

Den Europæiske Investeringsbank
Europäische Investitionsbank
Ευρωπαϊκή Τράπεζα Επενδύσεων
European Investment Bank
Banco Europeo de Inversiones
Banque européenne d'investissement
Banca europea per gli investimenti
Europese Investeringsbank
Banco Europeu de Investimento



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EIB-Information

Annual meeting of the EIB'S Board of Governors

The European Investment Bank's Board of Governors at their annual meeting, on 13 June in Luxembourg, approved the Bank's 1987 annual report and balance sheet. The Member States are represented by a Minister, usually the Finance Minister, on the Board of Governors. (1)

In his capacity as chairman of the Board of Directors, EIB President Ernst-Günther Bröder, presented the annual report to the Governors. Mr Bröder's address, that includes a summary of the EIB's activities during the year, is reproduced below. Approving the annual report, the Governors congratulated the Board of Directors and the Management Committee for their conduct of Bank affairs in 1987.

The six-year term of the EIB's Management Committee having come to an end, the Governors, on a proposal from the Board of Directors, reappointed, Ernst-Günther Bröder, President, and C. Richard Ross, Lucio Izzo, Alain Prate, and Miguel A. Arnedo Orbañanos as Vice-Presidents. They appointed a new Vice-President, Mr Erling Jørgensen, Permanent Secretary, Budget Department, Danish Ministry of Finance, who was a Director of the bank (since 1986). On 29 June, 1988, a further new Vice-President was appointed, Mr Ludovicus Meulemans, until then also a member of Bank's Board of Directors (since 1976) (see centre page insert).

The Governors also appointed the new Board of Directors whose five-year period of office had come to an end (for details see centre page insert), and a new member to the

EIB's Audit Committee, Mr Constantinos Thanopoulos, Manager, Bank of Greece. Chairmanship of this Committee rotates for one year to Mr Albert Hansen, Secrétaire Général du Conseil du Gouvernement, Luxembourg. Third member is Mr João Pinto Ribeiro, Juiz Conselheiro, Tribunal de Contas, Lisbon.

Reviewing the Bank's activities in its 30th year of existence, the Governors welcomed the contribution the Bank had made to the Community's development. They commended the position the EIB holds on financial markets and its efforts to support new priorities facing the European Community.

The Board expressed satisfaction at the Bank's participation in implementing the Single European Act and in responding to the challenges of '1992' through its support of major infrastructure projects, development of advanced technology and environmental protection. They recognised the Bank's combination of pragmatism and professionalism, and noted that its cost-effective, market-oriented approach had been reinforced by changes in its internal structure and personnel policies, geared to increasing staff productivity.

In brief . . .

When approving the EIB's 1987 Annual Report, the **annual meeting of the Board of Governors** reviewed the Bank's thirtieth year of activity (see pp. 1 to 5). Since its inception in 1958, the EIB has consistently stepped up its volume of operations and now ranks second, behind the World Bank, among major institutional lenders. More importantly, the Bank has managed to acquire its present position against a constantly changing economic backdrop, while both concentrating on its basic task of serving the interests of the European Community and demonstrating considerable versatility and professionalism. Safeguarding and consolidating the Bank's AAA credit rating requires a cautious and circumspect approach; at the same time, the market — whose constraints affect both EIB lending and borrowing activity — calls for flexibility and innovation.

This ability to adjust, underpinned by the Bank's extremely sound financial base, will enable the EIB to contribute actively towards **attainment of the objectives enshrined in the Single Act**, particularly the single market and greater Community-wide economic and social cohesion (see pp. 5 to 8).

During the 1988 Annual Meeting, the Governors also appointed **members of the Board of Directors and the Management Committee** (see centre page insert).

(1) The annual meeting was chaired by the Governor for Denmark Palle Simonsen, Minister of Finance, in the absence of the chairman, the Governor for Germany Gerhard Stoltenberg, Minister of Finance. Chairmanship of the Board of Governors, which rotates annually according to the alphabetical order of Member States, is taken over by the Governor for Greece Panayotis Roumeliotis, Minister for National Economy, as from 14 June, 1988, until the end of the day of the annual meeting in 1989.

The Governors expected the EIB to continue to strengthen the social and economic cohesion of the Community through support for investment in regional development. In this context the Governors re-emphasised that close co-ordination was needed between the Community's structural funds and the EIB to ensure the most efficient use of combined resources. They underlined that in striving to develop the less-favoured regions, grant finance should be used in such a way that it generates supplementary investment and ensures the maximum qualitative and quantitative impact of Community resources.

The address of President Bröder to the Board of Governors follows:

Mr Chairman,
Gentlemen,

In 1987, the Bank's lending for the finance of investment totalled 7.8 billion ECUs, a rise of nearly 4 per cent on the 7.5 billion lent in 1986. This was accomplished against a background of moderate economic growth in the Community as a whole.

Lending in the Community amounted to 7.45 billion ECUs, up some 5.5 per cent on 1986's figure of 7.1 billion. The bulk of the funds, 7 billion, were drawn from the Bank's own resources, with the remaining 450 million coming from the resources of the New Community Instrument (NCI). This expansion in lending from own resources squares with the forecast increase mapped out for 1987 in real terms at the time of the last capital increase.

For the second year running, the Bank has been able to advance loans in all the Member States. Italy continues to be the largest beneficiary with nearly 42 per cent of the total, followed by the United Kingdom (15%), France (13.5%) and Spain (9.5%).

During the course of last year, EIB funding for investment promoting **regional development** came to more than 4.3 billion ECUs (compared with 3.7 billion in 1986). Virtually all of this came from own resources and more than two thirds of it was channelled to investment in countries and regions commanding the highest priority under Community

regional policy, namely Portugal, Greece, Ireland, Northern Ireland, the Mezzogiorno and certain parts of Spain. The Bank also boosted its support for capital investment in areas with traditional industries in decline, or which were hampered by structural problems, especially in France and the United Kingdom.

Lending designed to sharpen the competitiveness of European industry ran to 1.3 billion ECUs, of which 500 million went into advanced technology projects. In furtherance of your Decision in February 1987 that the Bank should lend 750 million ECUs on the same terms and conditions as NCI IV, the Bank has been able to step up its backing for productive investment by small and medium-sized enterprises located outside assisted areas. Aggregate lending in this category amounted to about 540 million in all. In addition, loans amounting to 250 million ECUs were directed largely to investment requiring cooperation between firms from different countries. These various loans to industry came on top of those granted in the industrial sector under the heading of regional development.

Altogether, financing in the Community for investment in **industry, services and agriculture** ran to 2.6 billion ECUs, about 35 per cent of total lending in the Member States. Of this overall amount, 1.6 billion was deployed via global loans concluded with an ever-widening range of intermediary institutions and targeted towards small and medium-scale ventures. The EIB's appraisal and monitoring criteria exert a positive influence on the harmonisation of investment planning in its areas of activity.

Loans totalling 2.3 billion ECUs were devoted to investment which furthered **the Community's energy policy objectives**. Of this some 900 million went in support of schemes aimed at making more efficient use of energy. The other 1.4 billion was split roughly evenly between investment in diversifying imports and in developing indigenous energy resources. In addition, under its mandate from Euratom the Bank signed finance contracts representing 210 million ECUs jointly with the Commission.

In 1987, finance for investment helping to **protect the environment** amounted to 1.6 billion ECUs,

more than 20 per cent of total lending in the Community. These loans centred chiefly on waste water treatment schemes or improvements to the quality of drinking water and on the installation of equipment designed to reduce atmospheric pollution from industrial sources, including coal-fired power stations.

Investment for improvements to Europe's **transport and telecommunications** networks attracted 700 million ECUs. The type of infrastructure financed included roads, rail links and port installations as well as facilities underpinning the development of air transport.

In 1987, the total cost of investment receiving EIB support in the Community adds up to around 19 billion ECUs, a figure equivalent to approximately 3 per cent of the Community's gross fixed capital formation. In the less prosperous countries and regions, where much of the financing was concentrated, the contribution of projects supported by the Bank, compared with total investment, was considerably greater, ranging from 5.3 per cent in Greece to 14 per cent in the Mezzogiorno.

Last year, loans from the Bank's own resources accounted for more than four fifths of total Community lending for structural purposes.

Financing **outside the Community**, under development cooperation policy, amounted to around 400 million ECUs, of which 189 million came from the EIB's own resources and 203 million from budgetary resources managed by the Bank on behalf of the Community. The Bank's operations in the ACP States last year were mounted largely under the Third Lomé Convention. Nearly 350 million ECUs, a record annual figure, was advanced in support of investment schemes in 35 countries and territories, chiefly in Africa.

In the Mediterranean countries, the Bank made use of the amounts still remaining under the financial protocols in force, mounting operations worth 43 million ECUs.

To finance its lending activities from own resources, the **Bank's borrowings on capital markets** totalled 5.6 billion ECUs, which was less than the 6.8 billion raised in 1986. The downturn occurred despite a rise in loan signatures. It hap-

pened largely because signatures were more-than-usually concentrated in the last few weeks of the year, and because there was an increasing amount of global and open-rate loans which have long disbursement periods. The bulk of the funds was raised through public issues and private placings. Inter-bank operations and issues of medium-term notes on the US market were arranged to cover a large part of early redemptions on borrowings concluded previously.

Community currencies, principally the DM, ECU and lira, accounted for more than 70 per cent of funds tapped, compared with slightly less than 60 per cent in 1986.

At 31 December 1987, the balance sheet total stood at 42.9 billion ECUs, compared with 40.7 billion a year earlier.

In the first five months of 1988 overall Bank activity has proceeded in line with the projections submitted to the Board of Directors last December and a satisfactory growth in lending operations can be expected for the year as a whole.

* * *

Standing back from the events of the past year, this is an appropriate moment to review some features of the Bank's development and policy in a longer term perspective.

The eighties has been a period of considerable change for the Bank. This is not just a matter of increased lending, although between 1980 and 1987 lending in the Community increased at an average annual rate of some 14 per cent, albeit with a good deal of variation from year to year. The increased activity was associated with an increase in the importance of the Bank's role as a Community institution and a diversification of its role as a market participant.

Loans for regional development continued to account for most of the Bank's lending in the Community throughout the decade. Lending in support of the Community's energy objectives rose sharply in the early part of the period, and when it began to taper off with the completion of some major projects and the fall in the oil price, the growth sectors became loans to small and medium-scale enterprises and loans in favour of advanced technology and the environment. Much of this

was to finance investment which will strengthen the competitiveness of Community industry and it was largely financed through global loans, which have risen to about a quarter of the Bank's total lending in recent years. The accession of Spain and Portugal on 1 January 1986 gave the Bank's activity a fresh impetus which is far from having run its course. To ensure that the pattern of the Bank's lending continues to evolve in line with the changing requirements of the Community and of Community policy, the Bank's eligibility rules are kept under constant review.

Moreover, one should not underestimate the harmonising influence exerted by the Bank on the shaping of projects in different Member Countries or its efforts in favour of more standardised procurement procedures.

Lending formulae are also kept under review and here too there have been changes in recent years as the Bank has adapted to changing circumstances. Variable rate loans were introduced in 1984 following a decision of the Board of Governors, and there has been a considerable take-up of such loans since that time. The Bank's agreement in 1987 to lend up to 750m ECUs from its own resources on the same basis as NCI IV also opened up new lending formulae. Moreover, special ad hoc lending arrangements have been made for individual projects from time to time, a prominent example being the Eurotunnel project last year where traditional guarantees from co-financing banks will be replaced by a charge on assets and revenues once the tunnel is in service.

The subject of guarantees is an important one for us as for any financial institution. The Bank's Statute sets legal criteria for the kinds of guarantee which the Bank can accept for its loans. But following the Statute is not enough to ensure that the Bank does not make losses on its loan portfolio and economic and financial soundness can be a better safeguard than some of the kinds of guarantee which are acceptable under the Statute. In addition to formal legal guarantees the Bank now takes increasing account of economic and financial criteria in appraising projects and deciding on loans. In cases where the Bank is fully satisfied on the

economic and financial soundness of investment, it will continue to make maximum use of such discretion as is given by the Statute in respect of formal guarantees. This seems to be the best course to follow, since various ideas, such as the creation of a guarantee fund, the establishment of subsidiaries and other arrangements, are still being discussed. Meanwhile if we come up against certain limits, we ought to consider appropriate amendments to the Statute — possibly on the occasion of a further capital increase.

On the borrowing side, the Bank's triple A status has been of increasing benefit in obtaining funds on the best conditions as fewer and fewer other borrowers were triple A; and borrowing terms and conditions have been varied to take advantage of changing market conditions and meet customers' requirements as closely as possible. New features of the Bank's borrowing recently have included deferred interest rate agreements in the sterling, French franc and dollar markets, an issuing programme of medium term notes in dollars, and the issue of floating rate notes in Euro lire and short term notes denominated in ECU. Indeed, in keeping with the Bank's status as a Community Institution, increasing use has been made of the ECU which has risen from zero in 1980 to 14 per cent of the Bank's borrowings in 1987. Last year the ECU was second only to the DM in the Bank's borrowings.

In sum, the Bank has kept in line with the changing emphasis of Community policy in its borrowing and lending operations and it has adapted to changing conditions in individual markets with flexibility and good sense.

The strength of the Bank's financial position, as represented by the high reserves and consistent operating surpluses, underpins its triple A status and this in turn provides substantial advantages for the Bank's borrowing and lending policies. At the same time, these policies, in particular its policy in respect of its lending rates, constantly reinforce its financial position. Let me explain this virtuous circle.

As a matter of policy, the Bank's lending rates always reflect its borrowing costs as closely as possible, plus a small margin to cover admin-

istrative expenses. In other words the Bank always charges market rates. To charge any less would certainly lead to accusations that the Bank was violating the principle of subsidiarity. The Bank lends its non-borrowed funds of accumulated reserves and paid-in capital at the same rates as its other funds. The largest part of its operating surplus then represents the opportunity costs of these non-borrowed funds.

The operating surpluses are reinvested for the benefit of the Community. With sound management they naturally tend upwards over time, although with variations from year to year as interest rates rise and fall. These surpluses, and the policies which underlie them, together with the accumulated financial strength of the Bank, underpin its growth, and ensure the maintenance of its triple A solidity even at times such as the recent past when there has been considerable turbulence in capital markets and foreign exchange markets. The strength of its balance sheet is then a major advantage to the Bank and to the Community.

* * *

Looking forward towards the 1990s, there will be many developments in the Community to which the Bank will want to contribute. I shall mention two, namely the new emphasis on economic and social cohesion which is central to the reform of the Community's structural funds, and the fresh impetus which is being given to the completion of the internal market. Both of these follow from the passage of the Single European Act last year and, taken together, they will have a major effect on the nature and direction of the Bank's activity in the years ahead.

The Bank sees its loans as having an important role in complementing grants from the structural funds to foster economic growth in areas of the Community where development is lagging. The relationship of grants and loans has to be a complementary one. It would make no sense if the doubling of the structural funds between now and 1993 were to result in a substitution of grants for loans, for, if that happened, the recipient countries would find that many of the benefits they were expecting from real resource transfers at the macro level were in practice frittered away

by lax management at the micro level. That is why the Bank is insistent that, in general, grant finance for investment should vary inversely with the revenue which the investment is expected to yield.

If this is done, in other words if loan and grant finance are combined intelligently by a mechanism which also encourages appropriate local decisions by public and private bodies, one can be assured that one form of financing will not displace the other but that, on the contrary, each will yield optimum benefits both quantitatively and qualitatively. This means that the Community's potential for redressing disparities in economic conditions within the Community is very great. The outcome of the negotiations which are currently taking place on these matters will be of great importance for the EIB, as well as for the Community as a whole, into the 1990s, and beyond. In line with its objectives and structure, the EIB can and should undertake tasks which the other Community institutions are unable to accept.

The development of the internal market presents a major challenge to the Bank both on the borrowing side and on the lending side of its activity.

On the borrowing side, the liberalisation of capital markets should make it somewhat easier for the Bank to operate in the markets which have been most tightly regulated in the past; and the Bank is willing to play its full part in the development of these markets. At the same time liberalisation must mean keener competition for funds. The Bank will have to adapt to these conditions while taking care to keep its triple A standing beyond question. In preparation for this and as a modest step towards more flexible operations and a tighter management of risk, the Bank is updating its methods of asset and liability management.

On the lending side, the Bank will have to ensure that there is a prominent place in its operations for the finance of investment contributing to European integration and the competitiveness of European industry. These are not new priorities for the Bank but the momentum which increasingly characterises the development of the internal market gives them fresh urgency. The Bank will respond to this challenge.

Although it is not the Bank's task to draw up a strategy for European industrial development, it must be in a position to respond readily to the exigencies of the markets.

The response will involve many areas. One which perhaps deserves a special mention is that of big infrastructure projects. Such projects have a major contribution to make to European integration and the Bank will aim to play its part in helping to finance them. The Bank will look at each such case on its merits and consider in a pragmatic way the terms and conditions and guarantee arrangements which might be appropriate and consistent with the Statute and the guidelines given by this Board.

Mr Chairman, what I have said today about past and future developments will have made clear to you that I see the Bank as an institution which is evolving gradually and pragmatically within its statutory framework, in line with the development of Community policy and with the irregular ebbs and flows which occur in the market place. Evolution has been a feature of the Bank's internal organisation as well as of its external behaviour and I would like to end with some comments on the ways in which the organisation of the Bank is being prepared for the 1990s.

During the past two years nearly all of the Bank's directorates have been restructured to increase their efficiency. Thanks to the limited early retirement scheme which was approved in 1986, it has been possible to make rapid progress with the recruitment and integration of staff from the new member countries with a minimal increase in authorised posts and to introduce new blood in senior positions.

I mentioned a year ago that we were in the process of revising the structure of our remuneration system to make it more performance-oriented. I am happy to report to you now that this reform has been completed and that the new system was put into effect at the beginning of the year. This will enable us to attract and retain staff of the calibre necessary to cope with changing tasks, as regards both the Bank's objectives and the banking environment in which we operate.

To remain efficient, we have continued our tight budgetary policy. In 1987 total administrative expendi-

EIB Management Committee

The EIB's Management Committee consists of the President and six Vice-Presidents who are appointed by the Board of Governors for renewable six year terms of office on proposal from the Board of Directors.

At its annual meeting on 13 June 1988 the Governors reappointed Ernst-Günther BRÖDER, President, C. Richard ROSS, Lucio IZZO, Alain PRATE, and Miguel A. Arnedo ORBAÑANOS as Vice-Presidents. They also appointed Mr Erling JØRGENSEN as a new Vice-President. On 29 June 1988 Mr Ludovicus MEULEMANS was appointed as sixth Vice-President.

The new Vice-Presidents succeed Messrs Arie PAIS and Noel WHELAN upon whom the titles of Honorary Vice-Presidents were conferred, in appreciation of services rendered to the Bank.

The Management Committee is the Bank's full-time executive body, responsible for day-to-day business, recommending policy changes and financing decisions to the Board of Directors and then carrying responsibility for their implementation. The President, or in his absence one of the Vice-Presidents, presides over meetings of the Board of Directors.



Ernst-Günther BRÖDER — President since August 1984

German, born 1927. Previous career : Corporate Staff, Bayer AG 1956-1961 ; Projects Department, World Bank 61-64 ; Kreditanstalt für Wiederaufbau 64-84, as Head of Department 67-68, Deputy Manager 68-69, Manager 69-75, Member of Board of Management 75-84, Board of Management Spokesman 80-84. He has been a Director of the EIB 80-84, and Member, inter alia, of the Supervisory Board, Deutsche Finanzierungsgesellschaft für Beteiligungen in Entwicklungsländern GmbH (DEG) ; Panel of Conciliators, International Centre for Settlement of Investment Disputes ; Special Advisory Group, Asian Development Bank.



C. Richard ROSS — Vice-President since July 1978

British, born 1924 : Fellow, Hertford College, Oxford and University Lecturer in Economics 51 ; Economic Adviser to H.M. Treasury 52-55 ; taught at Oxford 55-63 (Bursar of Hertford College from 1959) ; Dean, School of Social Studies and Professor of Economics, University of East Anglia 63-68 ; Member, East Anglia Regional Economic Planning Council 66-69 (Deputy Chairman 67-69) ; Special Consultant to OECD 68-71 ; Deputy Secretary, Central Policy Review Staff ("Think Tank"), UK Government Cabinet Office 71-78.



Lucio IZZO — Vice-President since June 1982

Italian, born 1932 ; Economic Research Department, Bank of Italy 58-60, 62-63 ; Rockefeller Fellow, Department of Economics, Massachusetts Institute of Technology 60-62 ; Assistant Professor of Economics, University of Rome 63-66 ; Associate Professor then Professor of Economics, University of Siena 66-74, subsequently Professor of Economics at the University of Rome ; also Visiting Professor of Economics, London School of Economics 71-72. Participated in International Economic Association Round Tables 69, 75. Economic Adviser to the Minister of the Budget, Rome, 74-78 ; Economic Adviser to the Minister of the Treasury, 80-82. Italian Representative, OECD Working Party 3, Economic Policy Committee 76-81.



Alain PRATE — Vice-President since August 1984

French, born 1928, Inspecteur général des finances ; Secretary to the EEC Monetary Committee 58-61 ; Director, Economic Structure, Commission of the European Communities, then Director-General for Internal Market, 61-67 ; Technical Counsellor for economic and financial questions to the President of France 67-69 ; Head of service, Inspection générale des finances and Rapporteur-général, Committee for the Economy and the Financing of the VI Plan 69-71 ; Director-General for customs and indirect duties 71-75 ; Managing Director, Crédit National, and President of Sofinnova (Society for Financing Innovation) 75-79 ; Deputy Governor of the Bank of France 79-84, First Deputy Governor 80-84. He was a Director of the EIB, 62-66.



Miguel Angel ARNEDO ORBAÑANOS — Vice-President since February 1986

Spanish, born 1944, degrees in law and economics, joined the Banco de España in 69 as economist in its Research Department, specialising in international economic affairs from 73, became Deputy Director for Monetary and Statistical Research in 81, and Deputy Director for Foreign Operations in 84. From 81 to 86 he was a member of the "Committee on Capital Movements and Invisible Transactions" of the OECD.



Erling JØRGENSEN, Vice-President from 14 June 1988

Danish, born 1931 ; Principal Assistant in the Statistical Department of the Ministry of Economics 56-63 ; Head of Research at the Institute of Applied Social Research 63-69 ; Head of Section and subsequently Head of Department at the Central Statistical Office 69-75 ; Permanent Secretary, Ministry of Finance from 75-88 ; President of the Board of Directors of Kongeriget Danmarks Hypotekbank og Finansforvaltning from 75-88 ; teacher and then examiner in macroeconomics at University of Copenhagen from 57-88 ; Director of School of Public Administration Studies 83-86 ; Member of Board of Directors of Dansk Olie og Naturgas A/S from 83-88 ; Member of OECD's Economic Policy Committee from 75-88 ; Member of the Board of Directors of the European Investment Bank from 86-88.



Ludovicus MEULEMANS — Vice-President from 29 June 1988

Belgian, born in 1924. Joined the Ministry of Finance in 1948 ; at the Treasury, Department for Financial and Monetary Relations with other countries, in turn Advisor 62-71, Principal Advisor 71-75, Inspector General 75-85, Director-General of the Treasury 86-88 ; Alternate Governor of the Inter-American Development Bank 76-88, of the African Development Fund 74-88 and the African Development Bank 83-88 ; member of the EEC's Monetary Committee 66-76 and 88 ; member of the EIB's Board of Directors 76-88 ; Government Commissioner to the Belgo-Luxembourg Exchange Institute 69-88 and the Institut de Réescompte et de Garantie 88, Minister of Finance representative on the Board of Directors of the Office National du Ducroire 65-88, Créditexport 76-88 and Société belge d'investissement international 76-88.

Appointment of the Board of Directors

The EIB's Board of Directors was appointed for a further statutory five-year term by the Board of Governors at its annual meeting on 13 June 1988. The Board of Directors consists of 22 Directors (21 nominated by Member States and 1 nominated by the Commission of the European Communities) and 12 Alternates (11 nominated by the Member States and 1 by the Commission). The Directors' term of office is renewable.

The Board assures that the Bank is managed according to the provisions of the Treaty of Rome, the Bank's Statute and general directives from the Board of Governors. The Directors are responsible for deciding on loans and guarantees, the raising of funds and setting interest rates, acting on proposals from the Management Committee. The Directors propose appointments to the Management Committee and submit the EIB's annual report to the Board of Governors.

New members appointed to the Board of Directors are :

Directors

Michael J. SOMERS Secretary, National Debt Management, Department of Finance, Dublin
Lars TYBJERG Assistant Permanent Secretary, Budget Department, Ministry of Finance, Copenhagen

Alternates

R.I.G. ALLEN Under Secretary, Head of EC Group, (Overseas Finance), H.M. Treasury, London
L. Fernanda FORCIGNANO Dirigente Generale del Tesoro, Ministry of the Treasury, Rome
M.J.L. JONKHART President-Directeur, De Nationale Investeringsbank NV, The Hague
Christian NOYER Sous-Directeur des Affaires Multilatérales à la Direction du Trésor, Service des Affaires Internationales, Ministry for Economic, Financial and Budgetary Affairs, Paris
Maurice O'CONNELL Assistant Secretary, Department of Finance, Dublin

Members of the Board who have been reappointed are :

Directors

Luigi ARCUTI Presidente dell'Istituto Mobiliare Italiano, Rome
Bruno BIANCHI Condirettore Centrale, Banca d'Italia, Rome
Richard BRANTNER Sprecher des Vorstands der Kreditanstalt für Wiederaufbau, Frankfurt
Corneille BRÜCK Président-Directeur de la Caisse d'Épargne de l'État, Luxembourg
Antonio Maria COSTA Director-General for Economic and Financial Affairs, Commission of the European Communities, Brussels
Jos DE VRIES Plaatsvervangend Directeur, Directie Buitenlandse Financiële Betrekkingen, Ministry of Finance, The Hague
Timothy Patrick LANKESTER Deputy Secretary (Overseas Finance), H.M. Treasury, London
Elizabeth LLEWELLYN-SMITH Deputy Secretary, Department of Trade and Industry, London
Pedro MARTÍNEZ MÉNDEZ Director General del Tesoro y Política Financiera, Ministry for Economic and Financial Affairs, Madrid
Paul MENTRÉ Président-Directeur Général du Crédit Nationale, Paris
Ludovicus MEULEMANS Directeur Generaal van de Administratie der Thesaurie, Ministry of Finance, Brussels
Rudolf MORAWITZ Ministerialdirigent, Federal Ministry of Economic Affairs, Bonn
Luis Antonio GOMES MORENO Director-Geral do Tesouro, Ministry of Finance, Lisbon
Waldemar MÜLLER-ENDERS Ministerialdirektor, Federal Ministry of Finance, Bonn
Miguel MUÑIZ DE LAS CUEVAS Presidente del Instituto de Crédito Oficial, Madrid
Alexander J.O. RITCHIE Chairman, The Union Discount Company of London plc
Yves ROLAND-BILLECART Directeur Général de la Caisse Centrale de Coopération Économique, Paris
Denis SAMUEL-LAJEUNESSE Chef du Service des Affaires Internationales, Direction du Trésor, Ministry for Economic, Financial and Budgetary Affairs, Paris
Mario SARCINELLI Direttore Generale del Tesoro, Ministry of the Treasury, Rome
Dimitrios ZACHARIADIS-SOURAS Adviser to the Minister for National Economy, Ministry for National Economy, Athens.

Alternates

Kaj BARLEBO-LARSEN Director-General for Coordination of Structural Instruments, Commission of the European Communities, Brussels
T. Alastair CLARK Head of Financial Markets and Institutions Division, Bank of England, London
Jacques DELMAS-MARSALET Directeur Général-adjoint de la Caisse des Dépôts et Consignations, Paris
Winfried HECK Ministerialdirigent, Federal Ministry of Finance, Bonn
Horst MOLTRECHT Ministerialdirektor i.e.R., Federal Ministry for Economic Cooperation, Bonn
Miguel MORA HIDALGO Vocal Asesor de la Dirección General del Tesoro y Política Financiera, Ministry for Economic and Financial Affairs, Madrid
Paolo RANUZZI DE BIANCHI Direttore Generale del Debito Pubblico, Ministry of the Treasury, Rome.

New Appointment

Mr Meulemans having joined the Management Committee, his successor on the Board of Directors will be appointed shortly.

ture rose by only 3 per cent. Last year the number of posts increased by only 1 per cent; and the 1988 budget restricts this year's increase to 1 per cent as well. This indicates a considerable increase in productivity since our staff numbers have increased less rapidly than our borrowing and lending activity at a time when this activity itself was becoming more complex.

We are keeping the Bank's organisation continuously under review to

ensure that staff resources are applied to the changing priorities which you, the member countries of the Community, set for the Bank and to ensure also that modern technology is used to best advantage. Moreover our aim must still be to simplify decision-making processes, tighten working procedures further and increase flexibility in responding to new tasks.

Finally, I would like to record my thanks for the work done by the

Audit Committee. Supported by the Bank's external auditors and the strengthened internal audit service, the Committee has extended its work of reviewing the Bank's internal procedures and the implementation and results of projects. We have thus the instruments in place to monitor our efficiency.

Mr Chairman, Gentlemen, Permit me, in conclusion, to express my own gratitude and that of my colleagues for your continuing support.

The Single Act and the EIB

In July 1987 the Single Act came into force and already it is shaping the future of the European Community. Restating the objectives of the Treaty of Rome, the Single Act is an expression of the renewed political will to make progress in the building of the European Community. The act also touches on the European Investment Bank's role in the years to come.

Lending for projects which further the balanced development of the common market, the European Investment Bank is making an important contribution to the achievement of Single Act objectives. Its specific input consists of its experience in financing projects in a number of key areas and the flexibility of its financing facilities.

The internal market

Community transport infrastructure

One of the core objectives of the Single Act is the progressive establishment of an "area without internal frontiers in which the free movement of goods, persons, services and capital is ensured" in accordance with the EEC Treaty before the end of 1992.

The establishment of rapid and efficient transport links inside and between Member States is a prerequisite for the internal market's success. A considerable part of the EIB's lending activities is already effectively geared to this objective: the Bank helps to lay the foundations of the internal market by financing a broad range of investment in Community transport infrastructure.

In 1987 loans for such investment projects amounted to 655 million ECU's. Over 45% of this amount went to air transport: improvement of airport facilities in France, Italy and the United Kingdom, the acquisition of aircraft, and air traffic control centres. An important part of the remaining loans was for the construction of numerous sections of road and motorways in Spain, France, Italy, Portugal and Great Britain.

Free flow of information

An internal market also presupposes the free flow of data and information and increased investment in telecommunications facilities will help to bring this about. Being linked as it is with the upward trend in the service industries, the telecommunications sector continues to grow: partly to develop physical capacity, but also to improve network management and production of services.

In 1987, the EIB financed the laying of a submarine optical-fibre cable connecting Ireland and Great Britain and, the year before, the Bank financed the acquisition, launching and operation of a new generation of telecommunications satellites by Eutelsat, the European Telecommunications Satellite Organisation, providing for high-capacity digital

Financing the Channel Tunnel

The Bank's £ 1 billion (or FF 10 billion) contribution to the financing plan of the Channel Tunnel has demonstrated its ability to co-operate with other financial institutions in supporting schemes which are very complex in view of the financing requirements. The EIB bases its decisions to finance on its expert appraisal of the economic, technical and financial characteristics of investment projects. In the case of the Channel Tunnel, the Bank's decision has helped to underpin the scheme's credibility and to draw in additional sources of finance. Thus, co-operating in partnership with project promoters and co-financing institutions, the Bank makes available its expertise in project appraisal and financial engineering for the realisation of transport projects which further European integration. The experience gained in drawing up the financing plan for the Channel Tunnel will help in the implementation of other major European transport ventures.

transmissions between European countries.

Economic and social cohesion

Regional development

Article 130 A of the Treaty of Rome as amended by the Single Act states that to "promote its overall har-

monious development, the Community shall develop and pursue its actions leading to the strengthening of its economic and social cohesion", in particular by "reducing disparities between the various regions and the backwardness of the least-favoured regions". Article 130 B calls on the structural funds, the European Investment Bank and the other existing financial instruments of the Community to support these objectives.

In stressing the need for solidarity, the Single Act re-emphasises the importance of balanced regional development, an economic policy aim which has always been foremost among the EIB's objectives. In each year since its foundation approximately two-thirds of the Bank's lending was for investment in the less favoured regions, contributing to their economic development and often serving other policy aims (improving Community transport or serving energy objectives) at the same time. In the regions commanding the highest priority under Community regional policy, EIB finance has become significant in macroeconomic terms.

In 1987, for example, some 4.35 billion ECUs (or 62 % of the Bank's lending on own resources within the Community) helped regional development. 70 % of this amount went to the regions with the severest structural problems. Investment which the Bank helped to

finance — covering between 20 % and 50 % of costs, depending on individual projects — accounted for just over 3 % of aggregate capital investment within the Community. In the case of the least prosperous regions, however, the share of EIB financed investment was distinctly higher, ranging from 11.3 % in Portugal, 9.5 % in Ireland, 7.2 % in Italy — 14 % in the Mezzogiorno alone — to 5.3 % in Greece.

The attainment of the internal market necessitates additional investment in the less favoured regions. Previously protected areas will be opened up to competition and comparative advantage will shift. As the stronger regions are better placed and more alert to seize the opportunities of the free flow of goods and services, the need for action in the weaker regions grows. In order to attain economic growth throughout the Community, regional development remains a priority.

Loans and grants

There is a need for a wide range of investment, from investment in human capital to modern infrastructure. Basically, two kinds of Community finance are available: grants from budgetary resources and loans, for which the European Investment Bank is the main source. Their combined optimal use requires close co-ordination between the Commission of the European Communities which manages the struc-

tural funds and the EIB. The objective is to maximise the impact of the total of Community financial support by achieving the largest possible volume of economically sound investment in the areas concerned. Grant finance should not be used to replace loans, but to generate supplementary investment, thus ensuring the maximum impact of both types of finance. Reinforcing economic and social cohesion does not imply counteracting market forces but using them through the flexible and rational use of the available resources.

A competitive Community

Modern technology

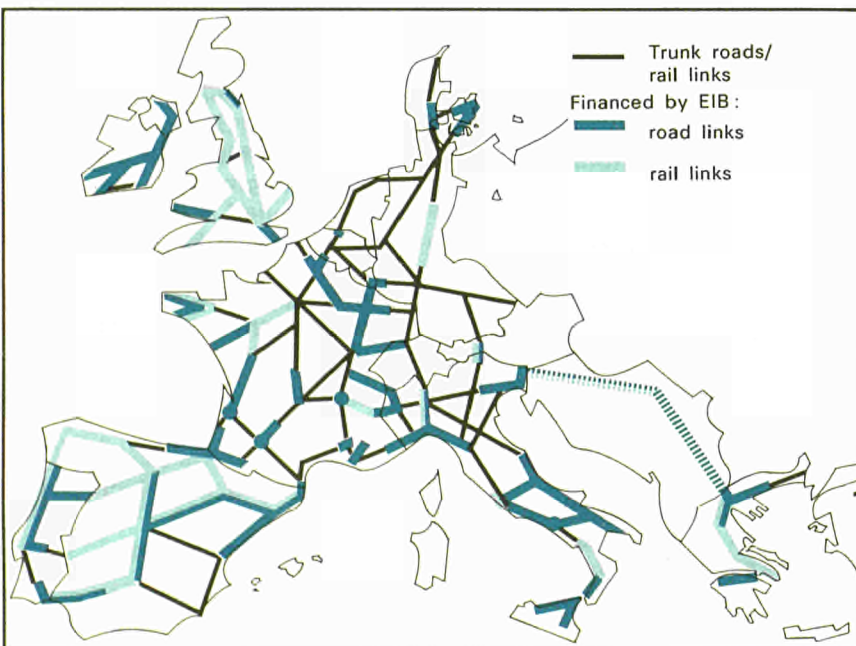
To improve the competitive strength of Europe's industry at home and abroad, the development and introduction of advanced technology ranks high among the Single Act objectives. The completion of the internal market should enhance the competitiveness of Community industry by reducing transaction costs, developing economies of scale and scope and fostering efficient specialisation. But the internal market will also offer new opportunities for foreign competitors. Therefore, research, development and innovation remain major Community priorities and, consequently, the European Investment Bank increasingly finances investment in advanced technologies.

In many respects 1984 was a landmark year for the recognition, at a Community level, of the basic importance of technological progress for growth potential through increased competitiveness. Several major programmes were launched at the time (ESPRIT, RACE, BRITE) and, at their annual meeting in June that year, the Bank's Board of Governors endorsed recommendations on Bank activity in the field of modern technology. The EIB was to focus on two broad categories: the manufacture of high-tech products, and the introduction of new advanced production processes. Particular attention should be given to projects involving industrial co-operation between firms in different Member States.

Across the whole range of the technological frontier

The EIB has financed a wide range of high-tech projects since. It has

Outline map of major road and rail links highlighting main EIB contributions



provided loans for robotisation, factory automation and Computer Aided Design and Manufacturing (CAD/CAM) and it has financed the development of the megachip and user specific integrated circuits. EIB loans have helped the implementation of biomedical and biotechnical investment projects and investment in advanced telecommunications systems. The launching and operation of a new generation of communication satellites and jet engineering have also received EIB finance. In 1986-1987 the EIB's lending for advanced technology totalled over 1 billion ECUs.

Indirectly, Community competitiveness also concerns the more efficient use of its complementary imports, particularly in the energy sector, which accounted for a quarter of the Bank's financing within the Community in 1987. The energy policy objectives at the basis of the Bank's lending activity are threefold: development of own resources (nuclear, oil and gas, hydro), diversification of imports away from oil (natural gas and coal infrastructure), and rational use of energy, mainly energy saving in industry. By financing these projects, the competitive position of the Community as a whole is strengthened by the increased security of supply and by lower energy costs.

Environmental protection

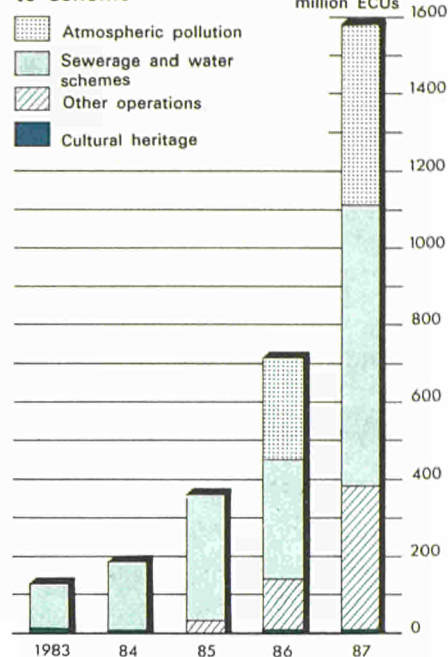
The Single Act formulates Community environmental policy. Rooted in the principle that environmental protection is to be an integral part of the Community's other policies, the aims of actions relating to the environment are "to preserve, protect and improve the quality of the environment; to contribute towards protecting human health; to ensure a prudent and rational utilisation of natural resources".

Concern for the conservation of natural resources and environmental protection has long been a characteristic of the EIB's lending activities. The detailed appraisal of all projects submitted to the Bank for financing always takes in the environmental consequences of the proposed investment. On an increasing scale the EIB finances projects specifically because they contribute to environmental protection.

The EIB's Board of Governors confirmed this approach at their annual meeting in 1984. To maximise the Bank's contribution to environmental protection it endorsed guidelines widening the scope for EIB support. The guidelines stressed that, while always insisting that national, international and Community regulations are applied strictly, the EIB should aim to get the investor to go beyond existing regulations and adopt the least polluting design. To give an incentive for investment in such anti-pollution measures, the EIB offers to increase the amount of its finance. While the Bank, as a rule, lends up to 50% of fixed investment costs, it is willing to provide additional finance of up to 10% of total project cost for incorporating anti-pollution equipment offering greater protection than that required under existing legal regulations.

EIB lending for environmental purposes has increased significantly in recent years. Loans for environmental protection reached over 700 million ECUs in 1986 and more than doubled to 1580 million in 1987. These figures only relate to projects where environmental considerations have played a determining role in the decision to finance. Including projects for which environmental considerations were important but secondary in the decision to finance, as is the case for investment in geo-thermal and hydroelectric power plants, district heating, bypasses to facilitate traffic flows, and noise reduction at airports, the total lending figure for projects benefitting the environment is significantly higher.

Loans for environmental protection
Development of lending according to scheme



Operating in a changing environment

The effective implementation of the Single Act objectives implies a very substantial commitment of financial resources. The eventual doubling of the finance available from the structural funds has already been decided. On its side, the European Investment Bank can be flexible in the volume of its lending. Given the AAA standing of the Bank on world capital markets, the amounts it can lend are limited only by the overall ceiling set by capital subscription. As the capital was effectively doubled as of January 1986 (giving a ceiling of 72 billion ECUs for total loans outstanding), there is room

The World Bank and the European Investment Bank join forces

The World Bank and the European Investment Bank are working together to combat environmental pollution in the Mediterranean. In a joint evaluation study of environmental problems they are reviewing the investment needs and priorities in water supply and effluent treatment, industry and energy, agriculture and land-use, and shipping pollution. In addition, the study identifies financial and administrative constraints, provides cost estimates and makes recommendations on sources of international finance for a comprehensive regional environmental protection programme. The outcome will help to finetune the Bank's operations in France, Greece, Italy, and Spain as well as in the twelve non-Community countries bordering on the Mediterranean in which the EIB finances investment projects in the context of co-operation agreements concluded between the countries concerned and the European Community.

for further expansion. The Bank can also be flexible in the financial characteristics of its loans: currencies, loan formats and maturities, guarantee arrangements and other features have evolved over time and lending conditions are adapted to changing investor requirements.

The progressive realisation of the internal market will also change the environment in which the Bank operates. Financial and monetary integration is another Single Act objective and one to which the EIB indi-

rectly contributes as the world's biggest borrower and lender in ECUs. However, a single financial market will also entail increased competition among financing institutions. In such a situation the specific characteristics of the EIB as a bank and a Community institution will stand out. Its partnership and flexibility, coupled with the professionalism of its staff in project selection, appraisal and monitoring, ensure that the EIB will continue to play its role in the construction of Europe, now and after 1992.

European University Institute : The EIB awards three scholarships

The European Investment Bank's 'Campilli and Formentini' scholarships for the academic year 1988/1989 have been awarded to Luigi Brighi, Luigi Bosco and Friedrich Schneider. These scholarships, which are named after Pietro Campilli, the EIB's first President (1958-1959) and Paride Formentini, the Bank's second President (1959-1970), have been granted annually, since 1978, to students writing their doctoral theses at the European University Institute in Florence on economic topics relevant to the EIB's areas of operation.

Mr. Brighi's thesis will examine uncertainty and multiplicity of equilibria in dynamic macroeconomic models. A recent graduate of the University of Modena, Mr Brighi will enroll at the European University Institute as a freshman. Mr Bosco's thesis examines macroeconomic interdependence and co-ordination of economic policy, with reference to the relations between Europe and the United States. He first received an EIB scholarship for the academic year 1987/88. Mr Schneider's scholarship has also been renewed. His research focuses on the regulation of the banking sector with special emphasis on comparing the banking systems of Germany and the United States.

The scholarships, which are currently worth FB 488 000 (about 11 000 ECUs), are administered by the European University Institute and are intended to cover the students' study costs and living expenses for the year.

For further information on the European Investment Bank's 'Campilli

and Formentini' scholarships please contact the European University Institute at the following address:

Badia-Fiesolana
Via dei Roccettini 9
I-50016 San Domenico Di Fiescole (FI)
Telephone : (055) 47 79 31

1989 EIB Prize

The EIB Prize will be awarded again in 1989. Established on the occasion of its 25th anniversary in 1983, the Prize is awarded every two years for a doctoral dissertation on the topic of investment and finance. The Prize, consisting of 10 000 ECUs and a diploma signed by the Chairman of the Prize Jury and the President of the EIB, was first awarded in 1985.

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 1985 and 1 February 1989. 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 is 1 February 1989.

The rules for the 1989 EIB Prize will be published in the next issue of EIB-Information as well as in one of the September issues of the Official Journal of the European Communities. Enquiries may be addressed to Mr Cees Post at the European Investment Bank, telephone 4379-4223.

Ecu

Below are the ECU's values in national currencies, as at 30 June 1988; these rates are applied to the third quarter in preparing financial statements and operational statistics of the Bank:

DM	2.07521	FB	43.4741
£	0.667628	Flux	43.4741
FF	6.99875	DKr	7.88073
Lit	1 539.75	Dr	166.434
Hfl	2.34037	£irl.	0.772392
Ptas	138.686	Esc	169.319
		US\$	1.14098

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