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The EIB and Regional Development

Strengthening economic and social cohesion by fostering investment in regions lagging behind in their development or facing conversion problems, a key objective of the European Union, has been a priority task of the European Investment Bank since its inception in

policy to correct structural imbalances within the Community, closely dovetailing with grant aid channelled through the Structural Funds by the European Commission (see box article, p.3). Between 1989 and 1993 over ECU 47 billion worth of EIB loans and some ECU 60 billion of Community grants were devoted to productive investment benefitting the less-favoured regions of the European Union and aimed at closing the gap in living standards, creating efficient communications and power transmission infrastructure networks, promoting new economic activity - and thereby employment -, protecting the environment and helping outlying regions to overcome their geographical handicaps.

In 1993, the terms of reference for EIB operations were broadened under the twin effects of the adoption of revised regulations governing the priorities for action of the Structural Funds for the period 1994-99 and the European Council's deliberations on growth, competitiveness and employment. The Bank has accordingly activated an additional ECU 7 billion in loans («Edinburgh Facility») to speed up the financing of infrastructure projects, ➤



The EIB is the primary source of bank financing for major infrastructure in numerous regions of the European Union.

1958. Developed and broadened over the years, this priority EIB task was confirmed by the Treaty on European Union (effective as from November 1993) which entrusts the Bank with a specific rôle in this sphere.

EIB activity in support of regional development forms an integral part of the

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First prize in Amex Bank Review Awards for 1994 goes to David Folkerts-Landau and Alfred Steinherr, economists at the IMF and the EIB.



In «Objective 1» areas, priority is also accorded to smaller-scale infrastructure such as regional road networks.

participated in implementing the Cohesion Fund and begun to manage the European Economic Area Financial Mechanism.

WORKING IN CONJUNCTION WITH THE STRUCTURAL FUNDS

Since 1989, when the first reform of the Structural Funds was implemented, EIB lending for regional development has added up to ECU 47.2 billion, supporting capital investment worth around ECU 146 billion in total over the past five years. More specifically, EIB assis-

tance in areas eligible for support under the Structural Funds has run to ECU 42 billion (1).

In what are referred to as «Objective 1» areas alone, EIB lending has totalled ECU 25 billion, four fifths of which for investment meeting the objectives and priorities of the Community Support Frameworks (CSFs) (2), an amount comparable to ERDF commitments in these regions during the same period (ECU 23 billion). Three quarters of this financing has gone towards creating communications, environmental protection and power transmission infrastructure, whilst over ECU 6 billion has been advanced for industrial, service or wholesaling projects.

In the regions referred to as «Objectives 2 and 5(b)», some ECU 17 billion of loans have served directly to tie in with action undertaken through the Structural Funds, breaking down as to two thirds for communications infrastructure (chiefly access to trans-European networks - TENs) and one third for the productive sector.

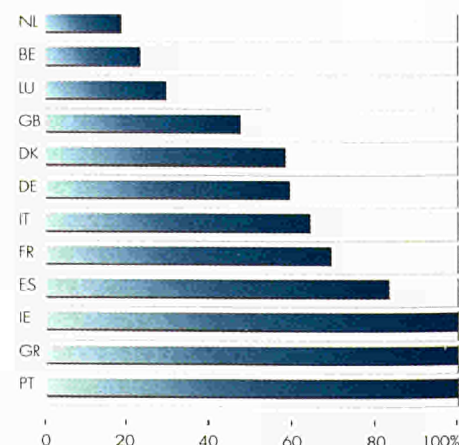
Altogether, one quarter of the financing for eligible areas has gone to

projects also attracting grant aid under the Structural Funds and forming part of the operational programmes set in train in the assisted areas. Whilst these projects only involve direct EIB lending for large-scale investment, many small or medium-scale projects also benefit from EIB support through its global loans; accordingly, during 1993 alone, 593 medium-scale community infrastructure schemes and 4 003 SMEs were aided in assisted regions.

A NOTEWORTHY ECONOMIC IMPACT

Providing loans rather than grants and responding to the demands of economic operators, the EIB – unlike the Structural Funds – does not carry out any preliminary breakdown by country or sector of its funding. However, the Bank's assistance is highly concentrated in the less-favoured regions of the Union (74% of EIB financing in the European Union in 1993), with a predominance of infrastructure investment aimed at addressing the relatively under-equipped level of the regions concerned, whether in terms of basic infra-

Regional development financing as a proportion of overall EIB activity by country (1989–1993)



structure for economic development or the extension of TENs.

This concentration is apparent when overall EIB financing is viewed in relation to the measure of aggregate capital investment in the European Union: gross fixed capital formation (GFCF). In 1993, the cumulative figure for investment financed by the EIB corresponded to 5.3% of GFCF. This percentage is nevertheless far higher in the less prosperous countries of the Union: approximately 22% in Portugal, 15% in Greece, 14% in Spain and Ireland, and 12% in the Italian Mezzogiorno.

CLOSE COOPERATION IN PLANNING STRUCTURAL SUPPORT

In order to achieve this high degree of complementarity between Bank and Structural Fund operations, the EIB has been involved at the various stages of preparing and implementing the programming of Community structural support. When the CSFs were being prepared, in particular, the EIB provided initial indicative figures for loans in support of projects in the development plans put forward by the national or regional authorities concerned. In tandem with this, the Bank and the Commission reached agreement on differentiating rates of Community assistance according to the capacity of the investment to sustain repayment of loan aid, so as to achieve an optimum loan/grant mix and ensure the most efficient use of both forms of Community financing. The EIB also helps to monitor implementation and assessment of the CSFs, contributing its expertise and knowledge of the area concerned in evaluating local situations and participating, where required, in the committees charged with ➤

COMMUNITY STRUCTURAL SUPPORT OPERATIONS (1994 - 1999)

The Edinburgh European Council (December 1992) decided to raise the total amount of budgetary appropriations to ECU 164.3 billion ⁽¹⁾ over the period 1994-1999 for Community structural support operations, of which ECU 149.8 billion for the Structural Funds and ECU 14.47 billion for the Cohesion Fund; these resources are to be concentrated on the Union's least prosperous regions (Objective 1) which will attract ECU 102 billion, corresponding to double the budgetary appropriations for the four least-favoured countries in the Union (Greece, Spain, Ireland and Portugal) compared with the period 1989-1993.

Objectives:

The objectives of Community structural action defined by the 1988 reform are to continue to apply on the whole for the period 1994-1999. Four of them have a regional dimension and concern the development and structural adjustment of the regions whose development is lagging behind («Objective 1»), those affected by industrial decline («Objective 2»), developing rural areas («Objective 5(b)») and arctic regions («Objective 6») ⁽²⁾. The other objectives are of a horizontal nature and concern combatting long-term unemployment («Objective 3»), the occupational integration of young people («Objective 4») and adapting structures in agriculture and forestry («Objective 5(a)'). The EIB focuses its regional development activity on Objective 1, 2 and 5(b) areas.

Instruments:

Two Funds exemplify cooperation between the Commission and the EIB:

- the ERDF (European Regional Development Fund): established in 1975, it provides grant aid for craft and industrial activities, and infrastructure (including TENs) associated with regional development as well as with, in Objective 1 areas, health and education.
- the Cohesion Fund: set up in 1993 and operational as from 1994, it finances up to 85% of public spending on improving transport infrastructure and protecting the environment in the four least developed countries of the Union: Greece, Spain, Ireland and Portugal.

For the record, mention should be made of the three other Structural Funds, namely the ESF (European Social Fund), the EAGGF (European Agricultural Guidance and Guarantee Fund) - Guidance Section and the FIG (Financial Instrument for Fisheries Guidance), as well as of numerous specialist «Community initiatives».

(1) The figures given in this box article are based on the 1994 price index.

(2) Objective introduced by the Treaty of Accession signed by Austria, Finland, Sweden and Norway.

supervising and monitoring these instruments.

It is worth noting, however, that since the Bank operates with resources borrowed on the capital markets, these indicative financial contributions (i.e. some ECU 8 billion in 1989) were only an estimate put forward subject to an assessment by the Bank of the technical, economic and financial merits of the proposed capital projects. Without ever compromising the viability and benefits of the projects financed, the Bank has nevertheless demonstrated dynamism and determination in its choice of financing operations in support of the development of the least-favoured regions of the Union. Consequently, not ECU 8 billion but 25 billion were actually advanced in the final analysis to these areas between 1989 and 1993.

NEW REGIONAL DEVELOPMENT REMITS

Under the decisions taken by the Edinburgh European Council (December



Over 4 000 SMEs in assisted areas attracted EIB financing in 1993.

1992), the EIB has stepped up and broadened its operations by putting in place various specific instruments for which the regional development objective has very much pride of place.

Firstly, it has activated an additional ECU 7 billion lending facility, called the «Edinburgh Facility», for the purpose of accelerating capital investment in the communications and power transmission sectors ⁽³⁾. Between February 1993 and September 1994, the Bank committed almost the entire package planned, thereby securing solid financing for 130 or so large-scale projects or programmes of benefit to the Union as a whole and corresponding to capital investment of around ECU 50 billion. Four fifths of the investment financed in this way is helping to promote the growth of regions eligible for Community regional development action.

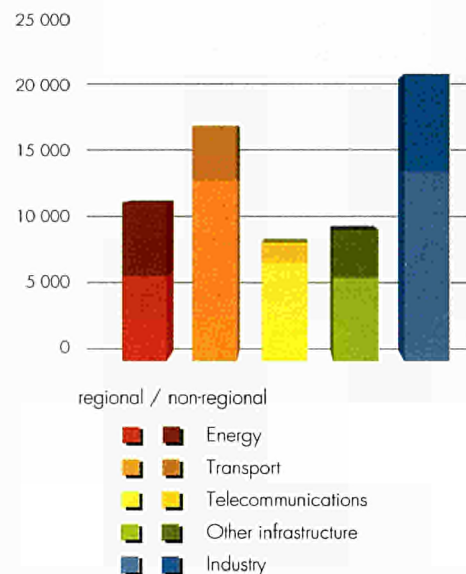
A further ECU 1 billion, carrying 2% interest subsidies financed from the Community budget, is earmarked for funding investment by **job-creating small and medium-sized enterprises** through EIB global loans (see article, p. 7).

In April 1993, the cohesion financial instrument - paving the way for establishment of the «Cohesion Fund» (see box article, p.3) - became operational. The Bank was called upon to assist in implementing the instrument by providing its expertise for appraising the technical, economic and financial merits of projects eligible for support from the Fund ⁽⁴⁾. It has already scrutinised ten or so investment projects under the heading of the instrument, thereby fostering productive cooperation with the Commission in this area.

Finally, still in connection with regional development, as from October 1994 the Bank has been implement-

ing the new «European Economic Area Financial Mechanism». Intended for financing priority investment

Regional development financing as a proportion of overall EIB activity by sector (1989-1993)
(ECU million)



schemes in those regions eligible for Cohesion Fund support as well as in Northern Ireland, this mechanism combines loans from the Bank with interest subsidies and grants financed from resources, managed by the Bank under mandate, provided by the six EFTA countries participating in the EEA ⁽⁵⁾. In this context, the EIB has already approved two projects in Spain and is focusing on identifying investment in the environmental, transport and training fields, with particular attention paid to projects involving SMEs. ■

(3) See «EIB Information» No. 78, page 2, November 1993.

(4) Conclusions of the European Council in Copenhagen (June 1993) and EEC Regulation 792/93 of 30.3.1993; the cooperation arrangements between the Commission and the EIB in this area led to the signing of an inter-institutional agreement on 23 September 1993.

(5) Austria, Finland, Iceland, Liechtenstein, Norway and Sweden.

EIB finances Air Traffic Control

One of the long-standing objectives of the European Investment Bank is to support capital investment in Europe that improves communications, a category which includes investment in Air Traffic Control (ATC). ATC projects elsewhere in the world have also been supported by EIB loans, as the Bank may lend, to a limited extent, in 130 countries outside the European Union within the framework of the Union's policy of external co-operation.

AIR TRAFFIC MANAGEMENT IN THE CONTEXT OF TRANS-EUROPEAN NETWORKS

The 1990s have seen strong EIB support for the development of trans-European networks (TENs) in the transport, telecommunications and energy transfer sectors. EIB lending in these areas accounted for 28% of Bank financing over the five years 1989-1993 (33% in 1993). Projects financed include land-based transport - motorways, railways, bridges and tunnels - but also airports and air traffic control. In the aviation sector, the EIB allows priority to ATC, given the high economic cost of delays caused by airport congestion. Altogether, between 1990 and 1993, the EIB contributed some ECU 340 million towards establishing coordinated and efficient air traffic control systems in the Union and neighbouring countries in order to ensure smoother aircraft movements and enhance safety.

While congestion at airports and in certain air corridors is already causing serious problems, the volume of air traffic in Europe is forecast to increase on average by 5% a year between now and 2010, depending on the extent of progress towards European integration

and developments in Central and Eastern Europe.

In this context, the tasks of Eurocontrol - the European Organisation for the Safety of Air Navigation set up in 1960 - have been expanded, its overriding priority being to develop a co-ordinated and coherent pan-European air traffic control system. This has primarily involved implementing the European Air Traffic



In funding trans-European networks, the EIB provides support for ATC facilities as well as for airports.

Control Harmonisation and Integration Programme and setting up a European air traffic flow management unit to optimise use of airspace in Western and Eastern Europe.

The EIB has supported Eurocontrol's action with loans totalling ECU 98 million to develop a harmonised traffic management system as well as new air traffic control standards and to improve existing facilities. At the same time, the Bank has financed centralisation of Eurocontrol's activities in premises close to Brussels airport, and a test centre at Bretigny-sur-Orge in the Paris region.

The EIB has also contributed a total of ECU 150 million towards building and equipping Belgium's national air traffic

control centre and upgrading the British, Greek and Portuguese air traffic control systems.

ATC INVESTMENT IN CENTRAL EUROPE

Although the primary mission of the EIB lies, and will remain, within the European Union, its skills as a project financing institution are contributing increasingly towards the Union's external co-operation policy. Under this policy, the EIB's lending activities are conducted within ceiling amounts for countries or regions over set periods.

In the wider European area, the EIB is helping to strengthen relations with neighbouring countries, particularly the four EFTA countries which are to join the EU next year, and with Central and Eastern European nations which have declared EU membership as their long-term goal.

As political changes in Eastern Europe have accelerated, the countries in the region have recognised ATC modernisation as a top priority for developing and consolidating their emerging market economies. To exploit fully the opportunities offered by independence and integration with the Western European countries, the Central and Eastern European States have to develop new air links, modernise their airports and equip air traffic control services according to Western European standards.

Foreseeable long-term growth in air traffic and the need to integrate these countries into the Western European system have prompted the EIB, in conjunction with the European Commission, which manages the EU's grant aid programme PHARE, to launch a study ➤

by the International Civil Aviation Organisation to assess prospective needs. The study has been carried out separately for each country, examining the present status of infrastructure and operations, as well as necessary future development. In response to the study's findings and guidelines from the European Council (Edinburgh Summit, December 1992), it was decided to back a co-ordinated capital investment programme aimed at renewing and modernising air traffic control and safety installations in Bulgaria, Hungary, Romania and Slovakia as well as Poland and the Czech Republic - countries which have already benefited from ECU 119 million in EIB loans for ATC investment.

ATC LENDING OUTSIDE EUROPE

European integration is not purely an inward-looking process, but takes into account wider global inter-relationships. The European Union has long-standing trading and economic relations with many non-Union countries and regions. Within this framework, the EIB is also active in countries in the Mediterranean region, where it finances investment under financial protocols annexed to co-operation agreements negotiated with the Union. ATC over the Mediterranean has been tightened through an ECU 7 million loan for installations on the island of Malta, a project implemented with technical assistance from Eurocontrol.

The Bank also supports projects in 70 African, Caribbean and Pacific (ACP) States, signatories to the fourth Lomé Convention, and has recently extended its activity to Asia and Latin America, where 35 countries are eligible for financing. In the ACP countries, the EIB has financed ATC projects in Antigua and Barbuda, Benin, Burkino Faso, Cameroon, Central Africa, Chad, Equatorial Guinea, Gabon, Ivory Coast,

Madagascar, Mali, Mauritania, Niger, Senegal, and Togo. ATC investment in Africa has been financed through the Agency for the Safety of Air Navigation in Africa and Madagascar (ASECNA).

APPRAISING ATC PROJECTS

Before deciding on a loan, the EIB carries out a detailed appraisal of the economic, environmental, technical and financial viability of each project. The financial analysis covers project cost, finance plans, cash flow projections, rates of return, repayment terms, the borrower's financial position and necessary security. The Bank's economists establish that the project has a positive socio-economic impact and assess market demand for its products or services, while the EIB's engineers check the technical merits, review procurement procedures applied and assess the environmental impact.



Managing air traffic movements under optimum safety conditions.

In the ATC and airport-related sector, technical concepts are examined against various demand scenarios; proposals need to be well defined in order to establish cost effectiveness, project cash flows and how the full economic cost of Air Traffic Management is to be met. Project elements examined during appraisal, which determines the financial package, include all studies, design and site costs, civil and building

works, equipment, training, adequate provision for technical and price contingencies, as well as interest during construction.

CONCLUSION

Given its strong position as a AAA borrower on the world's capital markets, the EIB is well placed to mobilise on the most advantageous terms the large volumes of finance required for implementing priority capital investment projects. As the EIB works on a non-profit-making basis, it is able to onlend the funds it raises at rates which, while closely market related, reflect its excellent position as a borrower. Project promoters in practice obtain access to capital market funds on prime conditions. Bank loans are for terms of up to 20 years or more, depending on the assets involved, and are thus particularly well suited to infrastructure and ATC investment. The EIB can provide large amounts of finance per investment with no upper limit on project size. Investors enjoy an extensive choice of currencies, various interest-rate formats, flexible repayment schedules and grace periods on repayment of principal.

The EIB has a comprehensive track record of financing air traffic management investment, a sector in which it expects to be increasingly active in the future as the development of air traffic systems has not kept pace with the rapid growth in air transport. Indeed, further liberalisation will lead to additional air traffic and national authorities are already confronted with huge financing needs to upgrade their systems. The effectiveness of the EIB as the European Union's financing institution is measured by the economic impact of the projects it supports. The European Investment Bank's concern is to select projects which do most for growth and the promotion of European Union policy objectives. ■

Subsidised loans from the European Union for SMEs creating employment

The European Union is making available ECU 1 000 million of subsidised loans for capital investment by small and medium-sized enterprises (SMEs) creating employment. The SME subsidised loan facility forms part of the Union's ongoing initiative to stimulate economic growth, employment and competitiveness. Following approval of a 2% interest rate subsidy by the Council of Ministers in April 1994, the European Commission has given the European Invest-

ment Bank (EIB) a mandate to administer the facility. The SME facility is being implemented under the EIB's global loan scheme in co-operation with banks and financial institutions in the Union's Member States.

WHO CAN BENEFIT?

SMEs located in one of the Member States of the European Union carrying out capital investment in the industrial,

agro-industrial, tourism and service sectors (excluding retailing).

SMEs are defined as enterprises with fewer than 500 employees, whose net fixed assets do not exceed ECU 75 million, and with not more than a third of equity owned by a company that is not a SME. Priority will be given to SMEs with no more than 250 employees.

AMOUNT OF LOAN AND SUBSIDY

Subsidised loans may be for up to ECU 30 000 (or the equivalent in national currency) per job to be created and will have a maturity of at least five years.

Loans may exceed the amount of ECU 30 000 per job created, but the additional amount will not benefit from the interest subsidy.

The interest subsidy will be of up to ECU 3 000 per job created or 10% of the subsidised loan; this is equivalent to a 2% interest subsidy over 5 years.

The interest subsidy will be made available in a single payment for new jobs in place for at least 6 consecutive months.

CONDITIONS

Applications for subsidised loans must be received before 31 July 1995.

Jobs must be created before 31 December 1996.

Applications will be processed until the entire amount of subsidised lending has been more available. ➤

EIB GLOBAL LOANS FOR SMEs

Since the end of the 1960s, the EIB has offered an indirect financing facility geared to supporting the activities of smaller businesses in the European Union: global loans to banks and financial institutions. These are akin to medium or long-term (5 to 12 years) credit lines which the intermediaries draw on to fund small and medium-scale ventures in keeping with criteria laid down by the EIB.

Global loans are deployed through efficient partnerships between the EIB and currently some 130 banks throughout the European Union with broadly-based branch networks very much in touch with the real needs of smaller businesses. Before the EIB makes funds available under each credit line, it checks that the intermediary has respected the geographical, sectoral, financial and business size criteria specified in the contract. The EIB monitors implementation of ventures, sometimes through on-site visits by Bank staff.

Between 1989 and 1993, a total of 36 000 SMEs attracted ECU 9.6 billion through EIB global loans. Almost two thirds of ventures were located in assisted areas and were promoted largely by firms employing less than 50 persons. More than half of the ventures involved small industrial units, while the remainder centred on services, energy conservation and protecting the industrial environment.

WHERE AND HOW TO APPLY

Requests for more detailed information, as well as applications for subsidised loans under the present facility, should be addressed to one of the banks or financial institutions listed below.

BANKS MANAGING THE SME SUBSIDISED LOAN FACILITY

November 1994 (1)

Belgium

- Société Nationale de Crédit à l'Industrie Nationale Maatschappij van Krediet aan de Nijverheid (SNCI/NMKN)

Denmark

- FinansieringsInstituttet for Industri og Håndværk A/S (FIH)

Germany

- Kreditanstalt für Wiederaufbau

Information and loans under the SME subsidised loan facility are available through all German banks who provide KfW facilities to SMEs.

Greece

- Banque Nationale de Paris
- Credit Bank
- Ergobank
- Midland Bank
- National Investment Bank for Industrial Development (RETEBA)
- Société Générale

Spain

- Instituto de Crédito Oficial - ICO

Information and loans under the SME subsidised loan facility are available through all Spanish banks who provide ICO facilities to SMEs.

France

- Banque Fédérative du Crédit Mutuel
- Caisse Centrale de Crédit Coopératif
- Caisse Centrale des Banques Populaires
- Caisse Française de Développement
- Caisse Nationale de Crédit Agricole
- Confédération Nationale du Crédit Mutuel
- Crédit Mutuel de Bretagne

Ireland

- ICC Bank Plc
- AIB Bank

Italy

- Banca Centrale di Credito Popolare (Centrobanca)
- Cassa di Risparmio in Bologna
- Banca Nazionale del Lavoro (BNL)
- Banca per finanziamenti a medio e lungo termine (Interbanca)
- Banca popolare di Verona
- Banco Ambrosiano Veneto
- Banco di Napoli
- Banco S. Geminiano e S. Prospero
- Cassa di risparmio delle province lombarde (CARIPLO)
- Cassa di risparmio di Parma e Piacenza
- Cassa per il credito alle imprese artigiane (Artigiancassa - through the banks having a corresponding agreement)
- Consorzio di credito per le opere pubbliche (Crediop)
- Consorzio nazionale per il credito agrario di miglioramento (Meliorconsorzio)
- Credito Romagnolo
- Ente finanziario interbancario (Efibanca)
- Federbanca
- Fonspa
- Istituto bancario San Paolo di Torino
- Istituto di credito fondiario delle Venezie (Venefondario)
- Istituto mobiliare italiano (IMI)
- Istituto per lo sviluppo economico dell'Italia meridionale (ISVEIMER)

- Mediocredito Centrale
- Mediocredito Lombardo
- Mediocredito di Roma
- Mediocredito Toscano (Gruppo MontePaschi)

Luxembourg

- Société Nationale de Crédit et d'Investissement (SNCI)

Netherlands

- ABN - AMRO Bank N.V.
- De Nationale Investeringsbank N.V.
- ING Bank N.V.

Portugal

- Banco de Fomento e Exterior S.A. (BFE)
- Banco Espírito Santo e Comercial de Lisboa (BESCL)
- Banco Português de Investimento S.A. (BPI)
- Banco Português do Atlântico S.A. (BPA)
- Caixa Geral de Depósitos S.A. (CGD)
- CISF Banco de Investimento S.A.
- Deutsche Bank de Investimento S.A. (DBI)
- IAPMEI Instituto de Apoio às Pequenas e Médias Empresas e ao Investimento

United Kingdom

- Barclays Bank PLC
- Barclays Mercantile Business Finance Limited
- RoyScot Trust plc
- The Royal Bank of Scotland plc ■

(1) This list may be enlarged.

Safeguarding the Environment

Protecting and improving the environment and the quality of life are of major concern to the European Union, calling for decisive measures, both at national and European level, to address in particular the question of linking economic growth to environmental sustainability. The Treaty on European Union has acknowledged the promotion of sustainable growth respecting the environment as a specific EU objective and the fifth environmental action programme «Towards Sustainability» (1993-2000) considers the reconciliation of environmental and developmental objectives as one of the principal challenges of the 1990s.

THE EIB'S ENVIRONMENTAL COMMITMENT

Committed to the Union's objective of safeguarding the environment and ensuring the lasting viability (from the economic, financial, technical

and environmental angles) of the investment projects it selects for financing, the EIB has always integrated concern for the environment into its lending activity. The two key components of the Bank's environmental policy are its financing of investment projects specifically oriented towards protecting and improving the environment and the quality of life and the systematic screening of the environmental impact of all investment projects submitted to it for funding. Whether these projects are supporting regional development, transport, telecommunications or the international competitiveness of industry, an assessment of the environmental impact is always part of the appraisal procedure.

Over the past five years (1989-1993), close on ECU 15 billion have been provided for environmental projects (accounting for over 20% of total lending), ranging from drinking water supply schemes, sewerage networks and sewage treatment facilities, solid waste disposal and control, installations to reduce atmospheric emissions and industrial investment combatting pollution to urban renewal and conservation of the EU's architectural, cultural and natural heri-



A dual approach to the environment: protecting the quality of life and examining each project's ecological impact.

Extra impetus to EIB support for environmental infrastructure projects was given by the invitation from the Edinburgh European Council in December 1992 to the Bank to step up its financing in this sector: additional environmental funding under the so-called Edinburgh lending facility was over ECU 1.3 billion up to September 1994. (1)

In 1984 the Bank's Board of Governors, adopting a series of recommendations regarding the EIB's environmental policy, made protection of the environment a specific eligibility criterion for Bank

loans. The provision of a loan was made directly conditional upon the outcome of the assessment of the environmental impact of the project under appraisal. Thus, projects that do not comply with the relevant environmental legislation or are likely to cause serious environmental damage are not financed by the Bank. The Board's policy statement, containing concepts and principles such as prevention and precaution, «the polluter pays» and concern about cross-border pollution, is largely still valid today. It is currently under review since the Bank's environmental policy over the years has been constantly adapted to new EU directives and regulations and to new thinking on the environment.

A DETERMINING FACTOR IN PROJECT APPRAISAL

All projects submitted to the EIB for financing undergo an in-depth appraisal, including on-site visits by a multidisciplinary

team of economists, engineers and financial analysts. They incorporate assessment of the environmental impact in a wide-spectrum examination, integrating environmental considerations with other technical, economic and financial aspects. Prime responsibility for environmental screening falls to the technical advisers, the engineers who, among other things, check the promoter's environmental record. They not only make sure that the specifications of the proposed investment enable the promoter to comply with pollution limits set by national and European legislation but, on the basis of their widespread experience gained in appraisal of investment projects in most economic sectors ➤

(1) See «EIB Information» No. 78 and No. 80 for more details on the Edinburgh facility.

throughout the world, they also bring to the promoter's notice the most advanced technical options offering the best compromise between minimal environmental impact and cost.

The scope of the environmental analysis, determined first and foremost on the basis of EU legislation, goes beyond strictly ecological and natural aspects. A project is, for instance, evaluated in terms of its impact on human and cultural capital, while its wider geographical, cross-sectoral and likely effects over time are also taken into consideration. In monitoring and evaluating project implementation, the EIB ascertains that the environmental specifications originally agreed and included in the technical descriptions annexed to its finance contracts are indeed adhered to.

ENVIRONMENTAL LENDING

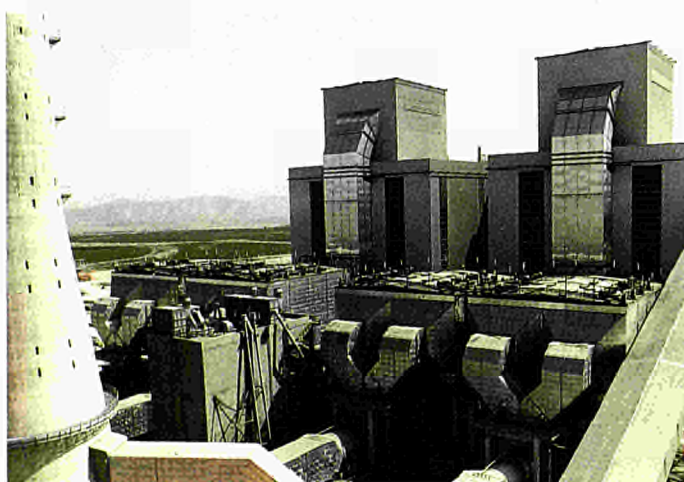
In providing loans for environmental projects, the EIB primarily concentrates on investment schemes preventing pollution and environmental degradation but it also supports projects to redress existing environmental damage.

Over the years, EIB support for investment to develop **drinking water resources and distribution of water supplies** as well as **sewerage and wastewater collection and treatment** has been rapidly increasing. In 1993 half of EIB funding in the environmental sector, totalling ECU 4.4 billion, went to projects improving drinking water supplies or concerning collection and treatment of wastewater, particularly in the Southern part of the European Union where major drinking water supply and distribution networks have been created. EIB loans have also supported a large number of small and medium-scale projects undertaken by local authorities concerning water supplies as well as collection and

treatment of effluent in Denmark, Germany, Greece, Italy, Ireland, France and the United Kingdom.

A growing number of regional, national and European programmes to control **disposal of effluent and urban and industrial waste** have been financed. In particular lending for solid waste processing projects has grown substantially, with funds provided, for example, for conversion of industrial production processes and industrial and domestic waste treatment plants, notably in Belgium, France and the Netherlands.

To combat **atmospheric pollution**, EIB loans have been advanced for, among other purposes, installation of filter systems reducing emissions from coal-fired and other thermal power stations, inciner-



The EIB finances installation of filter systems to reduce atmospheric pollution, particularly from thermal power stations.

ation plants and cementworks, as well as refineries, especially in Spain and Italy, shifting their production more towards unleaded and low-lead petrol. Other examples of **industrial projects** financed by the EIB to comply with environmental legislation and take account of environmental concerns include schemes by chemical industries and car producers to invest in environmentally friendly production processes. The Bank, for instance, has provided finance to the chemical

group Rhône Poulenc to treat effluent, re-process sulphuric acid and treat and recycle solid waste at six plants in north and north-eastern France as well as to Ciba-Geigy for its new pharmaceuticals manufacturing unit, together with a biological wastewater treatment plant, in Grimsby in the United Kingdom. In the car sector, the EIB has supplied loans for modernisation of paintshops owned by Volkswagen in Germany, Fiat in Italy, Peugeot in France and Volvo in Belgium, introducing the use exclusively of water-based paints.

The EIB's environmental activity also focuses very much on local authorities who are in the front line as regards environmental issues. Two out of every three Europeans live in a town or city; improving their quality of life by reducing nuisances

and enhancing the **urban environment** is a point of major public concern. Urban development is a growth area in EIB activity, centring inter alia on public transport, for instance underground rail lines, light rail networks and tramways. Schemes in over 25 major cities have been supported, including

those in Athens, Birmingham, Milan and Madrid. Road by-passes around major towns have been financed, not only within (for example Dublin, Edinburgh, Naples and Toulouse) but also outside the EU, around Helsinki and Klagenfurt, for instance. Other important urban development schemes funded by the Bank are facilities to collect and process domestic waste, for example in Germany, France and the Netherlands, urban renovation projects and industrial restructuring

CLEANING UP SEAS AND RIVER BASINS

Playing a decisive role since 1976 in implementing the European Union's Mediterranean policy, in 1988 the EIB launched, together with the World Bank, the **Environmental Programme for the Mediterranean (EPM)** (1). In the Mediterranean basin, Bank activity centres on the management of water resources, such as upgrading drinking water reserves and supply networks and helping to establish sewerage and water treatment systems. The Bank has supported, among other projects, cleaning up the Gulf of Gabès (Tunisia) and wastewater collection and treatment facilities in several coastal towns in Tunisia, Morocco, the Greater Algiers area, Cairo, Israel and Jordan. In this context, the EIB and the World Bank are implementing the **Mediterranean Environmental Technical Assistance Programme (METAP)**, the first objective of which is to prepare viable investment projects in both EU and non-EU Mediterranean countries, particularly in the fields of integrated water resource management, hazardous waste management, marine oil and chemical pollution and coastal zone management. Some 20 studies on pilot projects have been conducted so far and some 30 other projects are in preparation, for instance in Algeria, Cyprus, Egypt, Greece, Israel, Italy, Lebanon, Malta, Morocco, Spain, Syria, Tunisia and Turkey.

Experience gained through METAP has proven valuable in formulating the international cooperation programme to clean up the **Baltic**, launched in 1990 by the countries bordering on this sea as well as by the EU, the EIB, the World Bank, the European Bank for Reconstruction and Development and the Nordic Investment Bank. Pre-feasibility studies have been carried out in priority areas with the Bank supervising studies on the **Oder River Basin**.

The EIB is participating in the international programme for protecting the **Elbe River Basin**, again supervising studies on the upper basin to identify suitable investment projects. The Bank is also involved in preparatory discussions on multilateral action for the environmental rehabilitation of the **Danube River Basin**.

(1) The EPM is also being financed by the European Union and the United Nations Development Programme.

programmes designed to transfer factories and industries to out-of-town sites, as in the case of Florence.

The EIB is helping to **clean up large river basins** within the Union such as the Río Segura and the Río Nervión in Spain,

the Po, Arno and Tiber in Italy and the Severn and Trent in the United Kingdom. It is also participating in international actions to safeguard the Mediterranean and the Baltic Sea as well as the multilateral environmental programme for the Elbe River Basin and preparatory studies

for international action concerning the Danube (see box article).

LINKS WITH OTHER EU OBJECTIVES AND INITIATIVES

Not only do a considerable number of projects involve more than one environmental objective or issue but in many cases environmental works also go hand in hand with capital investment supporting other European Union objectives such as regional development and the rational use of natural resources. In 1993, more than 65% of financing to improve the environment involved projects in the EU's less-favoured regions and 12% investment in the energy sector. The Bank works closely with the European Commission, not only because this institution vets all projects financed by the EIB (including their compliance with EU environmental legislation), but also in exchanging information on environmental issues and co-ordinating their respective action in implementing European Union policies. Within the Union their aim is to achieve an optimum mix of EIB loans and grants from European Union financial instruments such as the Structural Funds, the Cohesion Fund and LIFE, the Financial Instrument for the Environment. The Bank assists the Cohesion Fund in identifying and assessing projects and is participating in the Union's Fifth Action Programme «Towards Sustainability».

Under the Agreement on the European Economic Area, extending the Single Market to most of the EFTA countries, the EIB administers the EEA Financial Mechanism. This fund provides for subsidised loans and grants to support investment, including environmental protection, in less-favoured regions of the EU (2). ■

(2) See also «EIB Information» No. 72 and No. 77.

EIB economist wins first prize in international essay competition

The Amex Bank Review Awards were launched in 1987 to promote new writing and analysis on current international economic and financial issues. The Awards are judged by an independent committee of bankers, economists and policy makers which in 1994 included, among others, K.O. Pöhl (former President of the Deutsche Bundesbank), Lord Roll of Ipsden (the president of the jury for the EIB prize) and Professors Ch. de Boissieu (University of Paris) and A. Krueger (Stanford University).

This year David Folkerts-Landau from the IMF and Alfred Steinherr, the EIB's Chief Economist for Eastern Europe, Asia, Latin America and Financial Research (who had already won the 2nd Amex Prize in 1991), were awarded First Prize and a cheque of USD 25 000 for their study entitled «The Wild Beast of Derivatives: To Be Chained Up, Fenced In or Tamed?».

It is the first time that authors from international organisations and non-US/UK citizens have been awarded first prize.

The explosive growth in exchange-traded and over-the-counter (OTC) financial derivatives since the early 1980s has been one of the most profound structural developments in financial markets since the organisation of limited-liability equity markets early last century.

However, this happy picture has been marred by a growing realisation that the new industry has burst upon a regulatory and supervisory stage that was designed for on-balance-sheet finance and that is not suited to deal with derivative finance.

The analysis presented in this study suggests that significant benefits can be

reaped by inducing migration of much of the standardised plain vanilla OTC derivative contracts - about three quarters of total OTC volume - into an exchange/clearing house structure. The key position of derivative markets in the financial system as a whole implies that their transparency, integrity and liquidity are an important public good. By increasing capital requirements for OTC derivative positions and thereby making them more costly relative to exchange/clearing house positions, it is possible to induce a shift towards the exchange/clearing house market structure. Credit risk would thus be reduced by marking to market with margining, transparency of price discovery would

increase, liquidity risk would be lessened by the fungibility of contracts, legal risks would be eliminated under existing laws, and operational risk would be attenuated. Finally, the increase in transparency would reduce systemic risk. ■



Alfred Steinherr



David Folkerts-Landau

ECU

Below are the ECU values in national currencies, as at 30 September 1994; these rates are applied for the fourth quarter in preparing financial statements and operational statistics of the EIB:

DEM	1.92045	BEF	39.498
FRF	6.55435	LUF	39.498
GBP	0.785444	ITL	1931.68
NLG	2.15115	ESP	159.159
DKK	7.53412	PTE	195.78
IEP	0.794241	GRD	292.827
USD	1.241		

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