ 25 million (25 million units of account) at 6.5%. This loan was taken up by an international syndicate of 73 banks, including 55 European banks, under the management of Kuhn, Loeb & Co., The First Boston Corporation, Lazard Frères & Co., Amsterdam-Rotterdam

Bank, Mediobanca, Société Générale de Banque, Banque de Paris et des Pays-Bas, Deutsche Bank and the Caisse d'Épargne de l'État, Luxembourg. The bonds were offered to the public at 98 % of their nominal value, although this rate was raised to 103.539 % for United States' subscribers, by application of the Interest Equalization Tax. The bonds run for 10 years and are redeemable at par from May 1967 onwards, in ten increasing annual instalments.

In July, a public loan of 15 milliard lire (24 million units of account) was issued in Italy at 6%. This loan was taken up by a syndicate of Italian banks under the management of Mediobanca and offered for public subscription at 96%. The bonds, which run for 20 years, are redeemable at par in interest and principal, in seventeen equal annual instalments, from July 1970 onwards.

In the same month, the Bank issued its first public loan in France for a nominal amount of FF 200 million (40.5 million units of account) at 6 1/4%. This loan was taken up by a syndicate of French banks under the management of the Crédit Lyonnais, the Banque Nationale de Paris and the Banque de Paris et des Pays-Bas. The bonds, which run for fifteen years, were offered for public subscription at 99 3/4%. They are redeemable in five equal annual instalments at the following rates :

103 % in July 1969; 105 % in July 1972; 107 % in July 1975;
109 % in July 1978 and 111 % in July 1981.

Also in July, the Bank issued a public loan in Luxembourg in the amount of 15 million dollars (15 million units of account) at 6 1/2%. This loan was taken up by a syndicate composed of the Banca Commerciale Italiana, White Weld & Co., and the Banque Internationale à Luxembourg, and offered for public subscription at 99.50%. The bonds, which run for 20 years, are redeemable at par in fifteen equal annual instalments from August 1972 onwards.

In September, the Bank issued – once again in Italy – a bond loan of 15 milliard lire (24 million units of account) at 6%. This loan was subscribed in full by the Cassa di Risparmio delle Provincie Lombarde and

was not offered to the public. The bonds, which run for 20 years, are redeemable in fifteen equal annual instalments, from October 1972 onwards.

Lastly, in November 1966, a public loan of 500 million Belgian francs (10 million units of account) was issued in Belgium at 7%. This loan was taken up by a group of banks composed of the Société Générale de Banque, the Banque de Bruxelles, the Kredietbank, the Banque Lambert and the Banque de Paris et des Pays-Bas and offered for public subscription at 99%. The bonds, which run for 12 years, are redeemable at par in seven annual instalments from December 1972 onwards.

The overall amount of funds borrowed was thus 359.2 million as at 31st December, 1966. After deduction of repayments made, and taking into account redemption premiums accruing on effective loans, the funded debt amounted, at this same date, to 355 million.

* * *

New loan agreements signed during the financial year brought the total amount of loans granted to 643.6 million as at 31st December, 1966. After deduction of repayments made, amounting to a total of 31.7 million, of which 13.7 were repaid during the financial year, and taking into account exchange adjustments and cancellations, total effective loans amounted to 610.2 million, of which 430.9 million had been disbursed. Disbursements made during the financial year 1966 amounted to 79 million. The contraction by comparison with the amount of disbursements made in the course of the previous financial year, i.e., 100.7 million, was influenced by the pace of execution of the projects, which determines the rate of disbursement, the pace being evidently slower for major infrastructure projects. The amount still to be disbursed on effective loans was 179.3 million on 31st December, 1966, compared to 122.9 million at the end of the previous financial year.

* * *

In accordance with the rule adopted in previous financial years, the Bank has written off in full, by debiting the Profit and Loss Account, the charges and issue costs in respect of loans incurred in the course of the year. These depreciations amounted to 5.9 million, compared to 2.6 million

in the previous year. The balance of the Profit and Loss Account, before appropriations to the statutory reserve and to provisions, amounted to 9.4 million, as against 11 million for the previous year.

This amount was appropriated as follows : 5 million to provisions and the balance to the statutory reserve.

On 31st December, 1966, the total of reserves and provisions was 75.1 million, of which 36.6 million for the statutory reserve.

At the end of the financial year, the Bank's total resources – paid-up capital, borrowings and accrued profit – amounted to 677.3 million units of account.

III

BALANCE SHEET AND PROFIT AND LOSS ACCOUNT

The balance sheet and profit and loss account are enclosed with this Report.

Their main items are analysed below :

BALANCE SHEET

The balance sheet total as at 31st December, 1966, amounts to 873,005,175.98 u.a. On 31st December, 1965, this total was 665,207,321.33 u.a.

ASSETS

Cash and banks, gold assets and investments.

The total of these three items amounts to 249,239,400.— u.a., as against 168,532,193.98 u.a. on 31st December, 1965, as can be seen from the detailed breakdown hereunder :

	on 31st December, 1965	on 31st December, 1966
– Cash in hand and banks	132,011,948.73	184,264,733.43
– Gold assets	8,618,999.49	8,636,300.59
– Investments	27,901,245.76	56,338,365.98

The treasury bonds, bonds and notes to the value of 42,404,801.91 u.a., forming part of the “ Investments ” item, have been valued at cost price or at market quotation as at 31st December, 1966, if the latter were below cost price, with a maximum of 100 %.

The “ Investments ” heading further includes 888,612.50 u.a. of the Bank’s own bonds which have been purchased by it (par value of 900,000 u.a.).

The total of these three items, according to currencies, is made up as follows :

– Currencies of Member Countries	181,367,925.88 u.a.
– Other currencies	59,235,173.53 u.a.
– Gold	8,636,300.59 u.a.

The breakdown by maturities is :

– At call	48,570,831.59 u.a.
– Not exceeding 3 months	43,350,597.93 u.a.
– Exceeding 3 months but not exceeding 6 months	51,053,178.07 u.a.
– Exceeding 6 months but not exceeding 1 year	80,076,790.54 u.a.
– Exceeding 1 year	26,188,001.87 u.a.

Effective loans.

The amount of 610,177,470.08 u.a. represents the total amount of the loans for which agreements had been signed by 31st December, 1966, less repayments during the year which totalled 13,735,492.03 u.a. Of this total, the amount actually paid out to borrowers by that date is 430,857,242.80 u.a.

Amounts owing to the Bank as a result of these payments are made up as follows, according to currencies :

– Currencies of Member States	316,903,981.16 u.a.
– Currency of any Member State at the Bank’s option	30,253,113.60 u.a.
– Other currencies	83,700,148.04 u.a.

The undisbursed amounts viz. 179,320,227.28 u.a. appear as a contra item in the liabilities under the heading “ undisbursed balance of effective loans ”.

The items concerning loans compare as follows with the previous year :

	on 31st December, 1965	on 31st December, 1966
– Amounts disbursed	365,598,626.24	430,857,242.80
– Amounts undisbursed	122,880,335.87	179,320,227.28
Total of loans	488,478,962.11	610,177,470.08

The breakdown by country of effective loans is as follows :

<i>Country</i>	<i>Amounts disbursed</i>	<i>Amounts undisbursed</i>	<i>Total</i>
Belgium	4,800,000.—	—	4,800,000.—
Germany	42,590,761.92	1,500,000.—	44,090,761.92
France	67,057,739.81	5,124,507.28	72,182,247.09
Italy	274,229,478.07	141,500,000.—	415,729,478.07
Luxembourg	3,292,983.—	—	3,292,983.—
Greece	36,129,081.—	17,052,919.—	53,182,000.—
Ivory Coast	682,989.—	332,011.—	1,015,000.—
Cameroon	2,074,210.—	2,380,790.—	4,455,000.—
Senegal	—	2,430,000.—	2,430,000.—
Congo-Brazzaville	—	9,000,000.—	9,000,000.—
	430,857,242.80	179,320,227.28	610,177,470.08

The breakdown of effective loans according to the principal guarantee covering them shows that, of the total amount of 610,177,470.08 u.a., loans granted to Member States or benefiting from their guarantee amount to 533,192,409.46 u.a.; loans granted to governmental institutions of Member States or guaranteed by governmental institutions amount to

45,509,487.82 u.a.; loans assisted by the guarantee of Associated Countries amount to 7,900,000.– u.a.; the balance of 23,575,572.80 u.a. is composed of loans covered by usual long term financial security.

Part of the loans granted are covered by both guarantee and security.

Furniture and equipment.

Furniture and equipment, which have been fully amortized, are entered under this heading only pro memoria.

Accrued interest and commission.

Under this heading are shown interest and commissions accrued but not yet due for payment as at 31st December, 1966, amounting to 8,226,208.19 u.a.

Unamortized redemption premiums.

The amount of 2,835,695.74 u.a. represents the redemption premiums due on the French francs Bonds issued by the Bank in the course of the year. The amortization will be effected annually over the entire life of the bonds.

Miscellaneous.

The total shown under this heading viz. 2,526,400.97 u.a., includes 2,310,747.80 u.a. representing deposits constituted to cover the payment of coupons due but not yet paid.

LIABILITIES

Capital.

Subscribed capital amounts to 1,000,000,000.— u.a., of which 250,000,000.— u.a. have been paid up and 750,000,000.— u.a. are guarantee capital.

Statutory Reserve.

The statutory reserve which amounted to 32,150,155.18 u.a. at the beginning of the year has been increased to 36,545,179.96 u.a., by the transfer to this reserve of the balance of the Profit and Loss account.

Provisions.

The provision for risks on loans and guarantees, which stood at 25,500,000.— u.a. at the close of the previous financial year, is increased to 30,500,000.— u.a.

Total provisions therefore amount to 38,500,000.— u.a., as against 33,500,000.— u.a. at the close of the previous financial year.

Staff pension fund.

The amount appearing under this heading is 945,995.72 u.a., as against 776,337.04 u.a. on 31st December, 1965.

Amounts due under Article 7 (2) of the Statutes.

The amount appearing under this heading is 344,641.57 u.a., as against 385,339.27 u.a. at the close of the previous financial year.

Medium and long term debt.

The figure of 354,981,659.10 u.a. under this heading represents the Bank's current borrowings as at 31st December, 1966, as well as the redemption premiums relating thereto.

The breakdown of the funded debt is as follows :

		<i>Principal outstanding</i>		<i>Final</i>	<i>Amortization</i>	
		<i>in local currencies</i>	<i>in u.a.</i>	<i>matu- rity</i>		
4 3/4%	Bank loan of 1961	Sw. fr.	1.8 million	411,633.68	1967	in 1967.
4 1/2%	Bonds of 1961	Fls.	8.0 million	2,209,944.74	1968	in equal annual instalments 1967-1968.
4 1/2%	Bonds of 1961	Fls.	50.0 million	13,812,154.70	1981	in 15 substantially equal annual instalments 1967-1981.
5%	Bonds of 1962	Lit.	15,000.0 million	24,000,000.00	1977	redeemable by anticipation, as a whole or in part, at par as from 1967.
4 3/4%	Bonds of 1962	Fls.	30.0 million	8,287,292.82	1982	in 10 equal annual instalments 1973-1982.
5 1/2%	Bonds of 1963	DM	60.0 million	15,000,000.00	1970	at maturity.
6%	Bonds of 1963	Belg. fr.	400.0 million	8,000,000.00	1987	in 19 annuities 1969-1987.
5%	Bonds of 1963	FF	60.0 million	12,152,981.73	1983	1/4 of the nominal value of each bond at the end of the 5th, 10th, 15th, and 20th years.
5 1/2%	Bonds of 1964	DM	80.0 million	20,000,000.00	1974	at maturity.
5%	Bank loan of 1964	Lux. fr.	50.0 million	1,000,000.00	1974	in 7 annuities 1968-1974 (*).
5 3/4%	Bonds of 1964	Fls.	30.0 million	8,287,292.82	1984	in 10 equal annual instalments 1975-1984.
5-5 1/4%	Bonds of 1964 (Serial Bonds)	DM	41.7 million	10,425,000.00	1971	in 5 substantially equal annual instalments 1967-1971.
5 1/2%	Bonds of 1964	US \$	25.0 million	25,000,000.00	1984	in 15 substantially equal annual instalments 1970-1984.
5 3/4%	Bonds of 1965	Fls.	40.0 million	11,049,723.76	1990	in 15 substantially equal annual instalments 1976-1990.
6%	Bonds of 1965	US \$	20.0 million	20,000,000.00	1985	in 15 substantially equal annual instalments 1971-1985.
6%	Bonds of 1965	Lit.	15,000.0 million	24,000,000.00	1985	in 17 annuities 1969-1985 (*).
6 1/2%	Bonds of 1965	Belg. fr.	500.0 million	10,000,000.00	1977	in 9 annuities 1969-1977 (*).
6 1/2%	Bonds of 1966	US \$	25.0 million	25,000,000.00	1976	in 10 increasing annual instalments 1967-1976.
6%	Bonds of 1966	Lit.	15,000.0 million	24,000,000.00	1986	in 17 annuities 1970-1986 (*).
6 1/4%	Bonds of 1966	FF	200.0 million	40,509,939.11	1981	in 5 equal three-yearly 1969-1981 instalments with increasing redemption premium.
6 1/2%	Bonds of 1966	US \$	15.0 million	15,000,000.00	1986	in 15 equal annual instalments 1972-1986.
6%	Bonds of 1966	Lit.	15,000.0 million	24,000,000.00	1986	in 15 equal annual instalments 1972-1986.
7%	Bonds of 1966	Belg. fr.	500.0 million	10,000,000.00	1978	in 7 annual instalments 1972-1978.
				352,145,963.36		
Redemption premiums				2,835,695.74		
				354,981,659.10		

(*) in capital and interest.

During the financial year the funded debt of the Bank, broken down by currencies, developed as follows :

	<i>Operations during the financial year</i>			<i>Principal outstanding at 31st December, 1966</i>
	<i>Principal outstanding at 31st December, 1965</i>	<i>Borrowings</i>	<i>Repayments</i>	
in DM	47,500,000.—	—	2,075,000.—	45,425,000.—
in FF	12,152,981.73	40,509,939.11	—	52,662,920.84
in Lit.	48,000,000.—	48,000,000.—	—	96,000,000.—
in Belg. fr.	18,000,000.—	10,000,000.—	—	28,000,000.—
in Fls.	44,751,381.22	—	1,104,972.38	43,646,408.84
in Lux. fr.	1,000,000.—	—	—	1,000,000.—
in Sw. fr.	823,267.36	—	411,633.68	411,633.68
in US \$	45,000,000.—	40,000,000.—	—	85,000,000.—
Total	217,227,630.31	138,509,939.11	3,591,606.06	352,145,963.36
Redemption premiums	—	2,835,695.74	—	2,835,695.74
	217,227,630.31	141,345,634.85	3,591,606.06	354,981,659.10

The amount of funded debt due within the financial year 1967 is 5,767,020.42 u.a.

Undisbursed balance of effective loans.

The amount of 179,320,227.28 u.a. entered under this heading represents the payment commitments still to be executed by the Bank in favour of its borrowers under contracts signed prior to 31st December, 1966.

Interest and commission payable and interest received in advance.

The amount of 7,153,693.89 u.a. appearing under this heading represents 7,038,318.29 u.a. accrued interest not yet paid and 115,375.60 u.a. interest received in advance for periods subsequent to 31st December, 1966.

Miscellaneous.

The amount of 5,213,778.46 u.a. under this heading includes 2,310,747.80 u.a. for coupons due but not yet paid and the balance represents various expenses remaining to be paid at the end of the financial year as well as other administrative charges incurred or foreseen for later payment.

MEMORANDUM ACCOUNTS

SPECIAL SECTION

The item of 66,590,000 u.a. represents the total amount of loan agreements signed by the Bank for the financing of projects located in Turkey, in the framework of its Special Section for the account and on mandate of the Member States, at 31st December, 1966. Of this amount, 6,778,211.— u.a. had been disbursed. The detailed situation in respect of the Special Section appears on page 98-99 of the present Report.

PROFIT AND LOSS ACCOUNT

DEBIT

Administrative expenses and charges.

The administrative expenses and charges amounted to 2,300,823.77 u.a., as against 2,570,202.85 u.a. for the previous year.

They are made up as follows :

– Staff expenses	1,705,416.34 u.a.
– General expenses	595,407.43 u.a.

The increase in staff expenses is mainly due to the adaptation of salaries which took place in 1966 in relation with the rise in the cost of living the previous year, staff expansion and contractual salary increases.

A retrenchment of general expenses and the existence of adequate administrative provisions have nevertheless made it possible to reduce the overall amount of administrative expenses and charges.

The staff of the Bank totalled 146 persons on 31st December, 1966, 94 of whom were employed in the translation, administrative, equipment and maintenance services.

Interest and charges on borrowings.

This item, amounting to 21,508,405.44 u.a., represents interest on borrowings and other debit interest as well as sundry charges and expenses connected with borrowing operations, which have been amortized by debiting the profit and loss account.

Amortization of furniture and equipment.

Expenditure on furniture and equipment, made during the year and fully amortized, was 32,881.12 u.a., as against 64,465.26 u.a. for the previous year.

CREDIT

Interest and commission from loans.

This item amounts to 22,933,511.74 u.a., as against 18,598,803.82 u.a. for the previous year. The increase is in proportion to the increase in amounts paid out on current loans.

Interest and commission from investments.

The amount of income from investments of available funds is 10,265,490.21 u.a., as against 7,167,090.17 u.a. for the previous year.

* * *

IV

ADMINISTRATION OF THE BANK

Some changes occurred in the composition of the Board of Directors as a result of the fact that several of its members have assumed new functions.

At the annual meeting on 21st June, 1966, the Board of Governors, proceeding to the replacement of Messrs. ANDRÉ DE LATTRE and FRITZ FECHNER, who had tendered their resignation, appointed Messrs. FRANÇOIS BLOCH-LAINÉ and HANS RANNOU as directors.

With effect from the same date, it also appointed Mr. MICHEL ALBERT to replace Mr. ALAIN PRATE, who had tendered his resignation, in the capacity of alternate for Mr. FRANCO BOBBA, and Mr. ANDRÉ POSTEL-VINAY to occupy the post of alternate for Mr. MAURICE PÉROUSE.

In the course of the early months of the present year, Mr. FRANCO BOBBA, director, and Messrs. ERNST VOM HOFE and JEAN RIPERT, alternates, tendered their resignation.

We wish to thank Messrs. ANDRÉ DE LATTRE, FRITZ FECHNER, FRANCO BOBBA, ALAIN PRATE, ERNST VOM HOFE and JEAN RIPERT for their valuable and competent collaboration.

* * *

Brussels, 3rd May, 1967.

Chairman, Board of Directors,
PARIDE FORMENTINI.

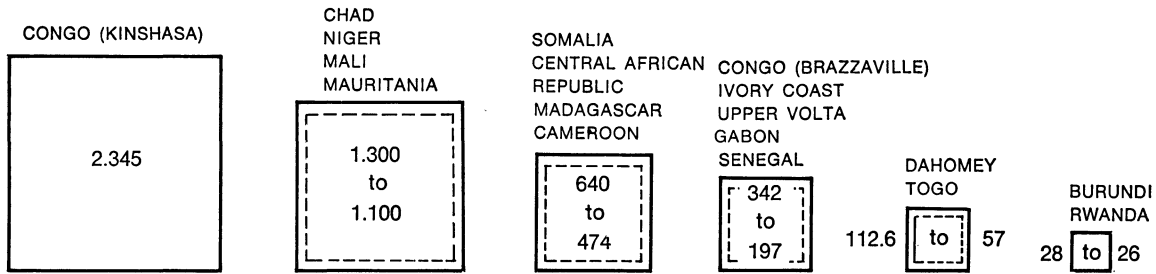
THE PROBLEMS OF INDUSTRIAL DEVELOPMENT IN THE ASSOCIATED AFRICAN COUNTRIES AND MADAGASCAR

The majority of the seventeen African Countries and Madagascar associated with the European Economic Community, which had for long specialised in the export of a small number of primary products, embarked only belatedly on their industrialisation. There are numerous explanations for this delay, with stress being laid – according to the circumstances or depending upon the different cases – on historical accidents or on natural and economic factors.

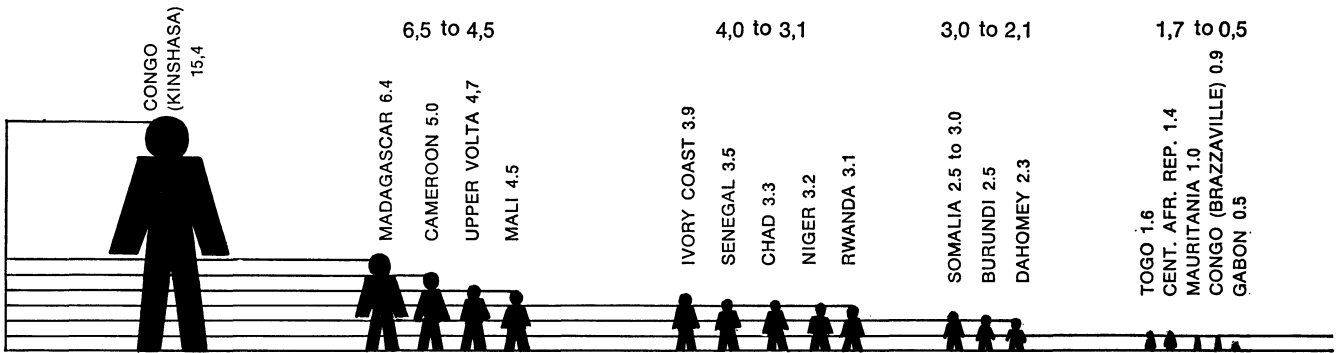
It is a fact that countries emerging from a state of self-subsistence have to accede to a trade economy by specialising first of all in types of production for which the law of comparative costs can act in their favour. In a second stage, the pursuit of growth depends in general upon industrialisation. The latter is carried out not only by the establishment of processing industries, but also by the introduction and dissemination of modern techniques and rational methods of organising production, which are peculiar to the so-called industrialised economies.

Even in the between-war years, a certain number of these countries experienced the beginnings of industrial activity, taking the form, *inter alia*, of the installation of extractive industries and industries for the initial processing of mining or agricultural products intended for export, as well as cement works, breweries and the first textile industries whose local products were intended to replace imports. Since the accession of these countries to independence, the pursuit of this development has become a political goal and a deliberate choice. For the majority of the African governments, development means diversification with a view to a more pronounced inter-regional and inter-sectorial integration, and diversification in its turn means industrialisation. Many of them could endorse Nehru's remark : "There are no developed and underdeveloped countries; there are countries which are industrialised and those which are not".

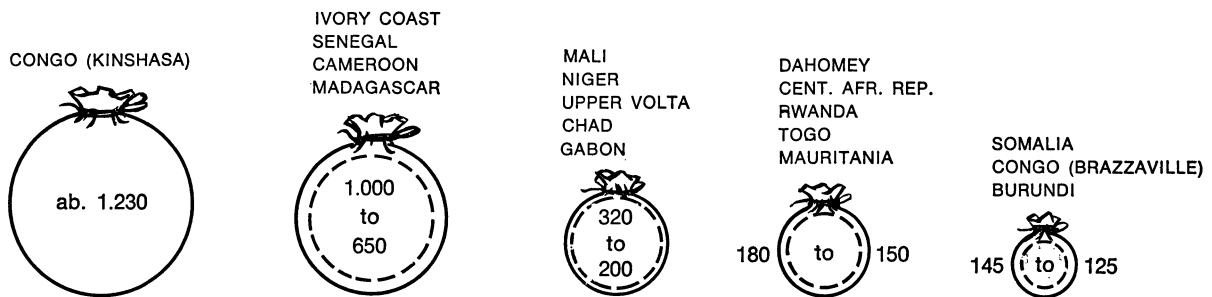
AREA (in thousands of sq. kilometres)



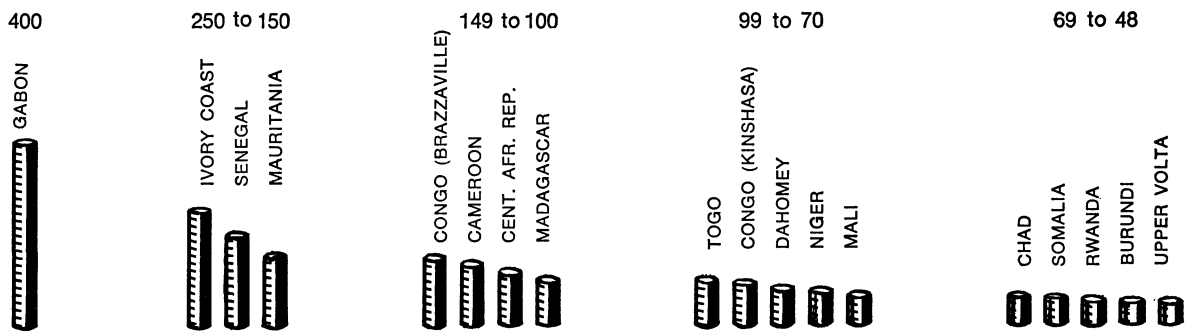
POPULATION (estimated in millions of inhabitants)



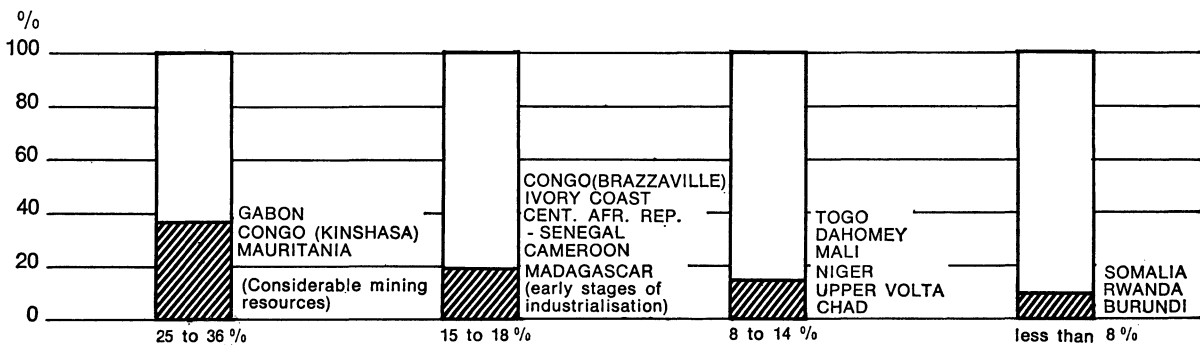
GROSS DOMESTIC PRODUCT (order of magnitude in millions of u.a.)



PRODUCT PER CAPITA (order of magnitude in u.a.)



PLACE OF THE SECONDARY SECTOR IN THE ECONOMY (industry, energy, mining, handicrafts, building and public works in % of the gross domestic product at market prices)



1. *Diversity of levels of industrial development in the Associated African Countries and Madagascar.*

The seventeen Associated African Countries and Madagascar have an area totalling over 11 million square kilometres and a population of roughly 65 million inhabitants. Their overall gross domestic product barely exceeds 6.7 milliard units of account, or a mean per capita product slightly higher than 100 units of account, 6 to 15% of which is most often derived from the secondary sector, and only 3 to 8% from industrial activities properly speaking.

Although these overall data make it possible to measure the scope of the development problems, and more particularly the problems of industrial development, they mask a great diversity of situations, dimensions and levels of development, the extent of which may be gauged from the diagrams opposite.

Only in five of these countries : Congo-Kinshasa, Ivory Coast, Senegal, Cameroon and Madagascar, has manufacturing acquired a certain importance, thanks to the concomitance of a number of factors, among which mention should be made of :

– *the dimension of the national markets* : each of these five countries has between 3.5 and 15 million inhabitants and, above all, a domestic product of more than 500 million units of account, a threshold below which the development of industries – other than extractive or for initial processing of export products – appears to be very difficult. The least populated of these five countries, Senegal and the Ivory Coast (3.5 and 3.9 million inhabitants), offset this disadvantage by a per capita product which is comparatively higher (respectively approx. 200 and 250 units of account);

– *the possession of an active seaport* : direct access to the sea encourages the establishment of an industrial nucleus whereas its absence is a difficult obstacle to overcome for the industrialisation of the landlocked African countries;

– lastly, the existence on the spot or in the vicinity of *the principal factors of all industrial production* : natural resources, infrastructure, power, skilled labour, capital and entrepreneurs.

THE SECONDARY SECTOR IN THE ECONOMY OF SENEGAL, THE IVORY COAST AND CAMEROON

	Value added (million u.a.) (1)						%						Mean annual rate of growth in value		
	Senegal		Ivory Coast		Cameroon		Senegal		Ivory Coast		Cameroon		Senegal	Ivory Coast	Came- roon
	1959	1965 (2)	1960	1965	1959	1963- 1964	1959	1965	1960	1965	1959	1963- 1964			
PRIMARY SECTOR	164	202	282	365	195	230	34.4	35.2	50.1	41.0	48.0	41.3	4.3	5.3	3.7
SECONDARY SECTOR (industries excluding construc- tion and public works)	73	90	73	156	45	81	15.3	15.7	13.1	17.5	11.1	14.6	4.3	16.2	1.41
	50	65	45	107	27	59	10.6	11.3	8.1	12.1	6.8	10.7	5.2	18.8	1.88
TERTIARY SECTOR	240	283	207	370	166	246	50.3	49.1	36.8	41.5	40.9	44.1	3.3	12.3	1.07
GROSS DOMESTIC PRODUCTION	477	575	562	891 (3)	406	557	100	100	100	100	100	100	3.8	9.6	7.4
VALUE ADDED per capita (u.a.) :															
— of the secondary sector	24	26	21	39	10	16									
— of industries (excluding con- struction and public works)	17	19	13	27	6	12									
POPULATION (million inhabitants)	3.02	3.48	3.435	3.98	4.61	5.0									

(1) According to estimates at market prices, in current CFA francs.

(2) 1966 (estimates) : primary: 221; secondary: 99 (of which, industry: 74); tertiary: 283; gross domestic production: 603.

(3) 1966 estimate : 968 million u.a.

NOTE : In the rest of the study, the following definitions apply :

- the term "secondary sector" comprises the extractive industries, power, the manufacturing industries, handicrafts, building and public works;
- unless otherwise stated, the term "industries" corresponds to the secondary sector minus the construction and public works branch.

The Bank has contributed, inter alia, to the development of three of these countries : Senegal, the Ivory Coast and Cameroon. The present study will be devoted more especially to the analysis of their problems.

Despite recent progress, the industrial development of these three countries is still limited. The value added by the secondary sector, including the extractive industries, handicrafts and the construction and public works branch, represented in 1964-1965 (1) only about 155 million units of account in the Ivory Coast, 90 million in Senegal and a little over 80 million in Cameroon, or respectively about 17.5%, 15.7% and 14.6% of the gross domestic production.

The industrial value added, including the manufacturing industries, power, mines and handicrafts, reaches barely 107 million units of account in the Ivory Coast, 65 million units of account in Senegal and 60 million units of account in Cameroon, or approximately 11 to 12% of the gross domestic production of each of these three countries and, per capita, approximately 27 units of account in the Ivory Coast, 19 units of account in Senegal and 12 units of account in Cameroon.

Nevertheless, a vigorous industrialisation effort is under way and the industrial sector is progressing at a pace which is more than double the rate of growth of the gross domestic production in the Ivory Coast and Cameroon (18.8% on an average since 1959-1960). The reason why it scarcely exceeded 5.2% per annum on an average in Senegal from 1959 to 1965, after having reached nearly 10% annually from 1959 to 1962, is that this country – the more precocious industrialisation of which had been designed in many cases with a view to a market with the dimensions of the West African Customs Union – has had to readjust itself to a narrower market.

The apparent consumption of energy is a fairly good pointer to industrial development. In Senegal it is of the order of 560,000 t of coal equivalent per annum, or 165 kg per capita, derived essentially from imported oil products. In the Ivory Coast, where hydro-electric power

(1) 1965 for Senegal and the Ivory Coast.
1963-1964 for the Federal Republic of Cameroon.

meets 11% of the total requirements. it represents about 500,000 t of coal equivalent or 130 kg per capita. In Cameroon it reaches approximately 850,000 t, or 170 kg per capita, three quarters of which are of hydro-electric origin, thanks to the Edéa plant, which annually produces over 1,000 million kWh, mostly intended for the electrolysis of alumina. Power consumption is progressing rapidly : 12 to 13.5% per annum in Senegal and Cameroon, 30% and then 20% in the Ivory Coast for electricity.

The situation of the industrial sector varies considerably from one country to another, depending, inter alia, upon the diversity of the available agricultural, forestry, power and mining resources. This is the reason why the data relating to the structure of industry, as well as its evolution and prospects of development in the particular cases of Senegal, the Ivory Coast and Cameroon, will be dealt with respectively on pages 83 to 86, 86 to 89 and 89 to 92.

However, over and above the differences of situation and orientation revealed by a detailed analysis, the problems of industrial development present numerous common features in each of these countries.

2. Features common to the three countries as regards their industrialisation.

Industrialisation has proved a necessity for the three countries in question, as for many other developing countries. It has greatly contributed to their economic growth, although it is impossible make a precise assessment of this contribution. The rates of growth of the industrial sector have been on an average twice as high as those of the gross domestic production as a whole and sometimes three to four times greater than those of the primary sector. Furthermore, the effects of industrialisation are not confined to the creation of a supplementary value added, but also give rise to a number of complex effects which it would be difficult to measure. However, a portion of the supplementary value added has as its counterpart the remuneration of foreign capital and executives, while on the other hand it is not known what would have been the effect of an alternative use in other sectors of the production factors utilised for the benefit of the industrial sector.

It is therefore necessary to have recourse to a more qualitative and general appreciation of the effects of industrialisation. First of all, it enables avoiding over-exclusive specialisation in the output of primary products, in particular tropical commodities the demand for which is by no means elastic and the prices particularly unstable. It creates jobs for unemployed or underemployed labour, generally leads to a growth of productivity and is always accompanied by an effort in the field of vocational training. In a developing country, any creation of a new industry is likely to contribute to the environment an improvement in methods, tools, organisation, transport costs, locally available industrial services and technical atmosphere, as well as in the qualification level of labour. The dissemination and application of technical progress are facilitated thereby, even in the adjacent rural areas. Newly created industries render each other mutual assistance in the course of the industrialisation process, to such an extent that several projects considered separately may not be viable, whereas a certain combination formed by an aggregate of all or part of these projects becomes so. In a developing country, the industrial sector as a whole may doubtless be considered as a "motive activity", both because of the rates of expansion of the product and productivity, which are higher than those in other sectors, and because of the dynamic effects to which it gives rise. These induced effects, which vary in intensity according to the industrial branches, comprise, among others, the so-called "outlet", "supply", "dimension", "productivity" and the "stimulus and imitation" effects. For the countries in course of industrialisation, they may result in a fairly long phase of growing yields.

The industrialisation of Senegal, the Ivory Coast and Cameroon, which is still in its early stages despite rapid progress, offers a number of common features in respect of its results :

A first category includes extractive industries and industries performing the initial processing of primary products intended for export, the location of which is imperative, and which are not linked with the dimensions of the domestic market but depend upon the trend on foreign markets and even on the world market. These industries are likely to attract the establishment of enterprises in the subsequent processing stages. Good examples of this are the recent developments of the aluminium processing industry in Cameroon, the timber industry in the Ivory Coast, the

production of edible oil in Senegal and soon also in the Ivory Coast, and the current installation of a fertiliser plant in Senegal.

The second category consists of industries processing local products to meet final domestic demand. The textile complex, the edible oil refinery operating for the local market are the most classical examples of this type of activity, in which are also classified the sugarmill now being installed in Cameroon and the Senegalese cement works. It corresponds to the local creation of a complete chain of production from the primary product up to the product intended for final consumption, and depends upon the availability of raw materials as well as an adequate domestic market. It is generally limited to a relatively short production chain which entails hardly more than one or two successive processes.

Lastly, a third category comprises industries performing, for the requirements of final domestic demand, the assembly or final processing of imported parts or semi-finished products. Industries of this type have recently been established in large numbers and in highly variable dimensions, ranging from ready-made garment workshops to clinker crushing plants and oil refineries. These industries, which are first of all limited to small-scale processing – as the narrowness of the local market obliges them to confine their activities to operations which can be executed in units of small dimensions – generally enable only a rather small supplement of value added. In the long run, however, they offer possibilities for the creation of industries slanted towards the preliminary processing stages, in so far as the size of the market and an adequate economic policy permit.

The absence or extreme scarcity of intermediate and basic industries explains the insignificant nature of inter-industrial relations and, consequently, the low capacity of the existing industries to exert considerable impetus effects. For example according to the table of inter-industrial trade drawn up for Senegal in 1959 and making a distinction between the intrants of local origin and the imported intrants, it will be seen that the only branches the production of which is intended, to a far from negligible extent, for the supply of intermediate types of consumption necessary for the operation of the other branches are : agriculture and fisheries (37% of the aggregate of intermediate types of consumption of local origin), services (32%), transportation (10%), construction and public

works (6%), power (nearly 3%), metal-working branch (2.5%, mainly vehicle maintenance and repair workshops) and the building materials branch (2.4%). The production of the nine other branches, to the extent of 95%, is intended for final domestic consumption and for export, and supplies inter-industrial trade only as to 5%.

This is undoubtedly the great weakness of industry and the main obstacle to its integrated development in developing countries of small dimensions.

Nevertheless there are other factors, such as the inadequacy of domestic savings, the absence of national entrepreneurs and the shortage of skilled labour, which most often necessitate recourse to outside cooperation.

In the developing countries, the formation of savings is slowed down by numerous economic, sociological and institutional factors and, first and foremost, by the inadequacy of per capita income. Because of under-employment, part of the population consumes without producing, or consumes more than it produces; this phenomenon is accentuated by the effects of traditional family solidarity and the taste of the more affluent classes of society for prestige expenditure. Nevertheless, individual savings exist and even develop outside their customary forms, as is shown by the recent expansion in the deposits of private individuals with the banks, financial establishments, postal cheque accounts and savings banks. At present, however, their contribution to the financing of industrialisation remains negligible: they are above all oriented towards investments abroad, or in local, commercial or real estate operations with high rentability. They scarcely contribute to the financing of industrialisation except in so far as they give rise to deposits, which may partially have as counterpart the granting of medium-term credits by the banking system. The problem is therefore not only to develop household savings and to multiply the bank branches, but also to seek ways and means of guiding savings towards the financing of industrial development.

Corporate savings, which progress simultaneously with the modern sector of the economy and its industrialisation, raise a different problem: the enterprises include a considerable proportion of foreign investors who are extremely attached to absolute freedom with respect to transfers of

income and profits. Hence, any measure aimed at checking this category of savings by exchange control or excessive taxation entails the risk of cutting off its source. There is no better encouragement for the reinvestment of these savings on the spot than good prospects of economic expansion. Self-financing already contributes amply to the renewal and extension of existing enterprises. Certain big companies, in particular in the commercial sector, sometimes acquire minority holdings in new industrial enterprises. Lastly, some African countries endeavour to retain part of the corporate savings, either by floating loans under attractive conditions, as in Senegal, or by creating forms of compulsory contribution to a "National Investment Fund", as in the Ivory Coast, by an additional direct taxation levy in exchange for which the taxpayers receive a security which can be repurchased from them by the Fund when they effect investments in accordance with an approved project or subscribe to bonds issued by the "National Financing Corporation", for a multiple of the value of the redeemed security. Elsewhere, in Cameroon for example, a system of compulsory contribution to "equipment bonds", the proceeds from which are administered by a "National Investment Corporation", has been introduced.

Such measures can of course only be applied with caution and moderation if it is desired to avoid the flight of entrepreneurs and capital. If these measures are to be effective, this assumes the existence of a dynamic economy, attractive investment opportunities, as well as efficient administration and a stable policy.

Public savings generally contribute only slightly towards industrialisation, owing both to their small amount and to their normal appropriation towards financing investments to be borne by the authorities in respect of administrative, economic, cultural and social infrastructure. Loans make it possible to anticipate, for limited amounts, on the future public savings, subject to a strict budgetary policy and productive utilisation. On the other hand, inflationary financing, by means of monetary issues, is bound to discourage foreign private investors, without thereby facilitating the acquisition of imported capital goods.

In the three countries examined here, monetary issues are effected within the framework of multinational agreements which very strictly

limit recourse to this expedient, so that their industrialisation has been able to continue in a climate of monetary stability and freedom of transfers which is favourable to private investments.

The inadequacy of the various forms of local savings makes it necessary to seek external financial aid. The developing countries then have to compete, in their search for capital, with the industrial countries whose investment requirements tend to grow because they must attend to their own development needs and cope with the effects of a new industrial revolution, based on scientific discoveries and inventions, which leads to accelerated obsolescence of their production equipment.

Although there are already numerous African enterprises in trade, transport, and even construction and public works, local initiatives, on the other hand, – in the form of the experienced entrepreneur who is prepared to take industrial risks and capable of implementing a project successfully – are still very few and far between and, in the same way as the major part of the capital, have to be found outside the country. The promotion of a propitious climate for the influx of foreign investments is probably also the best way of encouraging, in the long term, the emergence of a class of national business executives, and there is good reason to believe “that, in the same way as capital, the spirit of enterprise is a by-product of the economic development process, and that it is seldom lacking in a society which is favourable to its exercise”.

A harmonisation of points of view and aims nevertheless always proves desirable between the foreign investor, on the one hand, and the Government of the country in course of industrialisation, on the other. The former is anxious to demonstrate the legitimate nature of profits, and is convinced that the profits made by an economically sound enterprise, thanks to its advance vis-à-vis uneconomically operating competitors, contribute towards the country's economic progress. The Government, being responsible for the country's development, is interested above all in the creation of jobs, the promotion of nationals within the enterprise, the overall growth, the local reinvestment of a reasonable portion of the profits, and in ensuring the proper integration of the enterprise in the national economy.

The problem of shortage of skilled manpower and supervisory staff seems, a priori, to be most easily solved by twofold recourse to outside technical assistance and vocational training. However, these two solutions entail supplementary expenditure which weighs on the costs and rentability of projects. Furthermore, the problems of training supervisory staff are themselves more complex than it would appear: the acquisition of theoretical and technical knowledge is not sufficient, but has to be supplemented by a change in behaviour, a genuine “activation”, which stems less from teaching and training methods than from prolonged impregnation in an industrial-type society.

Nevertheless, these three countries have endeavoured to reduce the obstacles and to create favourable conditions. The establishment of industries has occurred there and is continuing in a very liberal atmosphere. Capital – first of all almost entirely French and then gradually originating from other European countries – is invested there, in so far as there are prospects of adequate rentability, accompanied by reasonable risks. The governments are endeavouring to encourage these investments by an aggregate of measures aimed at reducing the uncertainties, marking the interest of the authorities in the success of the undertakings and granting them various advantages to help them overcome the difficulties inherent in any creation of industry in Africa, particularly during the initial years. Among these measures of encouragement, the following may be mentioned in particular :

- the participation of the State or a public financing institution in the share capital of industrial enterprises;
- the grant of a State guarantee for certain loans concluded for financing projects;
- the establishment or maintenance of adequate protection against the competition of imported industrial products;
- the launching of studies on industrialisation possibilities, the establishment of industrial promotion services, the preparation of development plans defining coherent industrialisation outlooks sustained by development prospects for the economy as a whole and, naturally, a number of activities of a more general character in respect of education, improvement of the infrastructure, town planning, reinforcement of

administrative efficacy, etc., aimed at creating a more favourable climate for the development of existing industries and the introduction of new industries;

- lastly, the granting of special advantages, generally diversified, to industrial entrepreneurs, the extent of which varies, depending upon the degree of priority of the investment benefiting from them.

The basic provisions of these “investment codes” offer very many similarities, over and above the differences of detail which characterise the code of each country. Their principal interest resides in the definition of preferential systems, intended exclusively for priority enterprises, i.e., those whose aims have been acknowledged to be in conformity with the aims of the development plan of the country concerned and which generally assume the form either of “establishment agreements” or “approval systems”. The former are reserved for enterprises offering, by the amount of the investments and their economic interest, a major importance for the country’s development. They are the result of negotiations between the government and the enterprises, have to be approved by a law and generally relate to a fairly long period, which may range up to 25 years. They aim to afford a formal guarantee for the largest enterprises in respect of the stability of the general, legal, economic and financial conditions. The approval systems are granted in accordance with a simpler procedure, generally laid down by regulations, but entailing less advantages, the principal of which are of a fiscal nature, consisting of tax exemptions, exonerations and temporary reductions.

The investment codes form a very flexible method of encouraging investments and creating a climate of confidence, at the cost of an immediate and frequently appreciable sacrifice for the public finances, but which constitutes the pledge of a genuine desire to welcome investments. It is advisable, however, that preferential encouragement should be given to the industries of sectors where production will not be much more expensive than imports. Recourse to systematic protective measures must not lead us to lose sight of the basic goals of economic rentability and, at least in the longer term, of competitiveness.

For their part, the governments of Member Countries encourage the development of Africa either by granting export loans or guarantees, or

else by direct loans or even, in certain cases, by acquisition of participations in companies by public financial institutions.

However considerable these advantages may be, they are insufficient to ensure a rapid and complete development of industrial investments. In this connection, nothing could replace the stimulus of an economy in rapid expansion, reasonably open to a certain competition.

The principal remaining difficulty stems from the over-restricted dimensions of the national markets. It is to be feared that an integrated industrial development cannot be contemplated on the scale of one or the other of the Associated African Countries and Madagascar, even the most favoured among them, without rapidly encountering insurmountable limits. Designed within an overnarrow national framework, even a limited industrialisation runs the risk of giving rise to high costs, duplications and an inadequate utilisation of production capacities. As has been emphasised on many occasions : " Industrialisation cannot be achieved in small water-tight compartments ".

This difficulty calls for political solutions which it is up to the country concerned to seek and to apply, whether in the form of groupings, harmonisation of economic policies or establishment of customs and economic unions.

In this respect, the treaty establishing the Central African Customs and Economic Union (UDEAC) among Cameroon, the Central African Republic, Congo, Gabon and Chad, which came into force at the beginning of 1966, opens up very encouraging prospects. In West Africa, although the same need appears to be felt to an increasingly unanimous extent, the attempts at organisation of the sub-regional economic space are less advanced on the whole. The recent creation of an " Aid and Loan Guarantee Fund ", in the countries of the " Conseil de l'Entente ", or again, within the wider framework of the African and Malagasy Joint Organisation (OCAM, grouping 13 of the Associated African Countries and Madagascar), the conclusion of the " African and Malagasy sugar agreement ", form the first steps in the right direction, i.e., a widening of the markets that are open to new industries.

Such agreements cannot however entirely remedy a de facto situation : in the present state of their resources and their geographical position, it is by no means obvious that all the countries have an equal vocation to become industrialised. The tendency for the principal industrial investments to be concentrated in a few privileged sites, or principal poles, such as Dakar, Abidjan, Douala-Edéa, Kinshasa-Lubumbashi, might on the contrary be accentuated, bringing in its wake some secondary poles with a more limited vocation. Hence, the conditions still have to be thought out and organised for an improved distribution of the industrialisation effects among industrial poles and less favoured regions, in particular those up-country.

Lastly, it is obvious that the industrial development of countries, nearly 80% of whose population live from agriculture, cannot be conceived independently of the development and modernisation of the traditional rural sector. The activities to be carried out in both sectors are necessarily complementary. The expansion of the agricultural sector has to enable the infant industry to widen its market in the rural areas, to provide it with the foreign exchange necessary for the import of capital goods, to supply it with raw materials for processing, as well as to satisfy the food requirements of a growing urban population.

Republic of Senegal.

Senegalese industry owes a great part of its development to the country's exceptionally favourable situation on Cape Verde and to the rank of administrative and commercial capital of the former group of territories of French West Africa occupied by Dakar until 1958. The concentration of 90% of the country's industry in the immediate vicinity of this city assorts ill with the search for a better equilibrium among the different regions, but is a favourable factor from the industrial development point of view.

Groundnuts are by far the main product of Senegal, and the country's industrialisation began with the oil mills, the first of which was set up in 1921. At the end of World War II, a certain diversification of industry was already under way in Senegal, and then from 1945 to 1960, Senegalese industry experienced a particularly active expansion and diversification stage, thanks to a market of nearly 20 million inhabitants.

Since independence, the industrialisation effort occupied an important place in the first two four-year economic and social development plans, 1961-1964 and 1965-1969. However, the industrialisation policies applied at the same time by the other countries,

STRUCTURE AND EVOLUTION OF THE INDUSTRIAL SECTOR IN SENEGAL

	Value added in 1962 (1)		% of industries, excluding handicrafts	Industrial production index 1965		Annual average rate of growth (%)	
	Million u.a.	% of total		1959=100	1962=100	1959-65	1962-65
Electricity	68.0	11.4	14.3	193.0	118.3	11.6	5.8
Extractive industries	22.8	3.8	4.8	693.1	155.0	38.0	15.8
Building materials	21.2	3.6	4.5	105.5	98.6	0.9	0.5
Chemical industries	35.2	5.9	7.4	116.2	111.5	2.5	3.7
Tobacco, matches	52.0	8.7	10.9	95.3	82.2	-0.7	-6.5
Oil mills	72.0	12.1	15.2	123.8	115.7	3.6	5.0
Cereals, flour, biscuits	28.0	4.7	5.9	94.3	84.2	-0.9	-5.5
Sugar products, beverages	40.0	6.7	8.4	130.1	99.5	4.5	-0.2
Other food industries							
Canning factories	33.6	5.7	7.1	131.5	64.8	4.7	-13.5
Textiles and apparel	20.0	3.4	4.2	151.2	100.7	7.1	0.2
Leather	52.0	8.7	10.9	128.6	100.8	4.3	0.2
Sundry industries	06.0	1.0	1.3	158.7	71.1	8.0	-10.5
	24.4	4.1	5.1				
Total industries (excluding handicrafts)	47.52	79.8	100.0	141.5 (2)	107.0	6.0	2.3
Handicrafts	12.0	20.2		...	...	...	...
Total industries	59.52	100.0		130.0	108.6	4.5	2.8

(1) At market prices.

(2) In 1966, the industrial production index reached 159.7, or an advance of nearly 13%.

and in particular by the Ivory Coast, have placed several branches of Senegalese industry in a difficult position. These branches, abruptly reduced to the domestic market, were temporarily in a state of overequipment. The monetary problems of Mali and Guinea have also curtailed Senegalese exports to these two countries.

Senegalese industry was for long the second in importance in the Associated African Countries and Madagascar, after that of Congo-Kinshasa. It retains this place by its turnover (approximately 180 million units of account in 1965), but as regards value added, approximately 65 million units of account or a little over 11% of the gross domestic production at market prices, it has recently been overtaken by the Ivory Coast.

There are 146 industrial enterprises in Senegal, employing about 16,000 wage-earners, excluding the 12,000 employed by 113 construction and public works enterprises. Only eight enterprises have an annual turnover exceeding 8 million units of account and account for more than half the overall industrial turnover.

The Senegalese industrial sector already appears to be remarkably diversified, despite a certain preponderance of the agricultural and food industries (40.8% of the industrial value added in 1962) and more especially the importance of the oil mills: 500,000 tons of groundnuts processed annually, corresponding to 15.2% of the value added and nearly 37% of the industrial turnover.

The industry of Senegal remains greatly dependent upon foreign markets which, in 1962, provided it with nearly one quarter of its supplies, and even two thirds if the oil mills are excepted, and which absorb nearly half of its sales. Although local production covers more than one third of Senegalese requirements of industrial products, this rate is very variable from one branch to another.

The first four-year plan (1961-1964) proved to be over-ambitious: investments of over 100 million units of account, 10,000 new jobs, expansion of value added at the average annual rate of 13% in industry, with the overall target for the growth of the gross domestic production being fixed at 8% per annum. In actual fact, the adverse evolution of a number of factors over which the government had no control and the slowdown in private investments made it necessary to space out the targets, and many industrial projects had to be carried over to the second plan. The industrial production index (basis 100 in 1959), after having reached 132.2 in 1962, did not exceed 141.5 in 1965, but attained 159.7 in 1966, corresponding to a mean annual rate of growth of industrial production of 7.2% from 1959 to 1962, 2.3% from 1962 to 1965 and 12.9% from 1965 to 1966.

However, certain branches experienced a continuous expansion from 1959 to 1965: extractive industries, oil mills, power and, to a lesser extent, the chemical industry (an oil refinery was opened in 1964). The others were affected, to varying degrees, by the loss of West African outlets: tobacco and matches, numerous food industries, particularly flour milling and canning, and more recently textiles, leather and sundry industries.

The problems encountered in the course of execution of the first plan, the persistence of a particularly tight economic and budgetary position, the uncertainty about the future selling price of groundnuts, the shrinking export outlets, all showed the difficulty "of hoping for a spectacular advance in the gross domestic production in the short term" and eliminated any excessive optimism from the second plan. The overall growth target is relatively more moderate, 6% per annum instead of 8%. It is composed of two variants, depending upon the evolution of uncontrollable factors such as rainfall, groundnut prices, foreign aid: a minimum hypothesis corresponding to a rate of growth of 4% and a mean hypothesis at a rate of 5%, the achievement of which presumes, despite everything, a definite rally in the natural trends.

PRINCIPAL INDUSTRIAL TARGETS OF THE SECOND FOUR-YEAR PLAN 1965-1969

<i>Targets</i>	<i>Minimum hypothesis</i>	<i>Mean hypothesis</i>	<i>Optimum hypothesis</i>
<i>Average annual rate of growth (%) :</i>			
– gross domestic production	4	5	6
– secondary sector	5.2	7	9
– industries (excluding handicrafts)	8	9.5	12
<i>Value added (% of gross domestic production) :</i>			
– secondary sector	17.2	17.8	18.3
– industries	12.8	13.4	14.0
<i>Investments (million u.a.) :</i>			
– all sectors	475		
– productive investments	295		
– secondary sector	89		
– industries	82	(of which, new industries 50)	
<i>Industrial jobs to be created</i>	6,250 (of which, new industries 4,000)		

Industrial investments, essentially left to private initiative, are fixed only by way of indication at just over 80 million units of account, or 17% of the total investments provided for in the plan. They are intended as to 60% for the creation of new industries in accordance with projects reviewed, already drawn up or in course of preparation, the principal of which concern the food industries, extractive industries, building materials, textiles and power industries.

Public action in favour of industrialisation will take the form of financial participation by the government, estimated to total 4 million units of account, and of an economic policy pursuing the following objectives :

- reaction against the economic partitioning-off of Africa, by giving support to the activities of the different inter-African institutions and negotiating bilateral manufacturing and marketing agreements;
- promotion of the domestic market by increase of income in the rural sector and creation of the indispensable service infrastructures;
- optimum utilisation of natural resources and existing production capacities and development of vertical chains of production, from raw material to finished product;
- encouragement of private initiative, mainly by rendering the code of investments more flexible and applying it more selectively;
- aid to industry in case of cyclical difficulties.

However, as the plan itself points out, the rate of achievement of the industrial targets “ will above all be influenced by the economic situation and will depend to a large extent upon the results of the rural programme and, in particular, the groundnuts

programme”, and consequently “the best means of increasing industrialisation in Senegal is to develop and diversify rural production”.

On the whole, the recovery activities contemplated or already embarked upon seem to be judicious. The second Senegalese plan has tackled the genuine problems with realism. It is still possible that, for the industrial sector, certain equipment costs, the periods necessary for the preparation of documents, the search for promoters and financing schemes, and the execution and completion of projects, may have been underestimated. The very poor groundnut crop in 1966, due to bad weather, is also a setback the economic and financial consequences of which will weigh heavily on the execution of the plan. Nevertheless, the long-term industrial prospects remain bright.

Republic of the Ivory Coast.

The Ivory Coast industry as a whole ranks third among those of the Associated African Countries and Madagascar as to its turnover, which reached approximately 160 million units of account in 1965, compared to about 50 million units of account in 1960, and is thus situated immediately after Senegalese industry. It is making more rapid progress than the latter, and has just outstripped it with respect to value added, reaching a figure of 107 million units of account in 1965.

Until 1945, the industry of the Ivory Coast amounted to scarcely more than a few saw mills processing a small part of the forestry production, a spinning and weaving mill and string factories at Bouaké, an oil mill and soap works at Abidjan and an industrial gases enterprise. The opening of the Vridi Canal in 1950 and of the port of Abidjan in 1955 created the conditions for a more rapid industrialisation.

From the time of independence onwards, the Ivory Coast government, while acknowledging that private initiative provides the main impetus for industrial development, took a number of steps to encourage development and defined the principles of its development policy in the “Ten-year prospects for economic and social development, 1960-1970”. Development is favoured by the general economic expansion of the country and the prosperity of its capital, Abidjan. Each year, there are large-scale creations of industrial enterprises which process local products – : factories for cocoa butter and soluble coffee, board packaging of bananas, canning factories, saw mills, veneer factories – or which replace, by local manufacturing or assembly, finished products previously imported, vehicle assembly, clinker crushing, oil refining.

The enterprises are generally located in the south-eastern part of the country, in the immediate neighbourhood of Abidjan, with the exception of the secondary industrial centre at Bouaké and, naturally, the few extractive industries (diamonds and manganese) and the timber industries which are spreading towards the west and south-west.

The industrial enterprises of the Ivory Coast employ about 27,000 wage-earners, excluding the 15,400 who come under the construction and public works sector. The turnover exceeds 2 million units of account for only 14 enterprises.

From 1960 to 1965, the value added by industry, despite the small contribution by mining, more than doubled in value, advancing at an annual average rate of the order of 17.5%. The timber industry, which is now in the lead, and the food industry have experienced the most rapid annual growth : 34% and 25.5% respectively.

Exports of industrial products went up by 160% from 1960 to 1965, reaching approximately 52 million units of account, or nearly 18% of the total value of exports,

STRUCTURE AND EVOLUTION OF THE INDUSTRIAL SECTOR IN THE IVORY COAST
(1960-1965)

	Value added million u.a.		%		Indices 1965 (1960 = 100)	Average annual rate of growth 1960-1965 %
	1960 (1)	1965	1960	1965		
Power	8.28	16.72	19.9	18.0	202.4	15.1
Mines	3.48	4.12	8.4	4.4	118.8	3.5
Food industries	4.84	15.16	11.7	16.3	312.2	25.5
Chemical and fats industries	3.92	7.60	9.4	8.2	194.4	14.2
Metal industries	7.00	14.52	16.9	15.6	207.3	15.7
Timber industries	3.96	17.20	9.6	18.4	431.8	34.0
Textile industries	6.12	10.92	14.8	11.7	178.1	12.2
Sundry industries, building materials	3.88	6.84	9.3	7.4	177.4	12.0
Total industries	41.48	93.08	100.0	100.0	224.4	17.5
Building and public works	25.36	42.52	37.9	31.3	167.5	10.9
Total secondary sector	66.84	135.60			202.8	15.2

(1) According to accounts drawn up at current factor cost in CFA francs.

compared to slightly over 11% in 1960; the timber industries account for more than a quarter, the agricultural, food and fats industries for one third and the extractive industries 14%. The other countries of West Africa, in particular Mali, Upper Volta and Niger, absorb nearly one third of these products, but exports are showing a tendency towards stagnation.

In the course of the first five years covered by the "Ten-year prospects for development", the planned industrial investments appear to have been carried out to a large extent. Although production seems to remain slightly below the targets, this is probably due to the periods necessary for the transition from start-up to full-capacity operation, and to the initial underestimation of the cost of certain projects. Nevertheless, the achievement of a growth in volume of industrial value added at the average rate of 16% per annum is a very fine performance.

In 1965, a revaluation of the targets brought out the need for some adjustments – lowering of the targets in certain branches, raising of them in others, and an increase of the order of 26% in the industrial investments to be effected from 1965 to 1969, despite the fact that a previous estimate had fixed them at more than double those of the first five-year period.

The industrial projects already carried out mainly concern industries for the processing of local products prior to export, or else industries performing the final manufacturing stage in respect of imported materials or parts for the domestic market. The majority of the industries to be created during the second period covered by the

MAIN INDUSTRIAL TARGETS OF THE "TEN-YEAR PROSPECTS FOR ECONOMIC AND SOCIAL DEVELOPMENT 1960-1970" OF THE IVORY COAST

Targets	Ten-year prospects (1)		Achievements (2)	Revalued prospects (3)		
	1960-1970		1960-1965	1965-1970		
<i>Average annual rate of growth (%) :</i>						
— Gross domestic production	6.8		8.1	7.7		
— Secondary sector	15.0		13.2	15.4		
of which Power	13.4		11.2	17.0		
Mines	7.4		6.7	8.1		
Food industries	20.0		22.5	18.1		
Chemical and fats industries	12.3		15.9	18.8		
Metal industries	18.8		13.9	29.0		
Timber industries	11.7		28.0	2.0		
Textile industries	22.0		12.5	24.0		
Sundry industries (including building materials)	13.4		10.0	25.5		
Total industries	17.3		16.0	17.5		
Construction and public works	8.0		7.7	9.5		
	Ten-year prospects (1)			Revalued prospects (3)		
	1960	1965	1970	1960	1965	1970
<i>Value added (% of gross domestic production) :</i>						
— Secondary sector	12.4	19.7	25.9	13.9	17.5	24.9
of which Industries	8.4	14.8	2.13	8.7	12.4	18.9
<i>Investments (million u.a.) :</i>						
<i>according to the ten-year prospects (1) :</i>						
— Total investments (gross)	1,376		493	883		
of which Productive investments	664		...	...
Industries and services	524		...	...
Industrial investments	186		55	131		
<i>according to the revalued prospects (3) :</i>						
Industrial investments	235		72 (2)	163		
	1960-1965			1965-1970		
<i>Industrial jobs to be created</i>	10,647			15,763		

(1) According to the first official document published in December 1962.

(2) According to estimates at 1965 market prices in CFA francs.

(3) Estimates and forecasts revalued and amended in 1966.

(4) Industrial investments effected from 1960 to 1964 at current prices.

ten-year prospects belong to these two categories, although some changes in pace are provided for : a very definite slowing-down in progress for the timber industries, less marked deceleration for the food industries, acceleration for textiles, engineering and electrical industries, chemicals, the fats industry and sundry industries.

The manufacturing industries, the products of which are intended to replace imports, will also most often have to export, mainly to the neighbouring African countries. In order to achieve consolidation and continued development, the industrialisation of the Ivory Coast seems henceforth to require a wider market, which could only be brought about by the re-formation, in one shape or another, of a sub-regional economic space. Failing this, several branches of industry run the risk of suffering from a certain under-utilisation of their production capacities. This might lead to a delay in the launching of a number of new operations. Problems of this nature and the cyclical slowdown which began in 1965 point to an industrial expansion which will fall short of the targets, and certain delays in the execution of important projects. The Ivory Coast remains unquestionably one of the Associated African Countries in the best position from the point of view of industrialisation prospects.

Federal Republic of Cameroon.

Cameroon industry is the fourth largest in the Associated African Countries and Madagascar, both by its turnover, which reached approximately 140 million units of account in 1963-1964, and by its value added, which is almost 60 million units of account or 11% of the gross domestic production at market prices. It is experiencing a particularly rapid expansion, comparable to that of the industry of the Ivory Coast.

It is essentially concentrated in the southern part of East Cameroon, mainly around the port of Douala, near the Edéa hydro-electric barrage, and to a lesser degree near the capital, Yaoundé. Industrial development dates only from the years following World War II, and was encouraged both by large-scale infrastructure works undertaken over the past fifteen years, and by the execution of a major aluminium electro-metallurgical unit, the ALUCAM complex at Edéa, which started operation in 1954 and gradually stepped up its production of aluminium bars (52,000 t in 1963-1964), thus making Cameroon the leading African producer and the ninth world producer of aluminium. The industrialisation process, which started up towards 1950, suffered a marked slowdown in private investments as a result of the political unrests in 1956 and especially in 1959. Since 1961-1962, however, with the gradual return to normal conditions, industrial investments have entered upon a new expansion stage, to such an extent that the achievements are in excess of the forecasts of the first Five-Year Plan for economic and social development, 1961-1965. The number of new projects is constantly growing, while the existing enterprises develop and expand, especially those connected with the aluminium industry : manufacture of corrugated sheet and household utensils from imported blanks, and – very recently – work has started on the hot rolling-mill project, the products of which will supply these manufacturing industries and will also be exported. Other recent creations, or projects still under way, principally concern the agricultural and food sectors (cocoa butter and sugar mills), the timber industry (saw mills, veneering, impregnation of railway sleepers), textiles, vehicle assembly, radio sets, nail-making, boiler-making and building materials.

From 1959 to 1963-1964, the value added of the industrial sector more than doubled in value, advancing on an average by approximately 18.8% per annum, despite the absence of mining production. Some 170 medium-sized enterprises employ about 18,000 wage-earners, 40% of whom at Douala.

From 1963-1964 onwards, the structure of the sector has been relatively diversified, although with a fairly marked preponderance of agricultural and food industries (including beverages and tobacco), which supply 34.5% of the value added, followed by the aluminium industry with 14.8% and power, 11.5%. The contribution of the textile industries, which was less than 5%, has recently increased.

STRUCTURE AND EVOLUTION OF THE INDUSTRIAL SECTOR
IN THE FEDERAL REPUBLIC OF CAMEROON (1959 - 1963-1964)

	Value added million u.a. (1)		%		Index 1963-1964 (1959 = 100)	Average annual rate of growth
	1959	1963-1964	1959	1963-1964		
Power	4.4	6.8	16.0	11.5	154.5	10.3
Agricultural and food industries	5.2	10.4	18.8	17.6	200.0	17.0
Beverages and tobacco		10.0		16.9		
Timber industries		1.6		2.7		
Textile industries		2.8		4.7		
Aluminium industry	18.0	8.8	65.2	14.8	233.3	22.2
Engineering industries		5.6		9.5		
Sundry industries		1.6		2.7		
Handicrafts		11.6		19.6		
Total industries	27.6	59.2	100.0	100.0	214.6	18.8
Construction and public works	17.6	22.0			125.0	5.2
Total secondary sector	45.2	81.2			179.6	14.0

(1) According to estimates at current market prices in CFA francs.

Exports of products manufactured by local industries represent approximately 23% of the total value of exports. For East Cameroon alone, this percentage amounts to 28.3%, due mainly to semi-finished products : aluminium bars 19.6%, cocoa by-products 5%, sawn and worked timber 1.8%. Sales of finished products to the neighbouring African countries represent less than 2% of the total value of exports. The creation of the Central African Customs and Economic Union (UDEAC) (1) at the beginning of 1966 should make it possible to expand the latter type of trade.

The second Cameroon five-year plan 1966-1971 accords a fairly considerable place to industrialisation "with the threefold aim of diversifying the economy, coping with urban under-employment and improving the foreign trade situation". The government wishes "to leave a great deal to private initiative and has not the intention of carrying out industrialisation at any cost". The commitments it has undertaken with its neighbours in the UDEAC impose upon it the harmonisation of its industrialisation policy

(1) The UDEAC groups Cameroon, Chad, Gabon, the Central African Republic and Congo (Brazzaville).

with them, as a counterpart for the opening-up of a wider market. Lastly, when drawing up the industrial part of the plan, account was taken not only of local resources and the foreseeable evolution of markets, but also of the minimum dimensions, from the technical point of view, of the planned units and their economic interest.

PRINCIPAL INDUSTRIAL TARGETS OF THE SECOND FIVE-YEAR PLAN (1966-1971)
OF THE FEDERAL REPUBLIC OF CAMEROON

<i>Targets</i>					
<i>Average annual rate of growth (%) :</i>					
– Gross domestic production					5.8
– Secondary sector					9.7
– Industries (excluding handicrafts)					9.4
<hr/>					
<i>Value added (% of gross domestic production) :</i>					
	<i>1963-1964</i>		<i>1970-1971</i>		
– Secondary sector	14.6		18.8		
– Industries	10.7		12.5		
<hr/>					
	<i>Value added (million u.a.)</i>		<i>%</i>		<i>Average annual rate of growth</i>
	<i>1963-1964</i>	<i>1970-1971</i>	<i>1963-1964</i>	<i>1970-1971</i>	
<hr/>					
<i>Industrial targets per branch :</i>					
– Power	6.8	12.4	8.4	8.0	9.0%
– Agricultural and food industries	10.4	14.3	12.6	9.5	5.2%
– Beverages and tobacco industries	10.0	16.0	12.4	10.3	7.0%
– Timber industries	1.6	5.6	2.0	3.6	19.6%
– Textile industries	2.8	9.8	3.5	6.2	19.6%
– Aluminium industries	8.8	12.0	10.8	7.7	4.5%
– Engineering industries	5.6	10.0	6.8	8.4	8.6%
– Sundry industries	1.6	8.8	2.0	5.7	27.5%
<hr/>					
Total industries (excluding handicrafts)	47.6	89.2	58.5	57.4	9.4%
<hr/>					
– Handicrafts	11.6	14.4	14.3	9.3	3.2%
<hr/>					
– Construction and public works and building materials	22.0	51.6	27.2	33.3	12.9%
<hr/>					
Secondary sector	81.2	155.2	100.0	100.0	9.7%
<hr/>					
<i>Investments (in million u.a.) :</i>					
– Total public and private investments					660
– Secondary sector					157
– Industries					136
of which Manufacturing industries					80
<hr/>					
<i>Industrial jobs to be created :</i>					
– Secondary sector					16,200
of which Industries					9,700
<hr/>					

The execution of the operations selected depends for the greater part on private decisions on which the government can exert only an encouraging action, without powers of compulsion. By way of indication, the plan provides for industrial investments totalling approximately 136 million units of account, of which 80 million units of account for manufacturing industries alone, or one fifth of the overall public and private investments. In six years, these investments should make it possible to increase by approximately 90% the industrial value added by comparison with 1963-1964, and to create 9,700 jobs.

The principal industrial projects planned, some of which have already been started, include : an expansion of power supply and in particular hydro-electric power; prospecting of mines; the development of agricultural and food industries, such as sugar mills, pineapple canning, tomato extract canning, palm oil mills; the extension of the aluminium industry, both as regards the production of bars and the processing industries, the main element of which will be the rolling-mill; the extension and creation of various industries producing mainly for the domestic market, with possibility of exports to the neighbouring African countries : cement, textiles, footwear, sacks, vehicle assembly, air conditioning equipment and refrigerators, fertilisers, etc., as well as the development of the timber industries.

It is very probable that the private initiatives necessary for the successful execution of these operations will vary from one project to another. Nevertheless, considered from the overall point of view, the growth target for the industrial sector, at an average rate of 9% per annum, does not appear to exceed the actual development possibilities of Cameroon.

BALANCE SHEET
AND PROFIT AND LOSS ACCOUNT

REPORT OF PRICE WATERHOUSE & Co.

60, rue Ravenstein
Brussels

The President,
EUROPEAN INVESTMENT BANK
BRUSSELS

In our opinion, the accompanying Balance Sheet and related Profit and Loss Account, together with the information contained in Part III of the « Annual Report 1966 » of the European Investment Bank, present fairly the financial position of the European Investment Bank at December 31, 1966 and the results of its operations for the year, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year. Our examination of these statements was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

March 31, 1967.

PRICE WATERHOUSE & Co.

BALANCE SHEET AT

(in units of account of 0.88867088 g

The conversion rates used in the accounts

50 Belg. fr. = 4.00 DM = 4.93706 FF = 625 Lit.

ASSETS

CASH AND BANKS			
Member countries' currencies			
At call or not exceeding one year . . .	137,358,587.30		
Over one year	415,248.62		
		137,773,835.92	
Other currencies			
At call or not exceeding one year . . .	45,368,565.73		
Over one year	1,122,331.78		
		46,490,897.51	
			184,264,733.43
GOLD ASSETS			8,636,300.59
INVESTMENTS			
Member countries' currencies			
Not exceeding one year	19,832,280.99		
Over one year	23,761,808.97		
		43,594,089.96	
Other currencies			
Not exceeding one year	11,855,663.52		
Over one year	888,612.50		
		12,744,276.02	
EFFECTIVE LOANS			
Of which :			
Disbursed :			
In member countries' currencies . . .	347,157,094.76		
In other currencies	83,700,148.04		
		430,857,242.80	
Undisbursed balance		179,320,227.28	
			610,177,470.08
FURNITURE AND EQUIPMENT			1.00
ACCRUED INTEREST AND COMMISSION . . .			8,226,208.19
UNAMORTIZED REDEMPTION PREMIUMS . .			2,835,695.74
MISCELLANEOUS			2,526,400.97
		<i>Total Assets : u.a.</i>	873,005,175.98

MEMORANDUM

SPECIAL SECTION

Effective loans for the account of and on mandate
 (of which : disbursed :
 undisbursed balance :

DECEMBER 31, 1966

fine gold – Art. 4 of the Statutes)
of the Bank are : 1 unit of account :
= 50 Lux. fr. = 3.62 Fls = 1 US \$ = 4.37282 Sw. fr.

LIABILITIES

SUBSCRIBED CAPITAL	1,000,000,000.00	
of which paid up in accordance with Art. 5 (1) of the Statutes		250,000,000.00
STATUTORY RESERVE.		36,545,179.96
PROVISIONS		
– for risks on loans and guarantees	30,500,000.00	
– for equalization of interest on borrowings and for issuing charges	6,000,000.00	
– for monetary risks not covered under Art. 7 of the Statutes	2,000,000.00	
		38,500,000.00
STAFF PENSION FUND.		945,995.72
AMOUNTS DUE UNDER ART. 7 (2) OF THE STATUTES		344,641.57
MEDIUM AND LONG TERM DEBT		
Member countries' currencies	266,734,329.68	
Other currencies	85,411,633.68	
	352,145,963.36	
Redemption premiums	2,835,695.74	
		354,981,659.10
UNDISBURSED BALANCE OF EFFECTIVE LOANS		179,320,227.28
ACCRUED INTEREST PAYABLE AND INTEREST RECEIVED IN ADVANCE		7,153,693.89
MISCELLANEOUS		5,213,778.46
		873,005,175.98
	<i>Total Liabilities : u.a.</i>	

ACCOUNTS

from third parties . u.a. 66,590,000.00
. . . u.a. 6,778,211.00
. . . u.a. 59,811,789.00)

PROFIT AND LOSS ACCOUNT FOR THE

(in units of account of 0.88867088 g)

DEBIT

ADMINISTRATIVE EXPENSES	2,300,823.77
INTEREST AND CHARGES ON BORROWINGS	21,508,405.44
FINANCIAL EXPENSES	6,011.22
AMORTIZATION OF FURNITURE AND EQUIPMENT	32,881.12
PROVISION FOR RISKS ON LOANS AND GUARANTEES	5,000,000.00
BALANCE APPROPRIATED TO THE STATUTORY RESERVE	4,395,024.78
<i>Total : u.a.</i>	33,243,146.33

FINANCIAL YEAR ENDED DECEMBER 31, 1966

fine gold – Art. 4 of the Statutes)

CREDIT

INTEREST AND COMMISSION FROM LOANS	22,933,511.74
INTEREST AND COMMISSION FROM INVESTMENTS	10,265,490.21
EXCHANGE DIFFERENCES	44,144.38
<i>Total : u.a.</i>	<u>33,243,146.33</u>

**SPECIAL
STATEMENT OF CONDITION**

(in units of account of

ASSETS

RECEIVABLE FROM MEMBER COUNTRIES for effective loans Turkey		59,811,789
EFFECTIVE LOANS Turkey of which : disbursed undisbursed balance	6,778,211 59,811,789	66,590,000
<i>Total Assets : u.a.</i>		<u>126,401,789</u>

SECTION

AT DECEMBER 31, 1966

0.88867088 g fine gold)

LIABILITIES

MEMBER COUNTRIES	
for effective loans	
Turkey	66,590,000
UNDISBURSED BALANCE OF EFFECTIVE LOANS	
Turkey	59,811,789
	<hr/>
<i>Total Liabilities : u.a.</i>	126,401,789
	<hr/> <hr/>

STATEMENT BY THE AUDIT COMMITTEE

The Committee instituted in pursuance of article 14 of the Statutes and article 25 of the Rules of Procedure of the European Investment Bank in order to verify the regularity of its operations and of its books,

considering the 1966 Annual Report and the balance sheet of the Bank as at December 31, 1966 and the profit and loss account for the financial year ending on that date, as drawn up by the Board of Directors at their meeting of May 3, 1967,

considering articles 22, 23 and 24 of the Rules of Procedure,

hereby certifies :

that the Bank's operations during the 1966 financial year were carried out in compliance with the formalities and the procedures laid down by the Statutes and the Rules of Procedure;

that the balance sheet and the profit and loss account correspond to the book entries and that they reflect exactly the situation of the Bank as regards both assets and liabilities.

Brussels, 11th May, 1966.

The Audit Committee,

K. BERNARD

A. M. DE JONG

R. BRESSON

WEISSENBRUCH Ltd, PRINTER TO THE KING, 40, RUE DE L'ORPHELINAT, BRUSSELS 7