

# EIB INFORMATION

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## LOANS AND GRANTS FOR REGIONAL DEVELOPMENT

The quest for balanced development of the European Community has always represented one of the most striking examples of the solidarity which underlies the building of Europe. The need to reduce regional disparities has assumed added importance since strengthening of Communitywide economic and social cohesion was advocated by the Single Act which entered into force in July 1987.

Stronger economic and social cohesion implies *not only* substantial investment *but also* effective interaction between sources of financing designed to achieve this goal. With this in mind, the Community has embarked upon the reform of this structural action which provides for doubling of the appropriations of the Structural Funds <sup>(1)</sup> for the period 1989-93, coordination of Community and national operations and greater cooperation between Community financial instruments.

Under this heading, the Single Act mentions cooperation between the European Investment Bank and the Funds in promoting the harmonious development of the Community as a whole; furthermore, the Bank has been called upon by its Governors (Member States' finance ministers) to participate in implementing this reform.

The purpose of this article is to describe the manner in which the EIB, whose activity, as a Community institution, is shaped by its specific task of fostering European integration and, as a bank, by the interplay of market forces, is playing an active part, in keeping with its own procedures, in Community endeavours to further economic and social cohesion.

<sup>(1)</sup> European Regional Development Fund (ERDF), European Social Fund and European Agricultural Guidance and Guarantee Fund - Guidance Section.

DEN EUROPÆISKE INVESTERINGSBANK  
EUROPÄISCHE INVESTITIONSBANK  
ΕΥΡΩΠΑΪΚΗ ΤΡΑΠΕΖΑ ΕΠΕΝΔΥΣΕΩΝ  
EUROPEAN INVESTMENT BANK  
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## HISTORICAL OVERVIEW OF REGIONAL DEVELOPMENT FINANCING WITHIN THE COMMUNITY

In 1957, the Treaty of Rome stipulated that one of the EEC's basic objectives was to ensure harmonious development by reducing both disparities between the various regions and the backwardness of the least privileged areas. This was indeed one of the main considerations which prompted the Member States to set up the European Investment Bank in 1958. Hence, since the outset, regional development financing has always constituted the Bank's foremost priority and continues to feature as a prime objective in spurring on European integration.

Since its inception, the EIB has devoted around two thirds of its overall lending to investment fostering the advancement of regions whose development is lagging behind. Of a total of 11.6 billion ecus lent within the Community in 1989, 7 billion went in pursuit of this objective.

## IN BRIEF

The EIB remembers with sadness the sudden death of Mr Erling Jørgensen, vice-president of the Bank, at the age of 59. President Ernst-Günther Bröder commemorates Mr Jørgensen (page 3). The successor in the Management Committee is Hans Duborg (page 5).

The European Community is founded on solidarity. It is the driving force behind efforts to reduce the disparities in living standards between the various regions of the Community. For investment in the less-favoured regions, the European Investment Bank is, in terms of volume, the most important source of finance. To realise the maximum of sound investment, the EIB and the structural funds cooperate (page 1).

Solidarity is also the basis for the Community's development cooperation policy. The fourth Lomé Convention was signed late in 1989 and will come into effect after ratification, probably early in 1991. The mixture of loans and grants to be made available in the first five years of the Convention reaches 12 billion ecus. The EIB's role in implementing the agreement between the EC and now 69 nations in Africa, the Caribbean and the Pacific is described on page 4. As in previous conventions, interest subsidies will reduce the cost of borrowing for project promoters in developing countries (page 6).

More news: Dublin Castle is venue for European council meeting (page 7). EIB-financed power plant in Saarbrücken receives two awards (page 8). Environmental Program for the Mediterranean now becomes operational (page 8) following complete stock-taking of environmental degradation and its causes.

Until 1975, which marked a new stage in the history of EC regional development financing with the creation of the ERDF, the European Investment Bank was the Community's sole general source of funding for regional development projects.

Alongside EIB loans, provided from resources raised on the capital markets, grants were henceforth available from the Community budget to bolster EC action in this domain.

A third stage is now underway, involving an increase in financial resources in tandem with measures to ensure effective interaction between various means of financing. This stage, resulting from adoption of the Single Act, is intended to strengthen the coordination of Community and national operations with a view to guaranteeing optimum efficiency of EC structural assistance. At the heart of the matter are the financial instruments, i.e. the Structural Funds, which furnish grants from budgetary resources and for which appropriations have been almost doubled for the period 1989-1993, and the other instruments, mainly the EIB and the ECSC, which provide loans from resources tapped on the capital markets.

#### FRAMEWORK FOR NEW STRUCTURAL ACTION

The arrangements for European Investment Bank participation in Community endeavours to foster stronger economic and social cohesion have been spelt out in various documents.

The Single Act (Articles 130 A to D) makes express mention of the EIB's role in connection with the reform, in terms especially of promoting the overall harmonious development of the Community and "reducing disparities between the various regions and the backwardness of the least-favoured ones".

A framework regulation <sup>(1)</sup> covers tasks of the Structural Funds and their effective and coordinated use; the implementing regulations <sup>(2)</sup> include a regulation for the coordination, on the one hand, of operations as between the various Funds, and, on the other, between the latter and EIB operations and those of existing financial instruments, plus a specific regulation for each Fund.

<sup>(1)</sup> Regulation (EEC) No. 2052/88 of 24 June 1988, OJ L-185 of 15 July 1988.

<sup>(2)</sup> Regulations (EEC) Nos. 4253-4-5-6/88 of 19 December 1988, OJ L-374 of 31 December 1988.

Lastly, a communication from the Commission to the Council and the Parliament on "the EIB, the other financial instruments and strengthening economic and social cohesion" offers comments on the ways in which the EIB and the other financial instruments can contribute towards the new approach. The goal of the reform is to strengthen coordination of the various forms of Community assistance as between themselves and with measures developed in the Member States. Five objectives have been assigned to the Funds:

- promoting the development and structural adjustment of regions whose development is lagging behind (referred to as Objective 1);
- converting regions seriously affected by industrial decline (Objective 2);
- combatting long-term unemployment (Objective 3);
- facilitating the occupational integration of young people (Objective 4);
- with a view to the reform of the Common Agricultural Policy:

a) speeding up the adjustment of agricultural structures, and

b) promoting the development of rural areas (Objective 5).

In view of its very task, the EIB is concerned mainly with projects falling within the ambit of Objectives 1 and 2 and, to a lesser extent, 5b. The ERDF is also furnishing assistance for these three Objectives, with around 80 % of its appropriations being earmarked for Objective 1.

In practical terms, implementation of the reform of the Structural Funds consists of three stages. The Member States firstly submitted development plans spanning a 3 to 5-year period for each Objective. These plans, drawn up by the national authorities responsible, cover either specific regions in the case of Objectives 1, 2 and 5b - i.e. those of concern to the EIB - or entire individual countries for the other Objectives. In addition to mentioning the main approaches adopted for attaining the goals sought, they also allude to sources of financing.

The Commission subsequently examined these plans and, in cooperation with the Member State or authorities concerned and in close collaboration with the EIB, drew up the Community's response in the form of *Community Support Frameworks* (CSFs). Featuring priorities determined on the basis of development plans, the CSFs cover periods

of 3 to 5 years and are implemented in the form of sectoral, regional or multiregional *operational programmes* or specific projects; they also include indicative finance plans mentioning in particular Community loans.

The CSFs and operations selected will be monitored and assessed by the Commission and the Member State concerned, with the EIB participating in these exercises; the Bank is also represented, on a non-voting basis, on the three monitoring committees for each of the Funds.

#### COMBINATION OF DIFFERENT FORMS OF FINANCING

If economic and social cohesion is to be strengthened, the greatest possible benefit must be drawn, in a flexible and rational manner, from available resources. The aim is to *combine* the various forms of Community financing in such a way that, by judicious *modulation* of loans and grants in the light of the nature of the projects to be funded, they have maximum impact by facilitating the largest possible volume of economically sound investment. Grants must be used not as a substitute for loans but as a stimulus for additional investment with a view to guaranteeing the optimum effectiveness of both types of financing. Modulation clearly takes due account of both the balance of proposed finance plans and the development objectives pursued.

The financial contribution of the Funds is expressed as percentages which vary in the light of the revenue which the investment is likely to generate. These percentages, which appear in the regulations for Objective 1, 2 and 5b regions, amount to a maximum of 75 % and a minimum of 50 % of public expenditure in Objective 1 regions and a maximum of 50 % and a minimum of 25 % in other regions. Minimum rates do not apply to revenue-generating investment (framework regulation, Article 13.3). The Funds' financial contribution runs to a maximum of 50 % for investment in firms in Objective 1 regions and to a maximum of 30 % in other regions (coordinating regulation, Article 17.3).

Moreover, the ERDF can in future provide funding, in Objective 1 regions and in areas where the need is demonstrated, for certain amenities contributing towards their structural adjustment, particularly health and educational facilities.

The EIB is currently working with the Commission in drawing up simple, flexible and practical operational rules for implementing this partnership in an efficient manner. EIB financing is generally limited to 50 % of total investment costs. In practice, the Bank ensures that cumulative assistance in the form of loans and grants does not exceed 70 % of aggregate costs. In exceptional cases, where duly warranted, it could run to 90 %.

#### PRACTICAL APPLICATION OF THE CSFs

The CSFs for Objective 1 were approved by the Commission on 31 October 1989 and published in OJ L-370 of 19 December 1989. Those dealing with Objective 2 were approved on 20 December 1989, except in the case of Greece for which procedures are still pending, and have yet to be published. The CSFs for Objectives 3 and 4, in which the EIB is not involved, were approved by the Commission on 20 December 1989 and published in OJ L-64 of 13 March 1990. The CSFs relating to Objective 5 are still being drafted.

All areas affected by the CSFs for Objective 1, spanning the period 1989-1993, already qualified for EIB regional development financing. The priorities adopted largely coincide with the EIB's traditional fields of activity. The overall budgetary guidelines for this Objective over the period 1989-93 amount to 38.3 billion ecus. The scale of EIB assistance will depend, as in the case of other Objectives, on both actual demand and capital projects' compliance with the Bank's lending criteria.

By way of example, over the past five years - a period of time comparable to that covered by the CSFs - EIB loans in Objective 1 regions came to more than 11 billion ecus (loans in Spain and Portugal have been included only since 1986 when these two countries joined the Community).

Budgetary guidelines for Objective 2 CSFs over the period 1989-93 amount to 7.2 billion ecus. The fields of intervention encompass the creation and development of productive activity, the establishment of industrial estates and training schemes, measures to underpin the development of new activity, especially in support of SMEs, measures in favour of the environment, tourism, and research and development as well as the strengthening of cross-border cooperation.

In view of the fairly limited amounts of grant aid available for Objective 2 CSFs coupled

with the often small scale of investment proposed, EIB activity under this Objective should largely take the form of global loans<sup>(1)</sup>.

Budgetary guidelines for Objectives 3 and 4 over the period 1989-93 amount to 7.4 billion ecus, while the figures for Objectives 5a and 5b are 3.4 billion and 2.8 billion respectively; furthermore, 1.2 billion ecus are earmarked for transitional measures and innovative operations. Hence, a total of 60.3 billion ecus in grant aid is planned for all Objectives combined over the period 1988-93, including 48.3 billion for Objectives 1, 2 and 5b for which the EIB is likely to provide support.

<sup>(1)</sup> see EIB-Information No. 62

#### IN MEMORIAM

##### **Mr ERLING JØRGENSEN, VICE-PRESIDENT, EUROPEAN INVESTMENT BANK**

Mr Erling Jørgensen, Vice-President of the European Investment Bank and former Permanent Secretary at the Danish Ministry of Finance, died after a short illness in Copenhagen on 15 February 1990. Aged 59, he leaves a wife and two sons.

Mr Jørgensen was appointed to the EIB's Management Committee in June 1988. In his time at the Bank he quickly impressed colleagues and staff as a man of judgement, matched with an unassuming open, direct manner. He had a common sense approach in his contacts and was stimulating to work with, well known for his sense of humour. Able to gain trust quickly, he provided firm direction with a light touch.

His intellectual grasp of EC affairs and the Bank's role and operations, backed up by a formidable and precise memory, was highly regarded. Both inside and outside the Bank, the depth of his knowledge and experience commanded respect. He brought with him to the EIB a wide range of personal contacts at the highest levels in the administrations of a number of Member States and in the Community Institutions.

He was nominated to the EIB's Management Committee in June 1988, but his contacts with the Bank and knowledge of its affairs go back further, having served from November 1986 to June 1988 as a Director on the Bank's Board. He had a wide experience in

#### EIB LOANS

The European Investment Bank is the Community's main structural instrument in terms of the volume of funding provided, although its task also encompasses several other Community objectives, applicable to all areas of the EC. On the regional development front, its activity extends beyond the regions affected by the CSFs to all regional or national aid areas accepted by the Community authorities as well as to investment outside these areas but of direct interest to them.

the world of finance as Permanent Secretary at the Ministry of Finance being responsible for external economic relations, and in particular the Danish Government's budget and foreign debt. Recently he had played a key role in developing the European Investment Bank's relations with Eastern European countries.

In his private life, he placed a special emphasis on outdoor activities, in particular enjoying walking in the forests of Luxembourg and gardening. He also liked to read biographies and English novels.

Mr Jørgensen had a distinguished career in public service. Before joining the Ministry of Finance, he had been Department Head in the Danish Central Statistical Office (1963-75). At the same time, he served as President of the Board of Directors of Kongeriget Danmarks Hypotekbank og Finansforvaltning (1975-88), as a member of the Board of Directors of Dansk Olie og Naturgas (1983-88), and on the OECD's Economic Policy Committee (1975-1988). In addition, he was a teacher and later examiner in macroeconomics at the University of Copenhagen (1957-88), and Director of the School of Public Administration Studies (1983-86).

Mr Jørgensen will be deeply missed by friends and colleagues amongst the EIB's staff, on the Management Committee and the Board of Directors.

Ernst-Günther Bröder  
President, European Investment Bank  
Chairman, Board of Directors

Projects serving the other priorities pursued by the Bank and deemed equally important for building Europe's future may also qualify for financing irrespective of location: upgrading transport and telecommunications infrastructure, protecting the environment and safeguarding the EC's architectural and natural heritage, urban development, attaining Community energy policy objectives, sharpening the international competitiveness of EC industry and fostering its integra-

tion at European level as well as providing support for SMEs.

As advocated by the Single Act, the European Investment Bank has been closely associated in implementing the reform of the Community's structural action; it has expressed its readiness to participate actively in implementing the CSFs. In respecting these priorities, the EIB will provide loan finance of which the volume will depend both on actual

demand and capital projects' compliance with its lending criteria.

Indeed, several investment schemes falling within the scope of the CSFs are currently being appraised by the Bank.

The brochure entitled "Loans for building the European Community", available free of charge on request, describes EIB financing facilities in greater detail.

### THE FOURTH LOMÉ-CONVENTION AND THE ROLE OF THE EUROPEAN INVESTMENT BANK

The fourth Lomé Convention was signed on 15 December 1989 between the Member States and the European Community on one side and on the other by the 66 African, Caribbean and Pacific (ACP) States signatories of the previous Convention which have been joined by two newcomers, Haiti and the Dominican Republic. Provision was also made for the accession of Namibia once the country became independent. While previous Conventions were concluded for five years, Lomé IV will cover a period of 10 years and is accompanied by a first Financial Protocol spanning the first five years. It will enter into force as soon as ratification procedures have been completed by the EEC countries and two thirds of the ACP States, probably in early 1991; during the transitional period, operations continue under the framework and within the agreed financing ceilings of the third Lomé Convention.

Before looking at the broad lines of prospective EIB activity under Lomé IV it might be useful to consider some of the basic background facts about the EIB's role in the implementation of the Community's development aid policy. The finance provided by the Bank is of two kinds: loans from own resources, essentially the proceeds of borrowings on the capital markets, and risk capital drawn from the European Development Fund (EDF) furnished from EEC Member States' budgetary contributions.

Loans from the Bank's **own resources** are used principally for financing viable projects in countries whose economic and financial situation is such that they can assume the debt involved and ensure that service payments are maintained. Under Lomé IV all loans from the EIB's own resources will attract an interest rate subsidy from the grant aid foreseen under the Convention.

**Risk capital**, a form of financing first used by the Bank in the framework of the Second Yaoundé Convention (1969-74), is particularly well suited to the difficult financial situation and economic conditions prevailing in many ACP countries. Loans from risk capital can be accorded on concessionary conditions distinct from those applying on loans from the EIB's own resources, which are raised on the international capital markets, and provide an opportunity to fund operations which it would be inappropriate to finance from borrowed funds. They give the Bank greater flexibility in its financing operations as they are often utilised alongside loans from the Bank's own resources for different components of a project's financing plan so that the overall terms and conditions are more favourable and thus better fitted to investment in the ACP environment. This type of assistance has gone from strength to strength with each successive convention, the amounts set aside for such operations having been increased and the terms and conditions developed and fine-tuned. Risk capital may be deployed either for funding equity participations or as quasi-capital. Acting in the name of the Community, the EIB may subscribe equity in the capital of companies or development banks in the ACP countries. The holding must be a minority, acquired on a temporary basis for sale at the appropriate time, preferably to nationals of, or institutions based in the ACP countries in question. Quasi-capital may take the form either of subordinated loans, repayment of which is subject to the prior fulfillment of other debt obligations, or, more frequently, of conditional loans, whose terms of repay-

ment and interest rates are linked to the extent to which financial or technical targets agreed during negotiations of the loan are achieved. Risk capital may also be used for financing feasibility studies and, in some cases, other pre-investment or start up expenditure.

There is a clear division of responsibility between the two institutions that administer Community aid, the European Commission and the EIB. It is the Bank that has primary responsibility for financing long-term investment projects in the industrial sector (including agro-industrial ventures), mining, tourism and energy schemes. Revenue-generating infrastructure projects such as ports, telecommunication and water supply, are also eligible for EIB financing.

In the industrial sector the EIB provides individual loans for larger projects and finances small and medium-size ventures indirectly through global loans to development banks or other financial intermediaries. The choice and appraisal of projects to be financed is handled by the intermediaries but the EIB has to approve each allocation on the basis of detailed documents provided by them. In many ACP countries the development banks are the sole institutions providing long-term finance and foreign exchange for project investment.

### LOMÉ IV: INCREASED FINANCIAL RESOURCES ON MORE CONCESSIONARY TERMS

The aggregate amount of financial aid provided for has been raised from 8.5 billion ecus under Lomé III to 12 billion ecus for the

	LOMÉ I		LOMÉ II		LOMÉ III		LOMÉ IV(*)	
	(m ecu)	(%)	(m ecu)	(%)	(m ecu)	(%)	(m ecu)	(%)
Own resources	390	80	685	71	1 100	65	1 200	59
Risk capital	99	20	284	29	600	35	825	41
<b>Total loan assistance</b>	<b>489</b>	<b>100</b>	<b>969</b>	<b>100</b>	<b>1 700</b>	<b>100</b>	<b>2 025</b>	<b>100</b>

(\*) for the first 5-year protocol 1991-1995.

first five year protocol of Lomé IV. Of this amount, 10.8 billion ecus, including 825 million ecus of risk capital to be managed by the EIB (compared with 600 million under Lomé III) will be drawn from the European Development Fund (EDF), while up to 1.2 billion ecus will be provided in the form of loans from the Bank's own resources. As under previous conventions, the Commission is thus responsible for administering the majority of the EDF funds. Under the fourth Lomé Convention, all the assistance from EDF resources administered by the Commission will be non-reimbursable. For loans from risk capital, the rate of interest should be less than 3% while provision has been made for the exchange risk to be shared between the Community and the other parties concerned. The interest rate subsidy for loans from the Bank's own resources has been increased from 3% under Lomé III to 4% under the new Convention. Furthermore the Convention stipulates that the interest rate borne by the borrower should not normally be less than 3% or more than 6% (compared with 5% to 8% under Lomé III). This finance will thus be on more concessionary terms. For the first five year protocol of the new Convention 280 million ecus from the EDF have been earmarked for interest rate subsidies.

The Bank will again participate with the Commission in the *programming exercise*, characterised by a dialogue with the ACP States on their development objectives and priorities, and designed to achieve the optimal utilisation of the financial resources of the Convention.

As on shown page 4 the degree of concessionality of the resources administered by the EIB has increased over time, due to the growing proportions of risk capital.

Furthermore under Lomé IV the concessionality has been increased by a higher interest subsidy.

#### PRESERVING THE LEGACY OF PAST CONVENTIONS AND INTRODUCING INNOVATIONS

In order to respond to the economic and financial crisis besetting numerous ACP States, funds for structural adjustment support administered by the Commission have been included in the new Convention, in order to complement long-term development measures.

Furthermore, the Convention places greater emphasis on the private sector and its role in promoting the growth and diversification of the ACP States' economies.



#### MR HANS DUBORG APPOINTED EIB VICE-PRESIDENT

The EIB's Board of Governors, acting on a proposal from the Board of Directors, have appointed Mr Hans Duborg Vice-President of the European Investment Bank. Mr Duborg, who has been Permanent Secretary at the Danish Ministry of Industry since 1984, succeeds the late Mr Erling Jørgensen (see page 3) on the EIB's Management Committee. Mr Duborg's appointment is for the remainder of Mr Jørgensen's six-year term of office which runs until the end of the day of the Board of Governors' annual meeting in 1994.

Building on past experience, the fourth Lomé Convention entrusts the Bank with largely the same spheres of activity and emphasises not only new project financing, but rehabilitation schemes as well. The Convention underscores the need for restoring the capacity of economically viable enterprises and for maintaining productive assets. As part of the focus on the private sector and small and medium-sized enterprises, restructuring and rehabilitating of ACP development finance institutions, which have been adversely

Mr Duborg (born in 1928) is a Danish citizen. He joined the Ministry of Trade in 1953 after graduating in Law from the University of Copenhagen, and was seconded between 1962 and 1965 to the Danish Embassy in London to deal with commercial and economic affairs. In 1971 he was appointed Head of Department at the Ministry of Trade, responsible, inter alia, for price control and competition policy. He also served as Vice-Chairman of the Monopolies Control Board, and as Chairman of the Danish Committee on EEC questions concerning the right of establishment and competition policy. From 1979 until his appointment as Permanent Secretary at the Ministry of Industry, he served as Director General of the Danish Monopolies Commission. He has been a Member of the Board of Directors of the Copenhagen Port Authority.

Effective from 6 April 1990, the European Investment Bank's Management Committee consists of EIB President Ernst-Günther Bröder, and Vice-Presidents Lucio Izzo, Alain Prate, Miguel A. Arnedo Orbañanos, Ludovicus Meulemans, Roger Lavelle, and Hans Duborg.

affected by the economic difficulties experienced by many ACP countries and particularly by large fluctuations in exchange rates, is foreseen.

As stated above, productive projects and programmes in industry, agricultural processing, tourism, mining, energy and - where they are related to the aforementioned sectors - water, transport and telecommunications infrastructures will continue to be financed first and foremost through loans from the EIB. However, to ensure that a substan-

#### LOME IV CONVENTION: FINANCIAL PROTOCOL 1990-1995 (million ecus)

##### Managed by the Commission of the European Communities: (from EDF resources)

Grants	7 715(*)	(Lomé III) (4 645)
Transfers for the stabilisation of export earnings (STABEX)	1 500	( 925)
Special financing facility for mineral products (SYSMIN)	480	( 415)
Loans on special conditions	-	( 600)
<b>Total</b>	<b>9 695</b>	<b>(6 585)</b>

##### Managed by the European Investment Bank:

Loans from the EIB's own resources (ceiling amount)	1 200	(1 100)
Risk capital from EDF resources	825	( 600)
Interest subsidies from EDF resources	280	( 215)
<b>Total</b>	<b>2 305</b>	<b>(1 915)</b>
<b>GRAND TOTAL</b>	<b>12 000</b>	<b>(8 500)</b>

(\*) including 1 150 million ecus for structural adjustment and 350 million ecus for emergency aid.

tial portion of risk capital is devoted to investment in the private sector and especially to supporting small and medium-sized enterprises (SMEs), the scope for applying this already highly flexible instrument has been broadened still further and for the first time, the EIB may use European development finance institutions as intermediaries for channelling assistance to SMEs in the ACP countries.

In conclusion, the fourth Lomé Convention largely confirms the thrust of the previous Conventions and implies no major changes as far as the European Investment Bank is concerned. Nevertheless, it is significant that under Lomé IV, the EIB will be the sole Community institution providing reimbursable finance. Under the new Convention the EIB faces challenges that will require an imaginative response and a particular mix of financial assistance to satisfy a much more varied range of project proposals from the ACP states, many of which wish to accord greater importance to the role of the private sector in their economies.

### **INTEREST RATE SUBSIDIES ON EIB LOANS OUTSIDE THE COMMUNITY**

In EIB-Information No. 61 of October 1989 the cases were listed in which interest subsidies were made available on EIB loans for projects in the European Community. Always linked to special circumstances in the EC, interest subsidies have been a more or less regular feature of the EIB's lending in the context of the Community's development policy. To date, the EIB's financing activities in developing countries take place in the framework of the third Lomé Convention, providing for cooperation with 66 African, Caribbean and Pacific (ACP) states, and financial protocols the Community has concluded with 12 Mediterranean countries

#### **ACP STATES**

Development cooperation between the Community and developing countries, involving the European Investment Bank, dates back to the first Yaoundé Convention which came into effect in 1964. Not counting the fourth Lomé Convention, which has been signed but has yet to be ratified, there have been five conventions providing grant aid and concessionary loans (including risk capital managed by the EIB) from the European Development Fund (EDF) as well as loans from the Bank's own resources (essentially funds raised on the capital market): Yaoundé I (1964-1969) and Yaoundé II

(1971-1975), and Lomé I (1975-1980), Lomé II (1981-1985), and Lomé III (1985-1990). Each of these conventions was complemented by a separate decision of the Council of the European Communities making development funds available for the Overseas Countries and Territories (up to and including Lomé I: Overseas Countries, Territories and Departments) with historical ties to EC Member States. The amounts below refer only to loans from the EIB's own resources and include both the maximum of such loans foreseen by the conventions and by the special Council decisions.

The Yaoundé Conventions were signed by some 20 African countries. The first Convention offered a financial package of ECU 800 million of which up to ECU 70 million in EIB loans (Official Journal L 93, 11 June 1964). A 3% interest subsidy was available for these loans with a maturity of up to 25 years, to be paid out of the EDF.

The second Yaoundé Convention offered ECU 1 billion in financial assistance of which up to ECU 100 million in EIB loans (Official Journal L 282, 28 December 1970). For a maximum maturity of 25 years interest rate subsidies were provided from EDF resources to reduce the interest charged to the beneficiary to less than 3%, with the proviso that interest on loans granted to intermediary institutions for on-lending would not be below 2%.

The first Lomé Convention was signed by 46 countries in Africa, the Caribbean and the Pacific, and joined by 13 more while in force. It provided for 3 559,5 million ecus in financial assistance, of which up to 400 million ecus in EIB loans (Official Journal L 25, 30 January 1976). As a general rule, the loans carried a 3% interest subsidy, which, however, was automatically adjusted so that the actual rate borne by the borrower would be neither less than 5% nor more than 8%. Again the interest rate subsidies were charged against the EDF. The Convention stipulated that EIB loans would not be for longer than 25 years. Excluded from the 3% interest subsidy were investment projects in the oil sector, wherever located, or in the mining sector, unless they were located in the least developed countries listed in the Convention.

The second Lomé Convention counted 63 signatories. Community financial assistance increased to 5 716 million ecus of which up to 700 million ecus in EIB loans (plus, potentially, 200 million for energy and mining investments of common interest to the ACP countries and the Community). The interest

subsidy provisions were the same as for Lomé I, the sole investments now excluded from interest subsidies being projects in the oil sector (Official Journal L 347, 22 December 1980; for OCTs: Official Journal L 361, 31 December 1980).

The third Lomé Convention, signed by 66 African, Caribbean and Pacific states, provides for a total of 8 535 million ecus in financial assistance of which up to 1 120 million in EIB loans. Interest rate subsidies are the same as for Lomé II (Official Journal L 86, 31 March 1986; For OCTs: Official Journal L 175, 1 July 1986).

The fourth Lomé Convention was signed at the end 1989 and is due to come into effect once the ratification procedures have been completed (for a more complete picture of Lomé IV, see the article on p. 4). Lomé IV covers a period of ten years and will be accompanied by two five year financial protocols. The first, for the period up to the end of 1994, is to include a total of 12 billion ecus in financial assistance to the 68 ACP states, signatories to the Convention. Out of this total, EIB loans account for up to 1.2 billion ecus. They will automatically attract a 4% interest rate subsidy from EDF resources. The interest rate will be adjusted in such a way that the actual rate borne by the borrower normally will not be less than 3% and not more than 6%. A decision on Community aid to OCTs is pending. (The text of the Convention is yet to be published in the Official Journal)

#### **THE MEDITERRANEAN COUNTRIES**

EIB lending in this area takes place in the framework of financial protocols, which normally run for five years, and form part of Cooperation or Association Agreements between the European Community and the countries concerned. Financial cooperation comprises loans from the EIB's own resources as well as from Community risk capital resources (managed by the EIB) and, in most cases, grant aid. In the past loans on special conditions (managed by the EIB or the Commission) were also a feature.

Agreements in which loan finance is supplemented by grant aid have been concluded with nine of the twelve Mediterranean countries in which the Bank operates: the Maghreb countries (Algeria, Morocco, Tunisia), the Mashreq (Egypt, Jordan, Lebanon, Syria), Cyprus and Malta. When negotiating the protocols, these nine countries can choose to use part of the grant aid for interest subsidies on EIB loans. Grant aid has not been foreseen for Israel and Yugoslavia

and, in the case of Turkey, only the last protocol, which has been negotiated in the early eighties but has not been signed yet, makes grant aid available. Consequently, a decision on how the grant aid will be used has not been taken. In those cases where interest subsidies could and have been opted for, they are specified in the protocol. At times, the protocols have indicated that investment in the oil sector is not eligible for such subsidies. (References to the Official Journal only regard the last protocols signed).

#### *The Maghreb*

There have been three successive protocols with each of the Maghreb countries since 1978, the ones now in force covering the years 1988 to 1991. In the case of Algeria they provided for a total of 360 million ecus in loans. The first two protocols foresaw 2% interest subsidies. Algeria decided not to use the subsidy option under the present protocol (Official Journal L 22, 27 January 1988). For Morocco the protocols have provided for loans totalling 297 million ecus. Under the first two protocols 2% interest subsidies were available; the present protocol does

not include subsidies (Official Journal L 224, 13 August 1988). The protocols for Tunisia have foreseen a total of 250 million ecus in loans. All three protocols include 2% interest subsidies (Official Journal L 22, 27 January 1988).

#### *The Mashreq*

As with the Maghreb countries, financial cooperation with the Mashreq countries has been governed by three subsequent protocols covering the years from 1978 to 1991. In Egypt the protocols have provided for loans totalling ecus 482 million. The first as well as the present third protocol (Official Journal L 22, 27 January 1988) provided for 2% subsidies, the second for 3%. In Jordan the protocols have provided for a total of ecus 118 million in loans. In all three protocols 2% interest subsidy were specified (same Official Journal). For Lebanon three financial protocols and two emergency aid packages have provided a total of ecus 177 million in loans (same Official Journal). No grant aid was available in the emergency aid packages and only the first financial pro-

tol (1978-1981) included 2% interest subsidies. In the case of Syria, two protocols provided for a loan total of ecus 98 million between 1978 and 1986. The first protocol specified a 2% interest subsidy, the second 3% (Official Journal L 337, 29 November 1982). Negotiations on a third protocol have been suspended.

Financial cooperation between Cyprus and the EC is laid down in three protocols providing for loans totalling ecus 92 million over the years 1979 to 1993. The first and the second protocol specified interest subsidies of 2% maximum; the third protocol, now in force, includes subsidies of 1.5% (Official Journal C 53, 5 March 1989).

EIB lending in Malta is covered by three protocols providing for a total of ecus 55 million in loans in the period 1978 to 1993. The first protocol provided for 2% interest subsidies, no such subsidies were foreseen in the second, while the present, third protocol provides 1.5% (Official Journal L 180, 27 June 1989).

### **EUROPEAN COUNCIL TO MEET AT DUBLIN CASTLE**

At the end of June the European Council of Heads of State and Government will hold their meeting in Ireland in Dublin Castle. The Summit marks the end of Ireland's six month presidency of the European Council and Council of Ministers. Works to restore the Castle and construct a conference centre suitable for international meetings have been supported by the EIB with 15.6 million ecus (IEP 12.1 million).

The EIB's Board of Directors was the first to make use of the Castle's new conference facilities when they held a meeting in Ireland in April 1989. The Directors hold a meeting once a year away from the Bank's Luxemburg headquarters to meet with representatives of government, industry and finance, and visit projects the Bank has financed.

Dublin Castle is unique amongst Ireland's historic buildings, used for the most important occasions of State, including in recent times for the inauguration of the President of Ireland. Historically the Castle has been associated for centuries with the seat of

government, a working place for administrative authorities and a ceremonial centre.

The Castle's origins date back to the Viking era when it was the site for a sea fortress (841-1170) on which a Norman castle was built in the 13th century. It has been rebuilt a number of times, particularly with the addition of Georgian buildings in the 1750s. Excavations and archaeological work began in 1985, and care has been taken to search for historic and archaeological features worth recording and preserving.

The EIB has supported the restoration project as it contributes to regional development, the main objective for the Bank's lending. The whole of Ireland falls within the Community's regional development classification. Preservation and enhancement of the Castle, which forms part of the European heritage, will encourage tourism and thus economic activity. The conference facilities are expected to attract major conventions to the City.

The restoration will also provide office space for government administrative purposes. The EIB will finance projects to pre-

serve and upgrade irreplaceable European architectural heritage that are economically sound and culturally important for the Community, in particular in urban centres where such investment is integrated in programmes for revitalising cities and regions. Such projects meet with the Bank's task to preserve, protect and improve the quality of the environment in the Community.

Investment the EIB has financed specifically on the grounds of protecting the Community's cultural heritage include: the restoration and protection of archaeological sites at Pompeii, Heracleum and Stabia in Italy, the Ducal Palace in Genoa, and the Doges Palace and its works of art in Venice.

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## ENVIRONMENTAL PROGRAM FOR THE MEDITERRANEAN MOVES ON TO NEXT PHASE

The Environmental Program for the Mediterranean (EPM) is a joint initiative of the European Investment Bank and the World Bank. Its overall objective is to prepare environmental protection projects, to promote environmental policy measures and to strengthen the national institutions dealing with the environment in the Mediterranean basin. A first step in this direction has been an in-depth study, "The Environmental Program for the Mediterranean. Preserving a Shared Heritage and Managing a Common Resource", which pinpoints the various environmental problems in the area. Taking stock of the nature and extent of environmental degradation, analysing the causes, and indicating priorities for common action, the final version of the study has been presented at a press conference in Rome in April.

The new phase consists of a multi-year Mediterranean Environmental Technical

Assistance Program (METAP), financed by the EIB and the World Bank as well as the United Nations Development Programme (UNDP) and the Commission of the European Communities via its new MEDSPA action programme. To discuss the set-up of the METAP a seminar was organised in Paris at the end of 1989, bringing together representatives of almost all countries around the Mediterranean, the Commission of the European Communities, the United Nations Environmental Programme (UNEP), UNDP, and the two banks. METAP will translate the general objective of cleaning up the Mediterranean into practical steps: investment plans, policy recommendations and institutional strengthening. In this phase it is to cooperate with the UNEP/Mediterranean Action Plan Unit in Athens.

This new phase will give an extra impetus to the financing of environmental projects and project components already undertaken by the World Bank and the European Investment Bank. In the last three years, EIB loans specifically aimed at environmental protection projects in the European Community

## POWER PLANT RECEIVES AWARDS FOR ENVIRONMENTAL AND ARCHITECTURAL DESIGN

The Römerbrücke combined heat and power plant in Saarbrücken, Germany, to which the EIB lent DEM 60 million for extension and modernisation in 1987, is being acknowledged in Germany as well as internationally for its remarkable environmental and architectural design. The plant started operating in the course of 1988 and burns mainly locally available energy such as waste gases from steel manufacturers, coal sludge and coal. Replacing two old oil-fired furnaces with an up-to-date fluidised bed steam generator, all possible measures have been taken at the plant to minimise the environmental impact caused by emissions and noise. Air pollution in the Saarbrücken area has been reduced as a consequence.

Recognising these qualities, the German Federal Ministry of Public Works has awarded the Römerbrücke plant one of the twelve gold medals which could be won in a three-yearly competition called "Industry, Trade and Crafts in City Construction" for which 220 entries were registered. The awarding committee specifically emphasised the ecological conception and the positive impact on the city landscape.

Römerbrücke was also among the seven plants cited for environmental protection and energy conservation by the Chicago based international Power Magazine in 1988. The magazine applauded the application of fresh ideas, new equipment and state-of-the-art technology, minimising the environmental impact and maximising efficiency. Special reference was made to the facility's aesthetics. Located in the heart of the downtown residential area along the river Saar, with parks and walkways imme-

## Ecu

Below are the Ecu values in national currencies, as at 31 March 1990; these rates are applied to the first quarter in preparing financial statements and operational statistics of the Bank:

DEM	2.04503	BEF	42.3127
GBP	0.734460	LUF	42.3127
FRF	6.87611	DKK	7.80600
ITL	1504.66	GRD	196.997
NLG	2.30366	IEP	0.764468
ESP	131.005	PTE	180.712
		USD	1.20687

totalled close to 4.3 billion ecus. Half of that amount was concentrated on projects improving the quality of the environment in the Mediterranean region, such projects in Italy accounting for 1.62 billion ecus, in Spain for 291 million ecus, in Greece for 186 million and for 20 million in France. In non-EC Mediterranean countries the EIB lent another 26 million ecus in the last three years.

diately adjacent, the architectural styling of the plant is impressive. In fact, the magazine comments, except for the tall stack, it is difficult to determine that the structure is a power plant because it blends in so well with its surroundings.

At the time, the EIB decided to finance the plant's extension and modernisation because the investment would contribute to three of the Bank's objectives: to reduce environmental pollution, to reduce the Community's dependence on oil imports by switching from burning oil to locally available waste gases and solid fuels, and to stimulate economic development in the Assisted Area which is the Saarland.

Following the entry into force in Germany in 1983 of legislation laying down strict anti-pollution standards for large-scale combustion plants, the European Investment Bank has lent close to DEM 1 billion for investment to meet these standards.

100, bd Konrad Adenauer - L-2950 Luxembourg - tel. 4379-1 - telex 3530 bnkeu lu - fax 43 77 04 ● Department for Italy: Via Sardegna, 38 - I-00187 Rome - tel. 4719-1 - telex 611 130 bankeu i - fax 474 58 77 ● Athens Office: Amalias, 12-GR-10557 Athens - tel. 3220 773/774/775 - telex 2221 26 bkeu gr - fax 3220 776 ● Lisbon Office: Avenida da Liberdade, 144-156, 8º. - P-1200 Lisbon - tel. 32 89 89 or 32 88 48 - telex 15576 bnkeup - fax 37 04 87 ● London Office: 68, Pall Mall - London SW1Y 5ES - tel. 839 3351 - telex 919159 bank-eu g - fax 930 9929 ● Madrid Office: Calle José Ortega y Gasset, 29 - E-28006 Madrid - tel. 431 13 40 - telex 44670 bnkeu e - fax 431 13 83 ● Representative Office in Brussels: Rue de la Loi 227 - B-1040 Brussels - tel. 230 98 90 - telex 21721 bankeu b - fax 230 58 27

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