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The Clearing and Payment System for the Private ECU

Since last July, the seven banks in the MESA Group (Mutual ECU Settlement Account), which form the nucleus of the financial agencies operating in ECUs, have been in a state of ferment. A clearing and payment system for ECUs is being progressively established, and tests and simulations are now in progress. All the Community countries, save only Spain and Portugal, the currencies of which have yet to be included in the basket that makes up the ECU, are involved in this massive technical exercise. Taking part are the Bank for International Settlements (BIS) in Basle, the central banks of those countries whose currencies feature in the ECU basket, the MESA banks and SWIFT, the Society for Worldwide International Financial Telecommunications.

Slow gestation

The private ECU has, since it emerged, been used as a means of payment, and the banks were very soon constrained to devise techniques to render possible transfers in ECUs between financial agencies. The process has been a highly complex and extremely lengthy one. At the outset, any ECU-denominated transfer implied the movement of the various component currencies of the ECUs in question, but as time has gone on, a degree of specialisation has come to light. Various banks — the market-makers for ECU operations — have themselves become small clearing houses for a host of other banks keeping ECU-denominated accounts with them, which in turn means that ECU payments have been proceeding at two levels.

On the one hand, most banks took to using the ECU like any other currency and to simply keeping their ECU holdings on the books of one or more of

the ECU market-making banks, whom they would then request to carry out the actual ECU transfers they required. The market-making banks on the other hand came to play a dual rôle, as it were "intramural" and "extramural". With the first, they found themselves in a position to conduct a very large volume of "intramural" transfers, i.e. the simple debit/credit book entries for operations between deposit-holders, where there was no need to break the ECU down into its component currencies, or conversely to amalgamate those currencies into ECUs. With the second, only the market-making banks continued to conduct "extramural" transfers in ECUs, i.e. transactions between different financial agencies, a procedure that naturally involves the creation and destruction of ECUs, a very expensive process. The market-making banks have accordingly been trying to minimise the need to create or destroy ECUs, partly by setting up mutual lines of credit — these serve to forestall ECU transfers until certain limits are exceeded — and partly by bringing in new, highly sophisticated documentary transfer techniques. Against this background, it was only natural that the idea should emerge of setting up a multilateral clearing sys-

In brief...

In response to demand from its borrowers, the EIB has become the largest ECU borrower and lender. It holds permanently one of the two vice-presidencies of the Board of the ECU Banking Association (EBA), which is being set up as the legal and operational vehicle for the private ECU clearing and payment system.

The EIB has specific responsibilities, along with the Commission of the European Communities for the implementation of Community development aid. At the meeting of the ACP/EEC Ministerial Committee in Barbados last April, EIB Vice-President C. Richard Ross outlined how the Bank has fulfilled its rôle under the first two Lomé Conventions (p. 3).

EIB loans support Community economic policy objectives and are not aimed at specific sectors. Regional development is the Bank's objective for tourism investment (p. 9) and often for water schemes; though water projects are also frequently financed on the grounds of environmental protection (p. 5)

The Club of European Institutions Specialising in Long-Term Credit decided last June to create the European Financial Engineering Company (p. 11) to support small and medium-sized enterprises. The 12 institutions in the Club — one for each EEC Member Country — perform a similar function at national level to that fulfilled by the EIB in the Community.

Entries are invited for
The 1987 EIB Prize
see page 12

tem to operate between the market-making banks.

That process has been stimulated by the Community institutions. As long ago as 1982, the Commission organised a study group consisting of commercial banks and the EIB, with the task of exploring the implications of establishing just such a multilateral clearing system. Indeed, it was that group that inspired the creation on 17 September, 1985, of the ECU Banking Association — EBA — which provides the legal and operational framework for the new ECU clearing system.

The system: basic mechanism

The new ECU clearing and payment system involves three parties: the clearing banks, the BIS and SWIFT.

The BIS will be the clearing banks' agent. For each of them, it will open two current accounts, a clearing account to be cleared daily and a BIS account on which a sufficient balance must be maintained to cover daily clearing operations. This account must never be overdrawn.

Working through the agency of the SWIFT data transmission service, the clearing banks will maintain an uninterrupted flow of communications covering ECU payments being made reciprocally between them. At a pre-set time on each business day when the markets are scheduled for opening — this to be agreed by the BIS and the EBA — SWIFT will net out payment orders issued on the two-way system and will establish the — provisional — debit or credit position in ECUs of each clearing bank vis-à-vis the others. Each bank will be apprised of its provisional position and the BIS, in its capacity as their agent, will be provided with a statement of the overall provisional situation.

The clearing banks will have a certain period of time within which they may settle the provisional situation, offering to arrange with the other clearing banks for the implementation of the usual money market transactions, whether loans or arbitrage. There will also be provision within the system for two separate, successive phases of settlement.

In the first of these, the clearing banks will continue, through SWIFT, to send

each other payment orders in respect of the operations so conducted, and at the end of this phase, SWIFT will establish the final debit or credit position of each towards each of the others, and notify them to that effect. The BIS will be apprised of the final overall situation.

In the second phase, final settlements may continue to be made between the clearing banks via book transfers between the BIS accounts kept with the latter and with no further intervention on the part of SWIFT.

Before 3.00 p.m., the time of the daily close, each clearing bank will be expected to give the BIS confirmation of its final balance and to forward to it either a payment order, debited to its BIS account, in the amount of that final balance, if in deficit or, if in surplus, an order to credit its BIS account with the sum in question. At 3.00 p.m., the BIS will complete settlement, recording the final balances in the clearing accounts and moving any debits or credits therein on to the BIS accounts for the various clearing banks at the following day's value date.

Special measures are planned to cater for the eventuality of a clearing bank failing to observe the ground rules: temporary suspension or total expulsion from the system would result.

General remarks

The institution of this clearing and payment system for the private ECU may, from various points of view, be considered an event of signal importance.

In the first place, the system underpins the legal standing of the private ECU. It does not in fact enjoy the status of a currency at Community level, yet at the same time its use is rising steadily on an increasing number of financial markets, some of them not even Community markets. This presents a very real risk that various operators, deliberately or inadvertently, might come to apply the term ECU to certain monetary devices that do not in fact match the definition of the ECU as used by the Community's central banks for the purposes of

the European Monetary System (EMS). The written terms of reference for the clearing system actually stipulate that the "ECU" shall be defined as the monetary unit used in the EMS.

It quite clearly follows therefore that the clearing system will serve to oblige financial operators to make identical use of the term "ECU".

Community coordination

The clearing system is being introduced with the tacit assent of the Community's central banks. Before agreeing to take on the task of acting as agent, the BIS, which already serves as agent for the European Monetary Cooperation Fund (EMCF) for the purposes of the EMS, approached the Committee of Governors of EEC Central Banks for its opinion. The Committee considered the issue and raised no objection to BIS involvement in the clearing system, provided the following rules were respected: the function of agent should not be binding on the BIS alone; the system should take due account of exchange control regulations in force, and it should not at any time run counter to the monetary policy objectives of the Member Countries of the EEC. This has two practical implications: (a) the central banks retain their full freedom of action, and (b) the clearing system will not be able to function as a lender of last resort or to exert any influence on money supply.

The last of these considerations explains certain technical aspects of the system, in particular the workings of the BIS accounts opened on the books of the latter by the clearing banks. The system is a closed one, designed to have all credit operations balance out all debit ones, but everything hinges on the clearing banks' readiness or indeed ability to settle all balances outstanding between them. The requisite decisions in this area have to be taken solely by the clearing banks themselves, and those decisions crystallised in transfers between their BIS accounts once the final position has been established by SWIFT. This takes place during the second phase of settlement, as explained above. The BIS may not, while the

process is in hand, make any advance, which means that the clearing banks must always have available a large enough liquidity float in ECUs to service their respective BIS accounts. These in turn may only be used for clearing operations. Any balances subsisting in BIS accounts have to be held in ECUs. Each account is to be funded by means of transfers made by the titular clearing bank, in each of the ECU component currencies, drawn on a special account opened in the name of the BIS at each of the central banks of the Member States whose currencies feature in the ECU basket. Conversely, withdrawals from a BIS account will be effected by debiting the special accounts opened in the name of the BIS with the various central banks and credited to the accounts specified by the clearing bank in question. In this way, the central banks will themselves be in a position to ensure that the money supply is in no way increased: with the new system, ECU creation only takes place where there is a countervailing blockage of the component currency elements at the central banks concerned.

Role of the ECU Banking Association

The EBA exists to organise, facilitate and develop every possible form of ECU transaction, and the development of a clearing system is undoubtedly one of its primary targets, although its concerns clearly stretch beyond that. Its activities also reach into studies and research work, representing members in dealings with national, Community and international authorities and the general business of promoting the ECU.

The EBA membership embraces banks with their head office or at least a branch in a Community country with a clear commitment to the development of transactions in ECUs. The clearing banks are members which in addition satisfy a whole range of more stringent criteria imposed by both the EBA and the BIS. At the same time, each Community country may be represented in the clearing system by at least one of its banks.

The EIB is a member of the EBA: its representative is both a permanent

member of the Executive Committee and, *de facto*, one of the Association's Vice-Presidents. The EIB is also, *as of right*, one of the clearing banks operating in the system.

The link between the EBA and the private ECU clearing system on the one hand and the European Community on the other is quite clear. It is theoretically possible that the day might come when a political decision is taken to bring together the public and private sectors of the ECU: in that event, the clearing system would allow for considerable flexibility. Furthermore, it is on the cards that the clearing system will, little by little, become the nucleus of a growing web of secondary private ECU clearing centres into which all the financial world centres will be meshed. Already the major American and Japanese banks are setting about organising a private ECU clearing system within their own groups, pivoted in each case on one of their EEC subsidiaries. Those subsidiaries could thus at the appropriate time either directly or indirectly dovetail into the clearing system created by the EBA.

EIB operations under Lomé I and II, 1976-1985

Within the framework of the first two Lomé Conventions, the EIB has played a significant role in the implementation of the European Community's development aid policy by financing projects in the African, Caribbean and Pacific countries (ACP). During this period, loans from the Bank's own resources and from risk capital funds, managed on behalf of the EEC, in the ACPs totalled nearly 1.460 million ECUs⁽¹⁾.

Established by the Treaty of Rome in 1958, the EIB's operations were initially confined to Member States. Since then, the Bank has increasingly been called on to extend its project financing activities outside the Community under agreements, protocols and conventions progressively concluded by the EEC with what became the ACP States and with countries in the Mediterranean area. The Bank's financing in the ACPs began in 1963 with the First Yaoundé Convention, followed by the Second Yaoundé Convention (1969), and then the First (1975) and Second (1979) Lomé Conventions. Today, the Bank operates in 66 ACP countries under the Third Lomé Convention (1986-1990), which came into force on 1st May 1986, and

in 12 Mediterranean countries under financial protocols individually concluded with the Community.

In an address presented to the ACP-EEC Ministerial Committee at its last meeting under the Second Lomé Convention in April this year, EIB Vice-President C. Richard Ross gave a broad outline of the way in which the EIB has fulfilled its role under the first two Lomé Conventions. Amongst the aspects raised regarding the EIB's operations in the ACP's between 1976 and 1985, were:

"The responsibilities of the Commission and the Bank under the successive Lomé Conventions are, essentially, complementary. The division of responsibilities provides that propos-

als for the financing of projects in industry, agro-industry, mining and tourism, and related projects in the energy sector shall first and foremost be submitted for appraisal by the EIB. In addition, the Bank may also, in appropriate circumstances, make loans for economic infrastructure projects. Thus, the Bank has the first responsibility for financing investment projects in the main productive sectors, other than agriculture.

The EIB has two kinds of instrument for financing development projects in these sectors. The first and larger part consists of loans from the Bank's own resources — that is to say, essentially the funds which the Bank borrows on international capital markets. These loans from own resources carry an interest subsidy, normally of 3%, from the European Development Fund.

⁽¹⁾ For a more detailed account of EIB operations under the First and Second Lomé Conventions, see EIB-Information No. 47, January 1986.

Second, there are the risk capital resources, provided by the Member States through the European Development Fund and managed by the Bank.

The starting point for the identification and selection of projects for Bank financing is, of course, the programming missions which are organised by the Commission and which include a representative or representatives of the Bank. These identify particular projects, or, more often, particular sectors or sub-sectors which could be suitable for EIB financing.

But indicative programmes of this kind can only be a starting point for project identification in the sectors which concern the Bank. Economic conditions change: projects which seemed attractive at the time of a programming mission may, for good economic reasons, be abandoned or postponed. New needs may arise and new opportunities present themselves. The experience of Lomé I and Lomé II shows that, if its aid is to be effective, the EIB needs to keep in continual contact with developments in its ACP partner countries, and to be able to adapt its interventions to changing circumstances.

In appraising proposals for Bank lending, our first and overriding consideration is whether the project is likely to make a positive contribution to the economic development of the country or countries in question. Since the EIB is working in the productive sectors of the economy, it is concerned that the project shows an acceptable rate of return in terms of its development impact, and that it has a good prospect of being financially viable. When considering whether to lend from the Bank's own resources, we have to assess the capacity of the borrower to service the loan, not just in terms of financial viability of the project, but also in the wider context of the country's capacity to service the debt.

So far as risk capital operations are concerned, the Conventions allow the EIB directly or indirectly to take equity participation in enterprises or in development banks. Risk capital can further be used to make conditional loans on very favourable terms for projects which involve a higher degree of risk; and gives more flexibility in that it can be used to help countries

where low levels of income and difficult economic conditions make lending on own resources inappropriate. Risk capital can also be used to finance feasibility studies. But with

risk capital operations, as with lending from its own resources, the Bank's first concern is with the impact of the project on economic development.

ACP-EEC Ministerial Committees set up under the Lomé Conventions

The Article 108 Committee, so called after the article that established it under the Second Lomé Convention, was set up within the Council of Ministers to examine measures to improve the implementation of the Convention's financial and technical co-operation, concentrating particularly on streamlining procedures and studying difficulties and bottlenecks.

The functions of this Committee have now been taken over by another Committee, set up within the Council of Ministers under Article 193 of the Third Lomé Convention. (The Council of Ministers is composed of members of the Council of the European Communities and the Commission of the European Communities, and a member of the government of each of the ACP States. Under Lomé I, the work of these committees was carried out directly by the Convention's Council of Ministers). While the responsibilities of the new ACP-EEC Committee are similar to those of the Second Lomé Convention's Article 108 Committee, they have been strengthened and broadened in scope to ensure that the objectives and principles of financial and technical co-operation are attained.

Composed, on a basis of parity, of representatives of the ACP States and of the EEC, the Committee meets every quarter and, at Ministerial level, at least once a year. The Convention stipulates that a representative of the EIB also attends the Committee's meetings.

Broadly, the role of the ACP-EEC Committee is to collect information and to examine and remove difficulties and bottlenecks in the Convention's financial and technical co-operation. As well as establishing guidelines, the Committee makes suggestions to the Council of Ministers for improvements in the realisation of this co-operation and reports on the results of the evaluation of projects and programmes. In this context, its role extends to following up and implementing guidelines and resolutions adopted by the Council of Ministers.

To help the Committee with its work, the ACP States, together with the Commission and in collaboration with the EIB, will present annual reports on the management of Community financial and technical aid. The Committee will draw up, for the attention of the Council of Ministers, recommendations and resolutions on measures directed towards attainment of the objectives of the financial and technical co-operation. It will also draw up an annual progress report to assist the Ministers in establishing general guidelines for such continued co-operation.

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Under the Third Lomé Convention (1986-1990) the overall amount of the Community's financial assistance totals 8 500 million ECUs. This is made up of 7 400 million ECUs from the European Development Fund which is resourced by Member States' budgetary contributions and of 1 100 million ECUs from the EIB in loans from its own resources. The Bank also manages 600 million ECUs in EDF resources allocated for risk capital operations. Loans made from the EIB's own resources carry a 3 % interest subsidy which is automatically adjusted so that the interest rate actually borne by the borrower is not less than 5% or more than 8%. A total of 215 million ECUs, drawn from EDF grant aid resources and managed by the Bank, has been set aside for such interest subsidies.

There are three particular aspects of EIB operations under Lomé I and Lomé II which, perhaps, deserve a mention.

First, feasibility studies. By the end of 1985, the Bank had advanced some 15.5 m ECUs from risk capital towards financing feasibility studies. The largest part went to fund 44 studies and 5 technical assistance contracts. Of the 35 studies concluded so far, only nine have resulted in qualified recommendations. These recommendations have served to deter promoters from embarking upon projects which are either too risky or economically unsound and have thus helped to avoid misuse of resources. On the other hand, 20 studies have yielded positive findings likely to lead to implementation of the projects concerned, 15 of which have already got under way. And, of these 15, the Bank has so far contributed towards the financing of eight.

Second, the development finance institutions and small and medium-sized enterprises. A striking feature since the second part of Lomé I has been the growth of global loans, or lines of credit, to development finance companies or development banks for on-lending to support such

small-scale investments. An organisation like the EIB cannot hope to evaluate at long-distance the development potential and financing needs of a large number of smaller projects with different potential and different problems. To do so effectively, one needs the partnership of a competent local institution with knowledge of the problems on the ground, and which can assess the needs and potential of individual enterprises in local conditions.

By the end of 1985, the EIB had mounted 61 operations in the ACP countries with 34 development finance corporations and 4 regional development banks for an overall total of 268 m ECUs, comprising 86.5 m ECUs under the First Lomé Convention and 181.5 m ECUs under the Second. Up to now, the EIB has financed some 400 projects carried out by small and medium-size industrial enterprises through the global loan facility.

Third, the contribution of EIB finance to job creation. Over the period 1976-1985, the Bank mounted operations in almost all the ACP countries. Capital investment financed through individual loans or global loan allocations should help directly to create some-

thing of the order of 50 000 jobs, mainly in industry and agricultural processing. The average investment cost per job created in industry works out at 65 000 ECUs for individual loans and almost a third of this for global loan allocations. These estimates do not include rehabilitation projects aimed basically at putting firms back on an economically and financially viable footing.

The role of the EIB under the Third Lomé Convention builds on the experience of the past ten years. The Bank is given virtually the same sectors of operation as before, but it emphasises not only project financing, but also the importance of rehabilitation and for action programmes in industry, agricultural processing and related energy, transport and telecommunications. These priorities do not, however, preclude the Bank from using own resources to finance productive projects and programmes in other sectors; in particular, commercial agriculture. Finally, special attention will be given to programmes mounted in support of priority Community aid sectors, to be agreed with the Commission and the ACP States concerned in the context of the overall programming exercise."

Growth in EIB Lending for Community Water Projects

The availability of water is a vital factor in economic development and, in recent years, there has been a substantial increase in the European Investment Bank's lending for four kinds of water-related projects: catchment, supply, sewage collection and the treatment of effluent. Up to 1974, the EIB had provided finance for only three water projects which, together, accounted for 32 million ECUs in loans, less than 1% of the total lending in the Community since the Bank began operations in 1958. EIB lending for water projects has since seen a rapid growth, accounting on the average for 8% of its yearly lending and in some years reaching 16%. At the end of July 1986, total lending for water projects in the Community, excluding loans for agricultural investments in irrigation, had reached over 3.3 billion ECUs, with approximately 300 million stemming from New Community Instrument resources.

In 1985 alone, the EIB's lending in the water sector reached 425 million ECUs, of which 21 million was provided through global loans for small-scale investments. The upward trend has continued in 1986; at the end of July, the Bank had provided some 300 million ECUs for water projects in the Community.

The growth in lending has been accelerated by the progressive extension of the Bank's eligibility criteria in response to the growing concern for protection of the environment. Up to the beginning of the eighties, the EIB's lending was directed mainly to projects involving the supply and treatment of water in less-developed

regions of the European Community, with the objective of improving the conditions for economic development. In these areas, the EIB financed dams and reservoirs, sewerage schemes and waste water treatment. Although environmental considerations often played an important role in such projects, the primary justification for EIB support was the contribution of the investment to regional development, the prime task assigned to the Bank by the Treaty of Rome.

In 1984, following recommendations of the EIB's Board of Directors, the Board of Governors endorsed specific guidelines for the Bank's lending in the field of environmental protection. Projects which contributed towards attaining cleaner air or water, both marine and inland, for example became eligible for EIB finance, irrespective of their location. Since then,

lending outside Assisted Areas for capital investments reducing pollution of coastal and inland waters has shown a marked increase.

The water projects the Bank finances in support of regional development, or of environmental protection, are

often of the same nature and have similar technical characteristics. Those in less-developed regions often have a considerable environmental impact and, conversely, investments in anti-pollution installations, as a rule, are intimately linked with economic productivity.

Amongst the earliest water projects to receive EIB support was the rehabilitation of the Metaponto Plain area in Southern Italy. In the first century BC, the Apulia and Basilicata regions ranked among the most fertile regions in the Mediterranean, but they declined steadily. The continuous erosion of the soil coupled with the stagnation of water impounded by coastal dunes, turned the Metaponto Plain into a swamp and it became one of the most depopulated areas in Southern Italy.

Rehabilitation of the plain began in 1928, but it was only after the 1950 agrarian reforms that schemes were introduced to drain the land and to exploit the water available for irrigation.

With catchment areas particularly remote from irrigable plains and population centres, the construction of the Pertusillo dam and the Monte Cotugno reservoir were key elements in solving the complex problem of water supplies. The Pertusillo dam and its 155 million cubic metre reservoir are used to generate electricity, to supply water of drinking quality to the Taranto area and to feed the irrigation system. The Monte Cotugno reservoir has a capacity of 450 million cubic metres and serves the Upper Metaponto, feeding a 20 000 ha irrigation system. From 1966 on, the EIB has granted loans totalling some 170 million ECUs in support of this large-scale rehabilitation scheme.

In the Metaponto Plain, the EIB's support was focused on providing adequate water supply to meet the conditions for economic growth. In other regional development areas, there is an urgent need to assure up-to-date sewers and sewerage facilities and water purification. In the North West of the United Kingdom, for example, rivers, canals and estuaries are seriously polluted as a result of 200 years of unchecked disposal of household and industrial waste and the lack of appropriate treatment. The dilapidated state of many of the region's sewers and sewage works aggravates the situation.

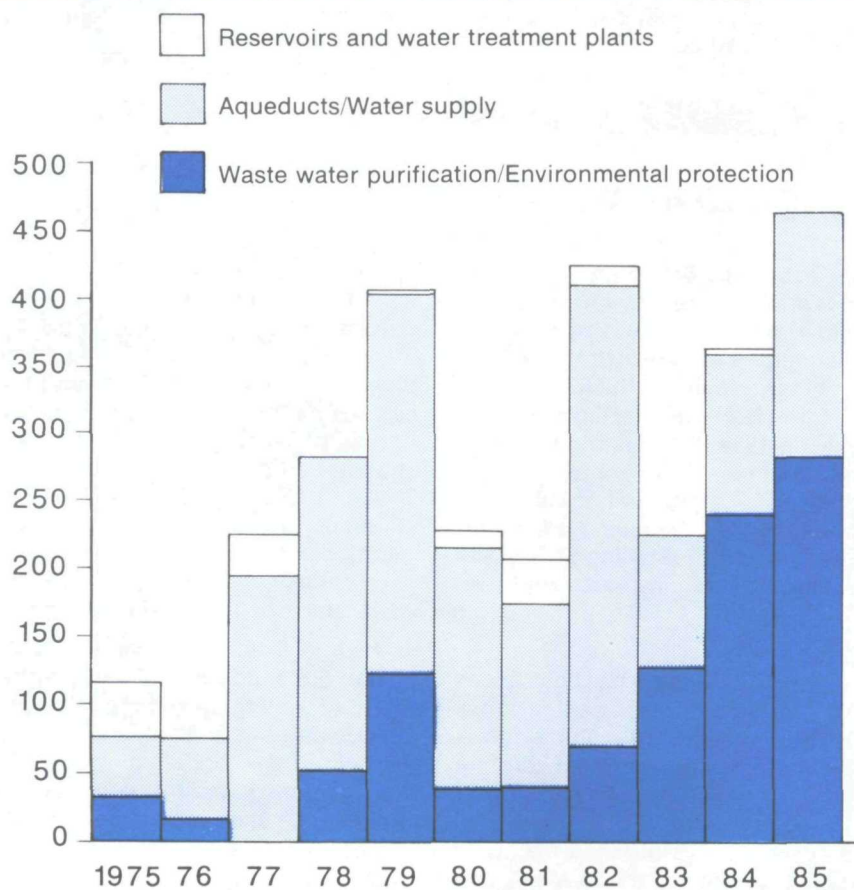
Since 1974, the North West Water Authority has invested large sums in sewerage and sewage treatment facilities and has undertaken even greater investment in surface water quality improvement. Most of the

EIB Finance for Water Projects: 1975-1985

ECU millions

	Aqueducts/ Water supply	Reservoirs and water treatment plants	Waste water purification/ Environmental protection	Total ⁽¹⁾
1975	44.8	39.9	30.3	115.0
1976	59.3	—	15.0	74.3
1977	194.8	29.8	—	224.6
1978	232.2	—	50.0	282.2
1979	281.3	5.9	120.1	407.3
1980	177.9	12.8	36.2	227.0
1981	133.3	33.9	38.9	206.1
1982	344.5	13.2	67.5	425.2
1983	97.8	—	126.3	224.0
1984	119.1	4.0	239.0	362.1
1985	181.2	—	282.6	463.8
	1 866.2	139.5	1 005.9	3 011.6

⁽¹⁾ including NCI resources: 1979 - 90.2 m ECUs; 1981 - 60.0 m ECUs;
1982 - 120.1 m ECUs; 1984 - 73.7 m ECUs;
1985 - 36.5 m ECUs.



money will be spent in the Mersey basin to restore the quality of the water courses and to upgrade bank-side areas. Since 1976, the European Investment Bank has granted a series of loans for water supply, sewage and sewerage projects and waste water disposal schemes in the area and, to date, the North West Water Authority has taken up over 340 million ECUs. Most of the projects were located in Assisted Areas, but in recent years anti-pollution investment in non-Assisted Areas in the North West has also attracted EIB support.

In Northern Italy, in the Po Valley, a major clean-up effort having beneficial effects on both the local environment and on the Adriatic, is underway with European Investment Bank support. Covering some 650 kilometres in its journey from the Alps to the Northern Adriatic, the Po is by far the largest river in Italy. The Po River Valley is one of Italy's most thriving regions, covering about one fifth of the land mass (70 000 sq. km.) and accounting for over a third of the population. More than half of Italy's entire productive capacity is located in this area.

Urban and industrial development and intensive agriculture, however, have caused serious environmental pollution and surface waters are heavily contaminated with residue. Economic activity and the generation of domestic sewage are producing pollution on a scale equivalent to that of a population of 60 million.

In 1982, the local governments of the affected regions, Piedmont, Lombardy, Emilia Romagna and Venezia, produced an inter-regional and inter-sectoral plan to develop and rehabilitate the River Po and the environment in the entire Po basin. The EIB participates in the financing of sewage collection and treatment works at various locations in the valley of the Po and its tributaries. More than 80 million ECUs have gone towards the laying of over 400 kilometres of main and secondary sewers and the construction of 35 sewage treatment plants which will process 350 million cubic metres of contaminated water per annum. A total population of about 3.5 million people will reap the benefits of these environmental improvements.

A similar effort has been undertaken in Greece regarding the Saronic Gulf.

Over 40% of the country's population is located in the Greater Athens area, where 50% of all industrial activity takes place. Urban and industrial development, particularly over the last twenty years, have resulted in extensive pollution of the Saronic Gulf and its surrounding shoreline. The Bank is helping to finance the construction of sewage treatment and disposal works which form part of a long-term programme to provide the area with facilities that will cater for a population of 3.3 million up to the year 2001. The rehabilitation of the Saronic Gulf will lead to a substantial reduction in shoreline pollution and a significant improvement in the quality of seawater, so benefiting both the resident population and tourism.

Most of the Bank's lending for water projects has been in Italy and the United Kingdom, each accounting for approximately 1.2 billion ECUs (some 41%) of the total lending. Ireland ranks third with 12% and water projects in Greece took up some 5% of the Bank's lending. In 1986 there was a geographical extension, with new loans in Germany and France.

Water projects financed in 1986

The projects financed up to now in 1986 — in the United Kingdom, Italy, Ireland, Germany and France — cover a broad range of objectives. They help to fight pollution in coastal waters, so improving the quality of bathing water

Workshop on water

In December last year, the EIB hosted a one-day workshop on the economics of potable water supply. The workshop was aimed at bringing about greater understanding of the sector in general and was attended by experts in a variety of disciplines (engineers, economists, managers, financiers) from the Community Member States as well as by members of the Bank's staff involved with water projects.

Discussions focussed on the broad areas of demand, supply and institutional framework, with the following main conclusions:

— An adequate institutional framework is fundamental to ensure a satisfactory water supply service at reasonable prices, over the long term. Unified management of the entire water cycle of a river basin, from resource collection through to wastewater treatment and disposal, can bring important benefits. As, however, water supply agencies usually constitute "natural monopolies" in their own areas, regulation covering three aspects of operation would be required to ensure efficiency, i.e. standards of service (including quality criteria) should be specified, prices controlled and financial targets set.

These financial targets could provide for a return on capital employed, but must cover capital and operating costs if problems arising out of inadequate maintenance of assets in the future are to be avoided.

— In terms of supply, it is important to take a view of requirements over the long term, say 30 years, and to ensure that adequate resources to cover these will be preserved. An 8 to 10-year horizon, however, is usually more appropriate in designing and constructing new schemes. The development of national or regional networks may offer important opportunities for reducing or delaying investment in new capacity.

— Factors such as income, climate and economic structure seem to make little difference to the water requirements of the average European household. Average consumption per capita, however, is of limited value as an indicator of the capacity required, while seasonal and short-term peaks are of critical importance. Individual household metering is not, at present, a cost-effective instrument for reducing such peaks. If and when remote meter reading (e.g. over telephone or cable TV lines) becomes available, prices can be varied to reflect peaks and metering will become a cheap and flexible tool for controlling as well as measuring demand.

and stimulating tourism; they raise the quality of drinking water to Community standards; they also help to provide for adequate treatment of waste and up-to-date sewerage facilities and fight pollution of inland waters. For one project, security of supply, in case of a major pollution incident, is an important objective. In another, the EIB's lending goes to minimize the recurrence of catastrophic flooding. The following description of the Bank's financing for water projects this year is not extensive, but serves to illustrate the range of objectives.

With two loans in January and June, the Bank has lent a total of 32 million ECUs in Yorkshire for treatment plants which, once completed, will improve environmental conditions and upgrade the quality of drinking

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water. The Yorkshire region, and in particular the densely populated and industrialised southern part, has suffered from inadequate treatment of sewage effluent, leading to severe river pollution and from obsolete water treatment facilities which cannot produce drinking water meeting the quality standards set by EEC directives. The EIB-financed investments will also put an end to sewage overflows affecting roads and properties.

Insufficient and deteriorating quality of water supplies and inadequate sewerage and sewage treatment infrastructure are also constraints on industrial, tourism and residential development in Wales. A loan of 27 million ECUs will go to help bring the quality of drinking water up to EEC standards and reduce pollution along the coast in a region visited by large numbers of tourists each summer.

Efforts are already under way to reduce pollution in the Po River Valley, but an added problem is that catastrophic flooding periodically threatens the regions adjacent to the Po delta. The province of Rovigo, which lies below the river's level, is especially flood-prone. Since 1951, it has suffered from eight severe floods which caused extensive damage to public and private property and resulted in a large-scale exodus of the population. In March, the first EIB loan of 20 million ECUs helped finance a complex of hydraulic engineering works to remedy this situation.

In Ireland, the European Investment Bank lent 5.6 million ECUs in June to improve water supply and sewage treatment. The rapid population growth, industrialisation and urbanisation in Ireland have placed considerable demands on infrastructural capacity for water supply, sanitation and pollution control. Deficiencies in water and sewerage facilities are a major constraint on industrial development, while growth in agriculture and tourism also depends on adequate water facilities.

In Germany, a loan of 69 million ECUs went to the construction of a reservoir on the river Dhünn, 15 kilometres north east of Cologne, to provide purer drinking water, replacing substandard supplies currently drawn from groundwater sources and the Rhine. The project will permit a sig-

nificant improvement in the quality of domestic water supplies to some 1 million people. The works will also provide back-up resources to ensure that a population of 2.5 million would continue to receive water supplies should a major pollution incident occur in the Rhine.

Contributing to international efforts to improve the quality of water and to protect the marine environment in the Mediterranean, the EIB made a loan of 16 million ECUs for the construction of plant to treat waste water, from the city of Marseilles and surrounding municipalities, which at present is discharged directly into the sea. The physiochemical treatment plant will have a capacity of 360 000 m³ a day, and a separate sludge treatment plant will be added. The plant will be located in an urban area, but to avoid becoming an eyesore, it will be paved over so that an existing stadium and sports facilities can be rebuilt on their original site. The treated sludge will be used to build up the topsoil on fire-damaged hills around Marseilles, thus preparing the ground for reafforestation.

As all other projects, water projects are appraised by the Bank's staff to assess their economic, financial and technical viability. Generally, the complexity of water projects necessitates an assessment of the situation upstream (rational use of the resources of the basin) as well as downstream (discharge and purification). To the extent that the project forms part of an urban development scheme, the appraisal may even be more detailed. The EIB's appraisal takes into account the long-term development of industrial and consumer demand, an estimate of the economic benefits of the proposed investments and the appropriate tariff structure.

The experience of the Bank's staff with the wide variety of water projects financed may be an added reason why borrowers increasingly turn to the EIB. Working from a Community perspective, the Bank's economists and engineers have a unique advantage based on project appraisals and follow-up studies in a number of EC Member States. Presenting their in-

vestment schemes to the Bank, project promoters find a partner, willing and able to discuss their plans in detail and to share with them experience previously acquired.

Water projects financed outside the EEC

The EIB has also supported water-related projects within the framework of the Lomé Conventions and financial protocols between the EEC and 12 Mediterranean countries.

Excluding irrigation projects, the EIB has lent a total of some 140 million ECUs, including 32.7 million ECUs in the form of concessionary finance from Community budgetary and European Development Fund (EDF) resources, managed under mandate by the Bank. While not on the same scale as its financing within the EEC, the schemes supported have helped to introduce essential water supplies, reduce pollution, and generally strengthen economic and social development.

A total of 91.9 million ECUs has gone to countries in the Mediterranean region, including 5.5 million in Greece in 1980 under the association agreement then in force, for construction of the central sewerage system and treatment and purification plant at Chalkis (Euboea). Loans totalling 43.4 million ECUs have supported investments in Cyprus, mainly to improve the use of scarce water resources, involving the construction of three dams, piping of supplies, and water treatment works, to serve about 300 000 people in Nicosia, Larnaca and Famagusta. Part of this finance has also helped to modernise the water and sewerage system in the old city area of Nicosia.

In Morocco, 18 million ECUs has gone towards construction of a dam which will improve water supplies to Marrakech as well as supplying a hydroelectric power station. Installation of water distribution and sewerage systems in the Jordanian towns of Madaba (a commuter catchment area for Amman) and Ma'an (a transport and pilgrim stopover centre in south Jordan) to meet growing industrial and

domestic water demand and reduce pollution have received a 9 million ECUs loan. A large scheme to extend the sewerage network and treatment plants at Aleppo in Syria has been supported with 16 million ECUs. As well as solving a serious pollution problem the works will improve the quality of river water used for irrigation.

In African countries a total of 48.4 million ECUs (of which 23.8 million from EDF resources) have mainly been for improving and expanding urban water supplies. In Cameroon, extensive works to strengthen and renew water supply and treatment installations serving 600 000 people in the capital Yaoundé have received 14.6 million ECUs. The Bank has supported similar schemes in Libreville, the capital of Gabon, with 10 million ECUs; and in Pointe Noire, one of the main towns in the Congo, also with 10 million ECUs. The balance of 13.8 million ECUs has gone in loans to water schemes in Kinshasa, Zaire; in Mauritania's main port and economic centre of Nouadhibou; and in Korhogo, the chief town in northern Ivory Coast.

Over 1 000 projects in the tourism sector

Whether main holidays or weekend trips, in the high season or throughout the year, tourism appears to be a good bet for diversifying economic potential in the regions and making up some of the jobs lost in the more traditional industries. Increasing leisure time, improved transport facilities and communications, the attractions of travelling abroad and the growing propensity for people to seek a challenge or just a change of scene, all combine to present a bright future for the hotel trade and tourism.

Both from the economic standpoint and in terms of its contribution to better mutual understanding and cultural exchanges, the European Community wholeheartedly welcomes the expanding activity in this sector. Using the various means available, it is endeavouring to ensure that the benefits deriving from the successful promotion of tourism also contribute towards attaining the Community's long-term economic aims. For its part, the EIB has over the past few years been mounting an increasing number of operations in support of tourism, provided that the schemes concerned comply with one of the economic policy objectives laid down in the

Treaty of Rome, in particular regional development.

Transport infrastructure, telecommunications and water schemes

EIB financing in this domain is not restricted merely to investment directly related to tourism as such. It is not the Bank's job to fund any specific sector, but rather to back projects in all sectors of the economy. Many infrastructure projects attracting EIB support⁽¹⁾ make a direct contribution to developing tourism. This is clearly true of the major trunk roads and motorways, which on top of carrying a

large volume of freight traffic also cope with the summer holiday rush (the Basque coast motorway, the Brenner motorway, the Autostrada dei Fiori running along the Italian riviera from the French border to Genoa and Sestri, the Esterel-Côte d'Azur motorway in France, the Fréjus tunnel, etc), and of the by-passes already completed (Bordeaux, Toulouse, Naples, Palermo) or under construction (Thionville, Lyons) on the main holiday routes across Europe. Tourism has also profited directly from various other transport projects supported by the EIB, such as ferries on the routes to Ireland, harbour works at Boulogne, Calais and Ramsgate, airport schemes, particularly in Greece, and the acquisition of aircraft to improve links within the Community and serve holiday destinations. Similar benefits can also be expected from the

⁽¹⁾ For details on financing for infrastructure, see EIB-Information N° 49 (July 1986).

planned high-speed train service between Paris and France's Atlantic coast.

Improvements to the local road network in tourist areas, financed by the Bank in Ireland, the United Kingdom, western and southern France, Italy and Greece, water schemes to increase supplies in areas which have to cater for a large tourist population at times of low rainfall and development of telecommunications are also factors which enhance a region's attractiveness to tourists. Implementation of projects such as these is therefore important in areas with natural potential where tourism, as either a secondary or main activity, could help to stimulate or diversify economic development.

The same holds true of environmental factors such as the quality of the water and air. On this score, the Bank adopts a rigorous approach in its project appraisals when examining adherence to anti-pollution norms and contributes in a more direct manner by providing loans for sewerage systems and water treatment plants (Metamorphosis near Athens, Marseilles, the Gulf of Naples, to cite just a few recent examples). Such steps have helped to fight pollution and prevent the deterioration of the resorts concerned, thereby boosting tourism. This preoccupation is not limited exclusively to the Mediterranean, where the Barcelona Convention has served to heighten awareness of the problems and stir both the surrounding countries and the Community as a whole into action. The problem also exists further north, in declining industrial areas and those

with a high population, in the United Kingdom in particular (Firth of Forth, Wales...) where water pollution does pose problems for both weekend and summer holiday tourism.

The tourism sector

Aside from these indirect contributions to developing the sector, the EIB has also provided funds to be channelled directly into hotel developments, holiday villages and theme parks, ski-lift equipment and construction of yacht marinas. The Bank makes finance available for completely new schemes, extensions and rehabilitation work.

Although the EIB has granted individual loans for relatively major projects, given the very nature of this sector most operations have been on a rather smaller scale, mounted via global loans⁽¹⁾. These are essentially lines of credit advanced generally to banks or financial institutions, largely those operating nationwide although some have a specific regional or sectoral bias. Under the global loan device, projects are selected by the intermediary institution with the EIB's agreement and in accordance with the Bank's appraisal criteria.

Individual projects financed in recent months include restructuring and modernisation of hotels in the least developed regions of the Mezzogiorno, at Avellino, Caserta, Catania, Palermo and Syracuse. The EIB has put up 7.3 million ECUs for improvements to bring the hotels up to the standards now expected and this has also presented an opportunity to

make energy savings and rationalise the running of the establishments. The clientele is composed predominantly of businessmen in winter and tourists during the summer season. The addition of well-equipped conference rooms should help to boost the number of business clients, so as to attract guests throughout the year and reduce the hotels' exposure to seasonal fluctuations.

At Metaponto, in Basilicata, the EIB has provided 7.8 million ECUs for construction of a 1 100 bed seaside holiday village. Laid out over an area of 37 hectares, this village represents a keystone in the "tourist routes" programme, devised by the Ministries for the Mezzogiorno and for Cultural Heritage, as the starting or finishing point for archaeological tours. Moreover, located close to the areas struck by the November 1980 earthquake, it provides valuable seasonal or permanent employment for 270 people.

However, the bulk of EIB financing in the tourism sector has been directed towards rather smaller scale projects: more than a thousand such ventures have been financed in eight of the Community's Member States: in Italy 210.5 million ECUs has been granted for 395 projects; in France, 80.8 million ECUs has gone into 421 projects; in Spain, there have been 35 loans totalling 15 million ECUs; in Portugal, 17 loans adding up to 14.4 million ECUs; in Ireland, 13.9 million ECUs has gone into 112 schemes; in Greece, 22.9 million ECUs for 34 ventures; in the United Kingdom, 16.5 million ECUs for 46 projects and in Denmark, one project attracted 0.2 million ECUs.

The majority of these investment schemes were located in assisted areas. Non-assisted areas have benefited from the use of global loan finance from the second tranche of the New Community Instrument for borrowing and lending (NCI), for tourism projects (principally in the hotel trade) in France, Italy and the United Kingdom. However, the guidelines handed down by the Commission of the European Communities concerning the third NCI tranche now preclude the deployment of such resources for hotel projects.

⁽¹⁾ For details of the global loan facility, see EIB-Information n°s 24, 30, 35 and 36.

Cultural heritage

In line with another objective imparted under the Treaty of Rome, that of promoting investment of common interest to the Community as a whole, the EIB has put up funds on several occasions towards protecting or making the most of historic sites and monuments of importance for Europe's cultural heritage. Projects of this type are of direct benefit to development of the tourism sector.

Notable examples of such schemes include, in Greece, the museum on the island of Milos in the Cyclades, safeguarding works of art and archaeological findings of the finest quality and also providing a major tourist attraction on an island where tourism is one of the cornerstones of the economy; and several projects in Italy such as the restoration of the Doges' Palace in Venice and development and protection of the archaeological sites of Herculaneum, Pompeii and Stabiae.

A significant impact

In all, the tourism projects supported by the EIB, to judge by the information available during appraisal of the financing applications, represent total capital investment amounting to nearly 1.1 bn ECUs. They have, between them, created an estimated 6 000 jobs, not to mention the many jobs safeguarded (by renovating hotels and other facilities, for example), mainly in regions confronted with development or conversion problems.

Thus, the EIB's contributions to the tourism sector have not merely served to smooth the way for the annual migration to the beaches and mountains, which in itself fosters contacts between nationals from different

Member States. They have turned this mobility and the investment it implies to good use, helping to mitigate regional imbalances and providing some response to the unemployment problem — in some senses a reversal of roles, with leisure activities creating work.

Outside the community

Amongst the loans it grants outside the Community, from its own or budgetary resources, the EIB provides finance for tourism sector investment, particularly hotels which frequently form part of the basic infrastructure for major towns, promoting trade and boosting inflows of foreign exchange. Under the Lomé

Convention, tourism is specifically mentioned as one of the sectors eligible for EIB support.

The Bank has financed hotel projects in Cameroon, the Congo, the Ivory Coast, Gabon, Malawi, Mali, Niger and Senegal. It has also, by virtue of global loan funding, contributed towards more than fifty smaller-scale projects in Mediterranean countries (Jordan, Tunisia), in 13 African, Caribbean and Pacific (ACP) States and in two overseas territories (New Caledonia, French Polynesia). The ACP States in question include several small countries in the Pacific (Tonga, Vanuatu) and the Caribbean (Barbados, St Lucia, St Christopher and Nevis), whose remoteness and limited economies make this type of investment particularly valuable.

A European Financial Engineering Company

At the meeting of the heads of the "Club" of European Institutions Specialising in Long-term Credit held in Athens on 27 June last, a decision was taken to set up a European "financial engineering" company.

The Club, in which there are twelve institutions, with the Commission of the European Communities and the European Investment Bank also taking part in its work — the latter in addition coordinates operations and provides secretariat facilities — exists for joint study work and the exchange of information and to improve or expand the activity of its members. It also aims to facilitate and promote cooperation with a view to setting up joint projects, especially those having a European dimension.

Members of the club are:

- Istituto Mobiliare Italiano (I)
- Crédit National (F)
- Kreditanstalt für Wiederaufbau (D)
- Société Nationale de Crédit à l'Industrie (B)
- Banco de Crédito Industrial (E)
- Investors in Industry Group plc (GB)
- Nationale Investeringsbank (NL)
- Banco de Fomento Nacional (P)
- Finansieringsinstituttet for Industri og Haandværk (DK)
- Hellenic Industrial Development Bank (GR)
- Industrial Credit Corporation plc (IRL)

— Société Nationale de Crédit et d'Investissement (L)

The European Financial Engineering Company is very much in line with the aims of the Club: its function will be to support ventures, preferably transnational ventures, promoted by small and medium-sized enterprises (SMEs) in EEC Member Countries. By addressing the needs of SMEs in the industrial and service sectors, preferably but not exclusively SMEs promoting projects involving advanced or innovative technology, the new Company will be aiming to stimulate the creation of an integrated European market in which SMEs can develop their potential beyond the constraints of their national markets and thus compete more successfully on world markets.

The purpose of the Company will be to engage in all forms of financial engineering, and specifically to offer consultancy services, study financing plans and thus contribute to the solution of problems faced by SMEs. It will also give assistance to SMEs in the gathering of the information and establishment of transnational contacts they need to launch and pursue new ventures.

The Company would be floated with 3 million ECUs capital, subscribed by the Club institutions backing it.

The Commission of the European Communities and the European Investment Bank have both indicated their readiness to help in setting up the Company and building up its operations.

The Company will work on decentralised lines, with a slim administrative structure and small staff of its own. The various legal, financial, fiscal, budgetary and staff considerations involved are currently under examination, as are questions of organisation and domestic management.

ECU

Below are the ECU's values in national currencies, as at 30 September 1986; these rates are applied to the present quarter in preparing financial statements and operational statistics of the Bank:

DM	2.09059	Bfrs	43.3485
£	0.712521	Lfrs	43.3485
Ffrs	6.84577	Dkr	7.89441
Lit	1 445.29	Dr	139.098
FI	2.36189	IR£	0.762944
Ptas	137.554	Esc	151.35
		US\$	1.02959

The EIB Prize "Investment and Financing"

The European Investment Bank invites entries for its 1987 EIB Prize which will be awarded next June.

Established on the occasion of its 25th Anniversary in 1983, the EIB Prize is awarded every two years for a doctoral dissertation on the topic of investment and finance. It consists of 10 000 ECUs and a diploma signed by the Chairman of the Prize Jury and the President of the Bank. An international jury of experts has been appointed, consisting of:

Beniamino Andreatta
Professor of Economics, University of Bologna

Arnold Heertje
Professor of Economics, University of Amsterdam

Jacques Lesourne
Professor of Economics, Conservatoire National des Arts et Métiers, Paris

Michael MacCormac
Professor of Business Administration, University College Dublin

Lord Roll of Ipsden
Chairman, S.G. Warburg & Co. Ltd., London

Wolfgang Stützel
Professor of Economics, University of the Saar, Saarbrücken.

Lord Roll has been elected Chairman of the jury.

To qualify, theses must have been accepted as doctoral dissertations by a university or equivalent institution in a Member Country of the European Community between January 1983 and 1 February 1987. Candidates must have the nationality of one of the Member Countries and be under 40 years of age on the date the thesis is sent to the EIB as an entry for the Prize. The closing date for submission of suitable theses is 1 February 1987.

The first EIB Prize was presented in 1985. It was awarded to Ms Giovanna Nicodano for her thesis "Struttura finanziaria, costo del capitale e decisioni d'investimento", for which she obtained her doctorate at the Università Commerciale Luigi Bocconi in Milan 1983.

Rules for the EIB Prize

Art. 1. The EIB Prize was instituted by the European Investment Bank on the occasion of its 25th Anniversary in 1983.

Art. 2. The EIB Prize was instituted to promote in the academic institutions of the European Community Member States the study of investment and financing in all its various aspects.

Art. 3. The EIB Prize shall be awarded for a thesis on the topic of investment and financing in their broadest sense.

Art. 4. To qualify as an entry for the EIB Prize, each thesis will have to have been successfully presented as a doctorate dissertation to a university or equivalent academic institution in a Member State of the European Community.

Art. 5. The EIB Prize may be awarded to any person having the nationality of one of the Member States of the European Community, who is under 40 years of age on the date the thesis is sent to the EIB.

Art. 6. The Jury will accept as entries for the Prize theses by which doctorates have been obtained during the four calendar years prior to the year in which the Prize is to be awarded and up to the final date of submission in the year of award.

Art. 7. The Prize shall consist of: (a) the sum of 10 000 ECUs; (b) a diploma signed by the Chairman of the Prize Jury and the President of the European Investment Bank.

Art. 8. The Prize was awarded in 1985 and will be again in 1987. The terms for its award may be reviewed following the conferral of the Prize. The continuation of the Prize in future years will be considered after the conferral of 1987.

Art. 9. The Prize shall be announced in the Official Journal of the European Communities and in relevant economic and financial publications published in the Member States at least 3 months prior to the closing date for the submission of entries.

Art. 10. The Prize Jury shall consist of six independent learned experts of high repute, to be appointed by the Management Committee of the European Investment Bank.

Art. 11. The Prize Jury shall make known its decision to the President of the European Investment Bank, no later than 1 June of the year of the award, in the form of a summary report, stating its grounds. The Management Committee shall award the Prize on the basis of that report. The Prize Jury shall have the option of not recommending a candidate for the award. The Prize Jury's findings shall be final, and not open to appeal.

Art. 12. The name of the prizewinner will be announced and the Prize will be awarded on the day of the Annual Meeting of the EIB Board of Governors of the year in question.

Art. 13. The costs of adjudication and award shall be borne by the European Investment Bank.

Art. 14. EIB staff shall not be eligible to enter for the EIB Prize.

Art. 15. Theses may be submitted in any of the official languages of the European Community. A detailed summary in any of the official languages of the European Community must be annexed.

Art. 16. Candidates for the 1987 Prize should send two copies of their entries by registered mail to the EIB, 100 Boulevard Konrad Adenauer, L-2950, Luxembourg by 1 February 1987.