European Investment Bank Information

Den europæiske Investeringsbank
Europäische Investitionsbank
Ευρωπαϊκή Τράπεζα Επενδύσεων
Banque Européenne d'Investissement
Banca Europea per gli Investimenti
Europese Investeringsbank

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Annual meeting of the Board of Governors

The Board of Governors of the European Investment Bank, consisting of one Minister from each of the ten Member States of the European Community, held its annual meeting in Luxembourg on 13 June 1983 with Mr Pierre Werner, Prime Minister and Governor for Luxembourg, in the chair.

The Governors expressed their approval of the Board of Directors' and the Management Committee's conduct of the Bank's affairs in 1982. They approved the 1982 Annual Report and the EIB's balance sheet and profit and loss account presented by the Bank's President Yves Le Portz, on behalf of the Board of Directors.

The Annual Report shows that aggregate EIB financing operations for industrial, agricultural, energy and infrastructure development in the Community — and in 38 other countries linked to the EEC through cooperation agreements — totalled almost 4.7 billion ECUs last year, compared with nearly 3.85 billion in 1981.

At 31 December 1982, the Bank's balance sheet total stood at just over 23 700 million ECUs as against 19 570 million at end-1981. The EIB's own funds — comprising paid-in capital, reserves and the balance of the profit and loss account to be appropriated to reserves — totalled 2 450 million ECUs at year-end compared with 1 920 million at end-1981. Outstanding borrowings totalled 16 565 million ECUs (13 480 million at end-1981); the amount of loans and guarantees outstanding was 20 740 million ECUs (16 950 million at end-1981).

The Governors also appointed the Board of Directors for the next statutory five-year term of office.

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Below follows the major part of the address to the Board of Governors by Mr Le Portz.

Mr. Chairman,
Gentlemen,

The report on the activity of the European Investment Bank drawn up by the Board of Directors is submitted today for your approval. I should like, if I may, to draw your attention to certain key points.

In 1982, as in the previous year, Bank activity expanded against a background of persistent economic stagnation, a further drop in investment, a worsening unemployment situation with the figure for those without a job now moving very close to as much as twelve million. Towards the end of the year, however, the first signs of improvement began to emerge, with the waning of inflation, which made the reduction of interest rates possible and a fall in dollar-denominated oil prices, which helped to ease the balance of payments on current account in most Member Countries.

Bank financing expanded considerably, to reach a total of 4.7 billion ECUs, operations in the Community having exceeded 4.2 billion, an increase of 26% over 1981, thanks *partly to the rise in lending from the* resources of the New Community Instrument, which accounted for 19% of the total, or 791 million.

The growth was especially marked in Greece, Denmark, Italy, the United Kingdom, France and Ireland.

Almost three quarters of lending in the Member Countries went towards investment for promoting regional development, concentrated largely in Italy, Greece, the United Kingdom and Ireland and with a strong bias towards the least-developed regions and those with the highest unemployment, plus those regions in Southern Italy and Greece that had been struck by the earthquakes of 1980 and 1981.

The financing of energy projects remained on our priority list, reaching a total of 1.34 billion ECUs. When the projects in question come fully on stream, the energy investment we financed in 1982 should serve to reduce the Community's energy dependence on imported oil by over 17 million tonnes per annum, 4.8 million tonnes alone being saved on projects designed to make more rational use of energy.

The most striking development in 1982 was the near trebling of loans for investment in industry, which totalled 1.3 billion ECUs, the bulk of the rise being accounted for by small and medium-scale ventures. Such lending came to 842 million

ECUs, compared with 318 million the previous year, a rise that can in part be ascribed to the Decision taken by the Council of the European Communities to make provision for the deployment of New Community Instrument resources in support of smaller undertakings without regard to geographical location, as a result of which demand was stimulated considerably.

The Bank also provided finance for equipment to protect the environment, in particular installations to reduce pollution in the Bay of Naples and the Baltic Sea.

It is estimated that the total fresh capital investment financed with the help of the Bank in 1982 came to over 12 billion ECUs and should help directly to create or safeguard some 58 000 permanent jobs. In implementation, these projects and those launched during the past five years, which in some cases have quite considerable construction periods, should generate sufficient temporary work, directly or indirectly, to occupy some 400 000 workers in 1983.

Operations outside the Community amounted to 451 million ECUs, or about one tenth of all financing provided by the Bank in 1982.

Lending in the Mediterranean countries, totalling 292 million ECUs, was largely concentrated in operations in Spain and Portugal (105 and 80 million respectively), mounted as part of pre-accession financial cooperation. A further 67 million ECUs went into the improvement of the Yugoslav power grid and its interconnection with other European systems.

In the African, Caribbean and Pacific (ACP) Countries, prevailing economic problems have so reduced the number of bankable industrial projects that EIB financing under this heading totalled only 160 million ECUs, largely for investment by small and medium-scale enterprises. A larger proportion of Bank financing thus went into energy investment.

In 1982, the Bank borrowed the equivalent of 3.2 billion ECUs, compared with 2.3 billion in 1981, raising resources mainly in dollars, Deutsche Mark, Guilders, Yen, Swiss francs, sterling and French francs. It also floated three new issues denominated in ECU for a total of 112 million.

* * *

In 1983, Bank lending from own resources could again show growth of the order of 20%, to total as much as 4.7 billion ECUs, almost nine tenths of that figure being accounted for by investment in the Community. The deployment of a further tranche of the New Community Instrument and the continuation of special operations outside the Community could bring total financing in Member Countries up to 5.5 billion ECUs and Bank financing operations overall to around 6 billion.

The total for operations concluded between 1 January and 31 May of this year was 1.9 billion ECUs, a marked increase over the 1982 figure and an apparent confirmation that our projection is near the mark.

If these forecasts are to be realised, the Bank is going to have to mobilise borrowings over the entire year of about 3.6 billion ECUs in all, an increase of about 12% over the 1982 figure. This would not seem to be beyond our reach, provided always of course that in the coming months the capital markets do not become prey to any particularly serious upheaval. I can assure the Governors that in raising our resources our first consideration will be to maintain our credit rating and be sure that we can continue to command the very best terms in the capital markets when raising funds to finance priority investment in the Community.

* * *

This year, the European Investment Bank comes to its twenty-fifth anniversary, the completion of a quarter century that has seen the foundation of the European Economic Community, its enlargement on two occasions, a period of economic expansion and then the setback of the two oil price shocks and the prolonged period of recession from which we have yet to emerge.

I should like if I may, by way of marking this anniversary and the fact that you have before you today for the first time since you appointed us last year the Bank's new Management Commitee, to reflect a while on the history of the Bank but also to look forward to its prospective future activity.

Perhaps the most striking thing about the development of this institution is the way it has always enjoyed growth. After the first ten years, which were devoted to the establishment of our presence and the securing of a firm foothold in the capital markets, our annual financing passed the 300 million-ECU mark for the first time in 1969, since when the volume of our lending has gone on rising steadily. New financing operations totalled more than one billion ECUs for the first time in 1974, two billion in 1978 and three billion in 1979. The total came to almost 4.7 billion in 1982 and, as I said, would appear quite likely, all things being equal, to come close to 6 billion ECUs this year. Between 1969 and 1982 the expansion of our activity, including those operations we mount using New Community Instrument resources, has been continuing at an annual average of almost 23%, or about 13% in real terms.

Our expansion has come in response to three main series of events.

The first was the enlargement of the Community in 1973 and 1981, one effect of which was to increase considerably the weight within the Community of less-developed regions, the improvement of which, under our Statute, is one of the key tasks of the Bank.

The second was the 1973/74 and 1979 oil-price increases and the way they highlighted the need for large-scale energy investment, to ease the burden that the extra outlay was placing on our payments balances and to secure our energy supplies.

The third factor has been the recession, the Community institutions' reaction to which has been to give high priority to measures for promoting investment, safeguarding and expanding employment, in particular through the modernisation and conversion of Europe's industrial plant to maintain its competitive capacity, in accordance with the guidelines the Bank received from the European Council in March 1977 and June 1982, to encourage higher level investment, safeguard and create jobs and halt divergence and promote convergence in the Member Countries' economic performance. Those guidelines also called on the Bank to help strengthen the Community lending instruments to facilitate investment, particularly in the fields of energy and industrial development. The Council of the European Communities, in its turn, stressed the benefits of investment on the part of small and medium-sized enterprises, chiefly because of their impact on employment, while the European Council emphasised that investment should be channelled especially into industries that have a high innovatory potential.

The gradual shift in the priorities observed by the Bank has applied equally to its operations outside the Community, and it is in fact quite likely that the preparatory work being done on the renewal of the Lomé Convention will result in something of a new departure in the action programmes pursued by the Community.

The Bank's activity has consistently reflected this concern to embrace the problems that have successively confronted the Community, but it has never lost sight of the basic task it was given at the outset: to contribute to the balanced and steady development of the Community by financing productive investment.

The Bank has managed to expand its borrowing without running into any particular problems, thanks largely to a robust financial structure that has guaranteed us excellent access to the capital markets. The key to this has been the increases in capital approved by the Board of Governors, which have given proof positive of the Member States' commitment to the European Investment Bank. It has also been secured by the judicious management of our finances, enabling us each year to show a healthy surplus and increase our reserves, which now stand at over 1.6 billion ECUs, without increasing our lending rates in proportion to the cost of our borrowings. Finally, our standing has been based on the soundness of the projects we finance and the high calibre of the guarantees attaching to our operations, both the specific security furnished for individual loans and the 75% blanket guarantee provided by the Member States or the Community for loans in the ACP and Mediterranean countries. The creation of the New Community Instrument has enabled us to provide additional financing, on top of what we lend from our own resources, and to help us make the best possible use of the scope offered by the financial markets.

The Bank is extremely grateful to the Board of Governors and the Member States for their unfailing support, in the form both of the contributions that they have made to its capital and the guarantees they have furnished, and by giving us access to their capital markets.

It is thanks to that support that the European Investment Bank has now emerged as an instrument with the capacity to play a significant part in rehabilitating the European economy according to the guidelines set out by the European Council, which has several times in recent months stressed the gravity of the structural crisis affecting all Community countries, which are faced with the same risks and have a common interest in combating unemployment and restoring economic growth while maintaining monetary stability and ensuring that their economies remain competitive.

If the Bank is to rise to this and contribute effectively to the improvement of the Community's economic structure, two basic principles will have to be respected.

Firstly, the Bank's technical and financial appraisal of projects must remain as stringent as ever. It is not only important for maintaining its credit rating but also vital to the effectiveness of its operations that the Bank should ensure that its projects are viable and satisfy itself that they constitute an efficient use of the funds deployed.

Secondly, it must continue to keep its financing operations geographically and sectorally concentrated according to the terms of the Statute *and in line with the decisions of you*, the Governors, and the European Council; for New Community Instrument operations, it must follow the Decisions of the Council of the European Communities. This basic concentration is necessary as a way of ensuring that the funds mobilised by the Bank, which are inevitably limited, can have a real impact on the structural adjustment process to which we look for economic recovery.

* * *

Mr. Chairman,
Gentlemen,

Economic recovery is under way in the United States and there are the beginnings of an upturn in a number of Community countries, although this is sporadic and slower, and could still run foul of the continuing torpor affecting productive investment, *not to mention balance-of-*payments problems.

It is now quite clear that if we are going to achieve steady, non-inflationary growth that is sufficiently vigorous to have an appreciable impact on employment we will have to (a) make those structural adjustments that we need for reorientating our energy supplies and adapt our industry to the technological revolution that is now in progress, and (b) make sure we adhere to our policies for reducing developmental disparities between the regions.

These are areas in which, by realising the potentialities of this institution, exploiting the scope for development and taking advantage of its proven adaptability, we can make our weight felt in the coordinated action programmes being pursued by the countries of the Community.

Personalia

The Management Committee of the European Investment Bank has appointed Henri LEROUX Manager of the Bank's Research Directorate. He succeeds John H. WILLIAMS who retired in April, after 10 years' service. Herbert CHRISTIE has been appointed Co-Manager of the Directorate.

Mr Leroux holds doctorates in both law and economics, is a graduate of the Ecole Nationale de la France d'Outre-Mer, Centre des Hautes Etudes Administratives and Centre d'Etudes des Programmes Economiques. He joined the EIB as economist in 1963 after serving as a chief administrator in French West Africa and then with the Ministry of Cooperation.

In 1972 he was appointed Deputy Manager of the EIB's Research Directorate, heading the Department of Economic Research, then Associate Manager in 1979.

Mr Christie will take up his post in October. He joins the EIB from H.M. Treasury, London, where, since 1978, he has been Under-Secretary (Economics). He was Economic Adviser at the Commission of the European Communities, Brussels, in the Directorate-General for Economic and Financial Affairs (1976-1978) and prior to this held, among other posts, those of Senior Economic Adviser at the Ministry of Posts and Telecommunications, then at the Department of Prices and Consumer Protection. He graduated in economics and philosophy at St Andrew's University, Scotland.

The Management Committee has conferred upon Mr Williams the title of "Honorary Manager" in appreciation of his services to the Bank.

EIB finance for small and medium-scale enterprises in 1983

When the European Parliament designated 1983 as the Year of the Small and Medium Scale Enterprise (SME), the idea was to draw attention not only to the role smaller firms can play in the economy, but also to their problems and to the support that can be given by the Community to foster their development.

The main Community channel to help capital investment by small and medium-sized enterprises, setting up or expanding, is the European Investment Bank. Since 1978, over half the Bank's financing in the productive sector — mainly industry, but also related services, tourism and agriculture — concerns small and medium-scale investments carried out, for the most part, by SMEs. In the first six months of 1983 alone, almost 360 million ECUs has been used in this way, whereas the total for 1982 was 453.5 million ECUs (see table, page 6).

The EIB helps to finance new investment by SMEs through the global loan technique — this basically consists of opening a line of credit to a financial institution, operating on a national or regional level, which then onlends the funds in smaller amounts for investments it has appraised in accordance with the conomic, financial and technical criteria of the EIB. At the time of going to press, 28 such institutions in the Community Member Countries, ranging from large public development agencies to commercial banks, were operating EIB global loans.

The following article is intended as a brief guide to the credit possibilities open to SMEs through the EIB — lending on its own resources and from the resources of the New Community Instrument, which it manages on the Community's behalf. Another perspective is provided in the two following articles, by Luigi Arcuti, President of Istituto Mobiliare Italiano, and by Frank Casey, Managing Director of the Industrial Credit Company in Ireland, two institutions with wide experience in using EIB global loans for SME financing.

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If the definition of an SME is taken as that of a firm with fewer than 500 employees [1], it covers more than 95% of the firms in the Community and a large part of the working population, ranging from 40% in some countries to nearly 70% in others.

Reawakening of interest in SMEs is a welcome move, given this considerable contribution to employment, and is linked to a more forward-looking perception of the role they could play in easing adaptation to structural change in the economy. While large-scale industrial adjustments are a necessary part of this adaptation, equally important could be the collective contribution of many innovative and decentralised small businesses, helping to take up labour and resources released by rationalisation in the big traditional industries.

1983 is a year in which there have been, and will be, many conferences and studies on the subject. The EIB feels a particular involvement because, as well as financing large-scale industrial and infrastructural works, it has a long-standing interest in smaller firm investment. In early years, the EIB provided loans directly for small and medium-scale industrial ventures as part of its statutory duty to assist regional development. After some time, however, these operations began to grow to a point where it would have been increasingly difficult to cope with the greater numbers in an economic fashion. It was partly for this reason that the idea of global loans was formulated, but also in the belief that working with regional or national financing bodies, with their localised operational resources, would enable the EIB to reach a much wider spread of SMEs than it could do directly.

This belief was justified — since 1968 (when the global loan scheme was launched), a total of 157 global loans worth 2 325 million ECUs have been made to 44 banks and other financing bodies in 8 Member countries. EIB lending covers a wide range of smaller scale productive sector investment in most of the Community, with a rapid acceleration in activity in the last few years. While this Information Bulletin recorded 1 000 credits under the global loan scheme by 1979, at 30 June this year the total figure was around 5 000.

Global loans are still primarily aimed at fostering investment by SMEs in regional development areas, but there have been two important moves, in recent years, extending their application beyond Assisted Areas in the Member Countries:

— in 1980, the Bank began to make global loans for small and medium-scale industrial investments helping to rationalise energy consumption and, in particular, reducing oil consumption, wherever they are located;

— since 1982, following the Council of Ministers' guidelines on the use of New Community Instrument funds, the Bank has directed substantial sums into global loans specifically for financing SMEs in areas not eligible for regional assistance[2].

This means that SMEs in all productive sectors and in any region can tap EIB or NCI funds and the activities assisted through global loans range from envelope manufacturing in Ireland and mushroom packing in Belgium to production of high technology medical equipment in Southern Italy. A golf-club manufacturer in Scotland has benefited from EIB global loans, as has a music company in Wales, recording master tapes for musicians. While much finance goes to established firms, support is also given to new ventures starting out on the basis of a new idea or concept — in some cases, these have been launched by enterprising workers made redundant in other fields.

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[1] The definition of "small or medium-sized" differs considerably from country to country, and even within the same country, but this is the broad definition generally used in the Community.

[2] New Community Instrument
The Commission of the European Communities has been authorised by the Council of the European Communities to contract borrowings in the name of the EEC, within limits set by the Council, for the purpose of promoting investment in the Community. The Commission decides the eligibility of projects for a loan within guidelines laid down by the Council. The EIB examines the loan applications in accordance with its customary criteria, decides on the loans to be granted and the terms, and administers the loans.

Board of Directors appointed for next five years

At their annual meeting on 13 June 1983 the Governors of the European Investment Bank appointed the Board of Directors for the next statutory term of office.

The Board of Directors consists of 19 Members (18 nominated from the 10 Member States and 1 by the Commission of the European Communities) and 11 Alternates (10 nominated from the Member States, 1 by the Commission).

France, Germany, Italy and the United Kingdom each nominate three Directors and two Alternates; Belgium, Denmark, Greece, Ireland, Luxembourg and the Netherlands each nominate one Director; one Alternate is nominated by common accord of the Benelux countries, and one by common accord of Denmark, Greece and Ireland.

The appointments are decided on the grounds of professional experience and competence. Those chosen are typically heads of public long-term credit institutions or banks, or senior officials from finance, economics or industry ministries. Notwithstanding their national commitments, they are responsible only towards the EIB when acting in their capacity as Directors. They are appointed by the Board of Governors for terms of five years, which may be renewable. If a Director retires during his term of office, his successor is appointed for the remainder.

The Board of Directors has sole power (acting on proposals from the Bank's Management Committee) to decide on the granting of loans or guarantees, on the raising of loans and the fixing of interest rates. It is charged with ensuring that the EIB is managed in accordance with the provisions of the Treaty of Rome and of the Bank's Statute, which forms an integral part of the Treaty, and with the Governors' general directives; it must submit the annual report on the Bank's activities for the Governors' approval.

On average, the Directors meet every six weeks. Alternates normally attend but have no vote unless they replace an absent Director. The President of the EIB, or in his absence one of the Vice-Presidents, presides over meetings but does not vote.

Below follows the composition of the Board of Directors and the Alternates as at 1 July 1983:

Directors:

Luigi ARCUTI, Presidente, Istituto Mobiliare Italiano, Rome (new appointment); Paul ARLMAN, Plaatsvervangend Directeur Buitenlandse Financiële Betrekkingen, Ministry of Finance, The Hague; Karl BREDAHL, Fhv. afdelingschef, Ministry of Finance, Copenhagen; Ernst-Günther BRÖDER, Sprecher des Vorstands, Kreditanstalt für Wiederaufbau, Frankfurt; Corneille BRÜCK, Président-Directeur, Caisse d'Epargne de l'Etat, Luxembourg (new appointment); Michel CAMDESSUS, Directeur du Trésor, Ministry of Economic, Financial and Budgetary Affairs, Paris; Paolo GNES, Condirettore, Banca d'Italia, Rome (new appointment); Robert LION, Directeur Général, Caisse des Dépôts et Consignations, Paris; David McCUTCHEON, Second Secretary, Department of Finance, Dublin (new appointment); Ludovicus MEULEMANS, Inspecteur-generaal van de administratie der Thesaurie, Ministry of Finance, Brussels; Rudolf MORAWITZ, Ministerialdirigent, Federal Ministry of Economic Affairs, Bonn; Anne E. MUELLER, Deputy Secretary, Department of Trade and Industry, London; Waldemar MÜLLER-ENDERS, Ministerialdirigent, Federal Ministry of Finance, Bonn; Massimo RUSSO, Director-General for Economic and Financial Affairs, Commission of the European Communities, Brussels; Jean SAINT-GEOURS, Président, Crédit National, Paris; Mario SARCINELLI, Direttore Generale del Tesoro, Ministry of the Treasury, Rome; Stavros THOMADAKIS, Adviser to the Minister for national Economy, Athens; James Brian UNWIN, Deputy Secretary (Overseas Finance), H.M. Treasury, London; Sir Malcolm WILCOX, Director, Midland Bank plc., London

Alternates:

Sven BOYER-SØGAARD, Prokurist, National Bank of Denmark, Copenhagen; Berardo CLEMENTE, Dirigente Superiore, Ministry of the Treasury, Rome (new appointment); Winfried HECK, Ministerialdirigent, Federal Ministry of Finance, Bonn; Mary E. HEDLEY-MILLER, Under-Secretary, European Community Group, H.M. Treasury, London; Philippe JURGENSEN, Chef du service des Affaires Internationales, Directeur adjoint du Trésor, Ministry of Economic, Financial and Budgetary Affairs, Paris; Pierre MATHIJSEN, Director-General for Regional Policy, Commission of the European Communities, Brussels; Horst MOLTRECHT, Ministerialdirektor i.e.R., Federal Ministry for Economic Cooperation, Bonn; Ian PLENDERLEITH, Head of Gilt-edged Division, Bank of England, London; Yves ROLAND-BILLECART, Directeur Général, Caisse Centrale de Coopération Economique, Paris; Savino SPINOSI, Direttore Generale, Ministry of the Treasury, Rome; Jan VANORMELINGEN, Adviseur bij de Administratie der Thesaurie, Ministry of Finance, Brussels.

The Bank records with much appreciation the long and valued service of the following Members who have left the Board: Giorgio CAPPON, Direttore-Generale, Banca per i Finanziamenti a Medio e Lungo Termine S.p.A. — Interbanca, Milan, Director of the EIB from 1972; Pierre GUILL, Président-Directeur Honoraire, Caisse d'Epargne de l'Etat, Luxembourg, who was Alternate from 1959 to 1973 and Director of the EIB thereafter; Salvatore GUIDOTTI, Presidente, Istituto Italiano per lo Studio della Congiuntura (ISCO), Rome, Director of the EIB from 1968; Maurice HORGAN, Former Second Secretary, Department of Finance, Dublin, Director of the EIB from 1976; Lionello FRONZONI, Ex-Direttore, Banca d'Italia, Rome, who served as Alternate from 1963.

Audit Committee

The Board of Governors also appointed two new Members to the Bank's Audit Committee: Constantin THANOPOULOS, Deputy Manager of the Bank of Greece, to fill the vacancy on the Committee created by the resignation of Patrick McDonnell, Comptroller and Auditor General, Audit Department, Dublin, and Albert HANSEN, Secrétaire Général du Conseil de Gouvernement (Luxembourg), to replace Corneille Brück, now a Director of the EIB. Mr Thanopoulos chairs the Committee until the next Board of Governors' annual meeting. The other Member of the Audit Committee is Jørgen Bredsdorff, Rigsrevisor, Audit Department, Copenhagen.

The Audit Committee is the Bank's statutory control body with the duty of verifying that each year the operations of the Bank have been conducted and its books kept in a proper manner. It is assisted in its task by independent reports drawn up by the international auditors Price Waterhouse & Co.

EIB lending in the first half of 1983

EIB lending operations in support of industrial, energy and infrastructure development in the COMMUNITY totalled 2 315.4 million ECUs in the first six months of 1983.

Allowing for the fact that, for various technical reasons, loans are normally concentrated more in the second half of the year,this indicates continued growth in operations (for the whole of 1982 the figure was 4 244.2 million ECUs; for the first six months the total was 1 706.8 million ECUs).

Over 80% of the loans granted up to 30 June this year — 1 895.8 million ECUs — came from the EIB's own resources (essentially borrowings which the Bank makes on capital markets on its own credit).

The remainder — 419.6 million — was drawn from the resources of the New Community Instrument for borrowing and lending (NCI), which is funded by borrowings made by the Commission of the European Communities in the name of the EEC. The Bank has the mandate to make the loans on the EEC's behalf for investment projects declared eligible by the Commission. Table 1 shows the country breakdown of lending at 30 June.

All the loans in Ireland and over a third of the loans in Italy carry a 3% interest subsidy, paid from the Community budget; this is under arrangements made when the countries joined the European Monetary System, and measures to help reconstruction in areas of southern Italy hit by earthquakes in 1980.

Among the salient feactures of lending in the first half of 1983 are

— continued high level support for investment assisting regional development, concentrated in areas of serious unemployment;

— strong demand for financing energy projects which will help the Community to limit its dependence on oil imports (there is a surge in loans for investment helping to reduce or make more efficient use of energy consumption);

— an upswing in loans for projects meeting Community environmental protection objectives;

— a more vigorous demand for financing small and medium-scale ventures over 800 credits were drawn down from global loans granted by the EIB to financial institutions to assist smaller-scale investments, comparing with around 1 200 credits for the whole of 1982).

Table 2 gives a breakdown of lending by broad economic policy objective in the first six months of 1983.

Borrowings

During the same period, the European Investment Bank raised the equivalent of 1 662.5 million ECUs through public issues and private placements on the capital markets (for the whole of 1982 the figure was 3 145.7 million). The main currencies were the US-$ (26.1%), the Deutschemark (17.3%) and the Yen (10.7%), followed, in order of importance, by French Francs, the Dutch guilder, Belgian francs, Sterling, ECUs Swiss francs, Austrian schillings and Luxembourg francs.

The Bank also raised the equivalent of 98.3 million ECUs through allottment to third parties of participations in its loans, and a further 47.7 million ECUs in interbank operations.

Table 1:

in million ECUs

	from own resources	NCI resources	Total	%
Denmark	69.3	46.5	115.8	5.0
Germany	47.7		47.7	2.0
Greece	103.9	35.0	138.9	6.0
France	212.9	29.7	242.6	10.5
Ireland	31.7	29.8	61.5	2.7
Italy	1 112.5	213.3	1 325.8	57.3
United Kingdom	317.8	65.3	383.1	16.5
Total	**1 895.8**	**419.6**	**2 315.4**	**100.0**

Table 2:

in million ECUs

	from own resources		NCI resources		Total	
Regional Development	**1 198.6**		**213.6**		**1 412.2**	
Common European Interest/ Modernisation - Conversion of Undertakings	**1 032.0**		**311.9**		**1 343.9**	
Energy	796.8		203.9		1 000.7	
— Development of Community resources		418.7		108.1		526.8
— Rational use of energy		378.1		32.0		410.1
— Import diversification				63.8		63.8
Community infrastructure	142.3		30.2		172.5	
— Transport		72.4		30.2		102.6
— Protection of the environment		69.9				69.9
Modernisation and conversion of undertakings	92.9		77.8		170.7	
Deduct to allow for duplication in the case of financing justified on the basis of more than one objective	–334.8		–105.9		–440.7	
Total	**1 895.8**		**419.6**		**2 315.4**	

Global loan allocations

The procedure to be followed for allocations under the global loan scheme varies slightly from country to country, but has broadly the same outline.

First of all, applications for finance via global loans are made directly to the intermediary body, not to the EIB. Appraisals (which are carried out by the intermediary) must satisfy the Bank's normal lending criteria concerning economic, technical and financial viability and sub-loans are allocated with the approval of the EIB. Sub-loans may be made for up to 50% of the fixed investment cost, within limits (depending on the conditions of each global loan) of as little as 25 000 Ecus and up to 7.5 million ECUs. The average amount for a sub-loan over the past five years has been about 337 000 ECUs.

Something like 90% of the investments assisted through global loans are carried out by independent firms with fewer than 500 employees. In many cases, global loan credits are to small family concerns. In fact, last year companies with fewer than 50 employees accounted for 76% of credits by number and 48% by amount; the average amount of these sub-loans was 265 000 ECUs.

Global loan allocations are reserved for enterprises whose net fixed assets do not exceed 75 million ECUs and where the new fixed investment costs will not be more than 15 million ECUs. Priority is given to firms employing fewer than 500 people and having no more than one third of their capital held by a larger undertaking (this does not apply when the shareholder concerned is a body charged with contributing to regional development by promoting industrial ventures).

This form of EIB finance can be advantageous in several ways: one is that SMEs have access to an additional source of credit in countries where there is pressure on domestic resources (e.g. Greece, Ireland and Italy) and the effect is to make more funds available for investment than might otherwise be possible. Secondly, global loans are made in foreign currencies and this can mean a favourable differential between the EIB's lending rate and rates prevailing on the domestic markets of the countries concerned. The question of exchange risk arises here, but to facilitate the EIB's lending to SMEs, including from NCI funds, governments in many Member Countries have made provision for exchange risk cover.

The interest rate charged by the EIB to the intermediary financial institutions is calculated according to the Bank's non-profit-making objectives (the same principle applies to global loans from NCI resources), but the rate to the final beneficiary — i.e. the SME — may depend on a number of factors:

— the funds are normally onlent with a margin to compensate the intermediary for its handling costs and the lending risk it assumes;

— where exchange risk cover is provided, the interest rate may include a Government charge for this.

Sub-loans to SMEs are medium to long-term — mostly from 7 to 10 years — and the interest rate is fixed for the duration. There is a grace period on repayment of principle, usually 2 years, to cover the start-up period.

Under the present circumstances of high unemployment, the EIB attaches great importance to assisting SMEs with good job creation potential, but also emphasised is the aspect of modernisation which helps to safeguard employment. Credits from global loans over the past five years have gone to investments estimated to have created about 60 000 new jobs and preserved 32 000 others. Investment cost per job created in these SMEs works out at substantially less than that in larger industrial projects which the Bank has helped to finance in the same period.

Industrial innovation is also regarded as extremely important. The Commission of the European Communities considers that financing for small and medium-scale enterprises and for industrial innovation are overlapping objectives as, "... if

Financial institutions using global loans for SME financing
(as at 30 June 1983)

DENMARK

Kingdom of Denmark (Ministry of Finance) for financing by the Regional Development Council*; Finansieringsinstituttet for Industri og Haandvaerk (FIH)**

FRANCE

Caisse Centrale de Crédit Coopératif*; Crédit d'Equipement des Petites et Moyennes Entreprises**

GREECE

Agricultural Bank of Greece*; National Bank of Greece*; Hellenic Industrial Development Bank*; National Investment Bank for Industrial Development*; Investment Bank*

IRELAND

The Industrial Credit Company, Limited (ICC)*; The Agricultural Credit Corporation (ACC)*

ITALY

Istituto Centrale per il Credito a Medio Termine (Mediocredito)***; Banca Centrale di Credito Popolare (Centrobanca)***; Banca Nazionale del Lavoro (BNL)***; Credito Industriale Sardo (CIS)*; Istituto per lo Sviluppo Economico dell'Italia Meridionale (ISVEIMER)*; Istituto Mobiliare Italiano (IMI)***;Banco di Sicilia*; Ente Finanziario Interbancario (EFIBANCA)**; Banca per i Finanziamenti a Medio e Lungo Termine (Interbanca)**; Istituto Regionale per il Finanziamento alle Industrie in Sicilia (IRFIS)*

UNITED KINGDOM

U.K. Government Agency: financing facilities operated through the Department of Industry in England, Scottish Economic Planning Department, Welsh Office Industry Department, Northern Ireland Industrial Development Board and Local Enterprise Development Unit (regional tourist boards deal with applications for financing tourism SMEs).*; Industrial and Commercial Finance Corporation (ICFC)***; The Welsh Development Agency*; The Scottish Development Agency*; Clydesdale Bank*; Midland Bank***; National Westminster Bank***.

* Institution using EIB funds
** Institution using NCI funds
*** Institution using EIB and NCI funds

it were easier for SMEs to obtain funds, they would be able to contribute even more flexibility and adaptability to the economy, while on the other hand, it is inside dynamic SMEs that many innovations (particularly those likely to create jobs) are conceived and tried out . . ."[3]. When the Council of Ministers approved the use of NCI funds for the financing of SMEs, they laid particular emphasis on this aspect of promoting innovative investment.

This said, however, the Bank is always open to providing finance for smaller scale investment in traditional sectors, with a relatively low technology input — provided they still make a viable contribution towards economic development.

Although global loans form the EIB's main way of financing small and medium-scale investment, the Bank can make small available directly in countries where there are no global loan facilities in operation (presently Germany, the Netherlands and Luxembourg), if suitable projects are presented to it on an individual basis. It should be noted that concentration of global loans in certain countries does not reflect a quota system established by the Bank. The EIB is receptive to requests for global loans in any Member country, but evidently, national economic conditions and, in particular, liquidity positions and interest rates on domestic markets determine the pattern of demand on the Bank.

* * *

Taken together, the EIB, with its own resources and New Community Instrument funds, and the European Coal and Steel Community (financing industry to set up or expand in coal and steel closure areas), give a firm, practical support to "1983 — the Year of the Small and Medium-Scale Enterprise".

[3] page 21, "Small and Medium-Scale Enterprises in the Community", COM (80) 726 final

Contribution made by global loans to total EIB financing operations for industry, agriculture and services
(million ECUs)

	1977	1978	1979	1980	1981	1982	30/6/1983[1]
Credits from current global loans number	125	148	411	515	847	1 209	805
amount (a)	53.6	68.3	128.2	128.2	282.9	453.5	359.2
Individual loans and global loan allocations amount (b)	388.5	231.0	368.6	448.1	436.8	912.9	564.0
Contribution of global loan allocations to total financing (a)/(b) — %	14	30	35	29	65	50	64

[1] Including credits from NCI global loans

Financing SMEs in Italy — IMI's cooperation with the EIB

by Luigi Arcuti, President of the Istituto Mobiliare Italiano, Rome

Within the Italian system of production, the smaller industries spread rather like a skein between the major undertakings, lending elasticity to the entire fabric of manufacturing activity. This elasticity stems from the capabilities and typical behaviour of small and medium-scale undertakings, i.e.:

— their ability to react rapidly to changing circumstances, whether on the technical side of production or — as is more often the case — resulting from qualitative or quantitative shifts in demand; either way, they show a genuine, inherent adaptability;

— their aptitude swiftly to seize opportunities and step into the breach, e.g. exploiting some new market segment as it opens up or catering to needs of larger corporations (the so-called multiplier effect).

This is obviously attributable to the greater manageability, especially in difficult domestic economic conditions, of what is a more agile, less hierarchical working organisation and less subjected to outside constraints or accountability, which shows through in the decision-making function.

As to the first point, however, the elasticity engendered by smaller enterprises is not a quality that serves solely their own ends but one that works to the wider benefit of the whole system of production to which they belong, helping to cultivate greater flexibility and responsiveness in an indirect but nonetheless palpable way. This gives them a role and an importance that reaches well beyond the immediate ground that these smaller undertakings occupy.

In the space of about three years, the cost of money in Italy has moved upwards a few percentage points to something in excess of the annual rate of inflation, leaving firms to cope with a "real rate" that they are hard put to meet. At the same time, the financial resources available in the market have been coming on ever-shortening terms, to the point where they are failing to match any prudent assessment of the horizon over which productive investment can show a return. Subsidised credit is currently at a delicate juncture between old and new systems. As far as access to credit is concerned, small and medium-sized enterprises at times find themselves at a disadvantage compared with larger undertakings when it comes to the qualitative or quantitative terms they can command (actual conditions, services etc.).

This situation is obviously reflected in the corporate approach to investment. Companies will tend to:

— be more circumspect in embarking upon investment schemes, treading carefully and looking only for those with a swift and certain return;

— opt for operations designed simply to maintain productive capabilities or to impinge marginally (partial modernisation or restructuring, but only where the effects will be rapidly felt);

— avoid high-cost programmes with too long a lead-time, whether for the implementation phase or in terms of pay-back;

— exclude or shelve innovative investment programmes addressed to product quality or manufacturing technology.

In a word, lengthy industrial projects move beyond the reach of the company, especially if it is a small one: once it is caught in troubled financial waters, it has no option but to coast along.

Global loans

The global loans that the EIB opens to financial institutions help them channel the right sort of funds to small and medium-sized enterprises to boost their investment programmes, and get beyond this coasting along. The intermediary institution's task extends beyond its immediate responsibility for appraising the credit-worthiness of the prospective borrower to making the initial assessment of the consistency of the borrower's programme with the purpose, terms and conditions (scale, sectoral and geographical considerations) of the proposed loan. The increasing appeal of global loans can be ascribed to their particular format:

— a rate of interest in line with those applicable to the foreign currencies (EEC currencies, including the ECU, and non-EEC currencies) in which the global loan is granted and at all events several points lower than that prevailing on the domestic market, because of the divergency in inflation rates between Italy and other industrialised countries;

— no index-linking of interest rates (i.e. rates fixed), which facilitates the establishment of firm rate-of-return projections over the entire life of the investment;

— terms of 8 to 12 years, with grace periods of 2 to 3 years, which is well in excess of what is normally available in Italy;

— financing available up to 50% of the fixed-asset cost of the investment;

It is not hard to appreciate the genuine stimulus that such a source of financing constitutes for enterprising projects mounted by small and medium-sized firms, whether enterprising for their scale and duration or for their technological content — precisely the sort of project that is being cramped by the lack of adequate financing.

IMI and global loans

Istituto Mobiliare Italiano has been working on financing operations with the EIB for over ten years, and those relating to small and medium-sized enterprises have in recent times developed along the following lines:

— there has been a considerable increase in the number and volume of loans granted;

— operations have been widened to cover the whole of Italy, in particular through the deployment of NCI funds;

— the range of financing available has been widened and diversified.

The fact that nearly 300 billion Lire have been committed over the last 24 months is proof sufficient of the ways in which these developments, both qualitative and quantitative, have created genuine scope for financing investment by smaller undertakings.

Take for instance the current status of financing:

— 3 global loans for industrial investment in the Mezzogiorno, the less-developed regions of Central and Northern Italy and (from NCI resources) in the rest of the country: three lines of credit serving the entire country;

— 2 global loans for energy-saving infrastructure (Northern and Southern Italy, respectively)

— 1 global loan for energy-saving schemes implemented by industrial undertakings;

— 1 global loan for financing industrial investment in the Mezzogiorno through leasing arrangements by providing credit for leasing companies.

In a word, the global loan technique is set to become an increasingly useful means of financing more important investment on the part of small and medium-sized enterprises, especially from the technological point of view.

Currently in prospect are several hundred billion Lire's worth of investment projects to be submitted for financing by a large number of undertakings.

EIB global loans — the experience of ICC, Ireland's development bank

by Frank Casey, Managing Director, Industrial Credit Company, Limited (ICC), Dublin

Trimfold Limited, located at Trim, Co. Meath, 50 kilometres north of Dublin, was the 1 000th recipient of a European Investment Bank loan from ICC. The story of Trimfold is only one of the many human interest stories behind the success of EIB global loans in Ireland. Ten years ago, Bridget Allen and Christopher Buckley were made redundant when the local envelope-making subsidiary of a larger group ceased production. Although they lost their jobs, they did not lose hope and they soon discovered that they had real entrepreneurial flair. They pooled their redundancy payments and, together with some of their former work colleagues, started their own company, Trimfold Limited. With financial aid from ICC and the EIB, this company now employs 31 people and is the largest Irish-owned envelope manufacturer in Ireland. The company supplies both home and export markets.

Since the ICC/EIB loans scheme was introduced four years ago, almost IR£100 million has been approved for small and medium-sized enterprises in Ireland. Some 1 300 investments have been approved to date and it is estimated that 20 000 jobs have been either created or maintained as a result of this partnership between ICC and the EIB. In relation to the size of Ireland, these are impressive statistics. They take no account of the fact that, apart from the direct creation and safeguarding of jobs in the manufacturing and tourist industry, employment is temporarily boosted during the construction phase of projects. Furthermore, the supply of necessary services and materials generates and maintains employment.

It is generally acknowledged that a high proportion of manufacturing employment arises in SMEs. This is certainly true of Ireland where, out of an estimated 5 500 manufacturing concerns, 90% employ less than 100 people. A scheme geared specifically towards that sector benefits the economy and also benefits the individual firms themselves. Loans of up to IR£500 000 to cover up to 50% of the cost of fixed asset expenditure are provided by ICC under the scheme. To be eligible, firms must have total assets of not more than IR£1 million and have not more than 100 employees. Loans are made available with repayment periods of up to 10 years including, where appropriate, a moratorium of up to two years on capital repayments.

The fixed rate of interest on the facility allows for a greater degree of accuracy in financial planning than would be possible if only variable rate finance were available. The relatively long-term nature of the ICC/EIB loan involves a lower annual repayment obligation as compared with other loans of a shorter term duration. The repayment obligation is expressed in Irish Pounds because the Irish Government provides exchange risk cover in respect of ICC borrowings from the EIB. In the present uncertain currency situation, this is an essential element in the loan package, for no small firm without the capacity to generate substantial foreign currency resources from its trading should enter into a long-term repayment commitment involving substantial exchange risks. The cost competitiveness of many SMEs in Ireland has also been helped considerably by the ability of the EIB to borrow at prime rates in world markets for onlending in Ireland at domestically attractive rates.

The availability of long-term fixed rate capital from the EIB dovetails neatly with the other facilities available from ICC and allows ICC to offer SMEs a tailor-made financial package consisting of short, medium and long-term loans supported, where appropriate, by hire purchase, leasing and equity investment; each facility is geared towards a specific need and each element within the package assists the achievement of balance in the capital structure of SMEs.

To make the many attractive features of global loans known to potential clients, ICC has engaged in a major marketing effort. The facility has been heavily promoted in the media. A continuing radio advertising campaign, backed up by intense publicity in the national and provincial press, has helped to make SMEs aware of the value of the ICC/EIB facility. In addition, seminars and discussions have been arranged in cities and major towns throughout the country. The enthusiasm of ICC's staff for the facility, their experience in project appraisal and the tight central control exercised have been important elements in the success of the scheme.

The marketing effort, intense though it has been, is not, in itself, enough to enable the scheme to function effectively. A major task is to conduct project appraisal in a manner which will meet the understandable information requirements of the EIB. The small entrepreneur is normally reluctant to deal with paper work. However, considerable research and discussion by ICC personnel and a great deal of patience and flexibility on the part of officials of the EIB has meant that any difficulties have been overcome. Nor have the procedural arrangements been static. As the scheme progressed, ICC and the EIB were able to work out more streamlined reporting methods. The scope of the scheme has also been extended, the most recent example being the sanctioning of the first Tourism global loan by the EIB.

In this article, I have emphasised the success of the EIB global loan scheme in Ireland because it has been an important scheme for the nation, for Irish industry and for the developmental work undertaken by ICC. The 20 000 jobs created or maintained represent approximately 12% of the total manufacturing jobs in the country. This must be regarded as a very substantial achievement in four years, particularly when, for much of that period, unemployment in Ireland has been running at very high levels. Perhaps it is significant that the SME sector, the prime beneficiary of the scheme, has been one of the few sectors which has shown considerable resilience during the recession. From the national standpoint, a most important aspect of the global loan scheme has been its cost effectiveness. All borrowing by ICC from the EIB has been fully serviced. ICC's bad debt experience in relation to loans provided has been relatively insignificant. There is, of course, the cost of the exchange risk cover, but the amount of loss sustained by the Exchequer is small in relation to the wealth generated and the employment created or maintained.

I began by referring to the story of Trimfold Limited and the manner in which its growth was helped by an ICC/EIB loan. It is clear that the success of Trimfold is primarily due to the enterprise and initiative of its founder-Directors, but not even the most enterprising industrialist can succeed without financial support. The global loan scheme will not prop up inefficiency, but it offers valuable support to those who have the business flair that is so necessary for success. There are, in Ireland, some 1 300 beneficiaries of the scheme who would be glad to pay eloquent tribute to its effectiveness.

ECU

Below are the ECU's values in national currencies, as at 30 June 1983; these rates are applied the present quarter in preparing financial statements and operational statistics of the Bank:

DM	2.26822	Bfrs	45.4067
£	0.583428	Lfrs	45.4067
Ffrs	6.81312	Dkr	8.14408
Lit	1 344.79	Dr	75.3278
Fl	2.583428	IR£	0.720331
		US$	0.891769

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

The composition and hence value of the ECU is the same as that of the unit of account used previously.

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