



# EIB INFORMATION

2<sup>nd</sup> quarter 1996 · N° 88  
ISSN 0250-3891

BANQUE EUROPEENNE D'INVESTISSEMENT  
BANCA EUROPEA PER GLI INVESTIMENTI  
EUROPESE INVESTERINGSBANK  
BANCO EUROPEU DE INVESTIMENTO  
EUROOPAN INVESTITIOPANKKI  
EUROPEISKA INVESTERINGSBANKEN

## EIB borrowing strategy and techniques

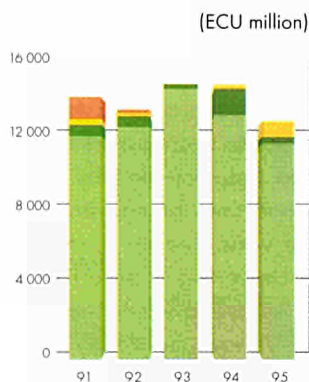
The world's leading international borrower in volume terms, the EIB is constantly present on capital markets across the globe. The blend of pragmatism and flexibility characteristic of Bank borrowing policy serves two purposes: to tap funds at the finest costs and to remain an active player on the different market segments where the EIB funds its increasing resource requirements in the service of capital investment throughout the European Union.

In fact, EIB borrowings over the period 1991-1995 topped the ECU 67.1 billion mark, virtually twice as much as over the period 1985-1990 (ECU 34.7 billion). But it is diversity combined with volume that has earned the EIB its front-ranking position: the EU's long-term financing institution operates in some twenty different currencies on a wide range of markets where it employs a variety of borrowing formulae and issuing techniques. In common with any other large-scale issuer and all the more so as a financial intermediary not motivated by profit in borrowing in order to lend, the Bank tailors its hands-on approach to the constraints of the financial markets, while remaining vigilant to safeguarding the cachet reflected in the "AAA" rating consistently accorded its issues.

### THE BANK'S OPERATIONS EXTEND WORLDWIDE

While the EIB's principal remit is to finance capital projects furthering the balanced development of the European Union, the Bank also contributes towards implementing the Union's aid and development cooperation policies in some 120 countries across the world. The geographical spread of its operations together with annual lending activity totalling more than ECU 21 billion oblige the Bank to operate in twenty or so different cur-

Breakdown of resources raised from 1991 to 1995



#### Medium and long-term operations

- Public issues
- Private borrowings
- Medium-term notes

#### Short-term operations

- Commercial paper

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rencies. In raising the corresponding resources, the EIB has to conduct its borrowing strategy without losing sight of a number of priorities: ensuring that it commands substantial liquidity to cover ongoing loan disbursement requirements; maintaining regular access to the financial markets without running the risk of having to mount future refinancing operations; and minimising the cost of borrowings so as to be able to offer the most

for their national currency or for that of another EU Member Country. Although the Deutsche Mark (DEM), Italian lire (ITL), pound sterling (GBP) and French franc (FRF) represent a substantial proportion of funds raised by the EIB, recent years have seen an increase in the share of currencies such as the Spanish peseta (ESP) or Portuguese escudo (PTE), mirroring the growth in lending activity and the development of the financial markets in these countries.



*René Karsenti,  
EIB Director General of Finance*

In addition, the EIB has from the outset been a long-standing borrower of the principal non-Community currencies, namely the American dollar (USD) and the Japanese yen (JPY); it has also cultivated calls on relatively smaller markets such as those for the Canadian dollar (CAD) and the Swiss franc (CHF). Indeed, these currencies could assume increasing importance within the EIB's portfolio of borrowings to the extent that they help to reduce costs through structured operations accompanied by swaps. At the end of 1995, the Board of Directors authorised the Bank to contract borrowings in non-OECD currencies, precisely with a view to enabling the EIB to extend its issuing activities to emerging markets outside Europe, such as those in South-East Asia where, under this authorisation, the Bank concluded its first Hong Kong dollar operation - for a sizeable amount - in early 1996.

As a leading player committed to building the Europe of tomorrow, ever since its foundation the EIB has sought actively to foster development of the Member States' capital markets. The Bank's role is often a catalytic one in opening new or reopening inactive markets. Within EU Member Countries, it has helped to broach or expand both the Euromarkets and domestic markets for the main European currencies, has been the first to make calls on domestic markets reserved for non-resident issuers, notably in the United Kingdom ("Bulldog" market), Spain ("Matador" market), Portugal ("Cara-

vela" or "Navegador" market) and Greece ("Marathon" market) and has launched operations in two of the Union's new Member Countries, i.e. on the Swedish krona (SEK) and Finnish markka (FIM) markets. At the same time, the EIB has also begun to chart new ground outside the Union with its approaches to the Hong Kong market and domestic Japanese ("Samurai") market where it has arranged a retail-targeted dual-currency issue.

In garnering as many currencies as these on an equally large number of markets, the EIB makes a point of spelling out clear and coherent objectives such that its partners, banks and financial intermediaries, and investors are kept properly informed of the underlying strategy, thereby allowing the Bank to place its issues on the finest terms as to maturity and cost.

#### FROM BENCHMARKS TO STRUCTURED ISSUES

The EIB has traditionally followed a policy of diversifying the form of its calls on the market. As a long-term investment financing institution, the Bank still transacts most of its loans at fixed rates and hence some 80% to 90% of its borrowings are raised on the same basis. Nevertheless, the EIB also offers new products designed to accommodate borrowers' changing requirements: the conventional fixed-rate loan and complementary revisable-rate loan - the rate in this case applies to solely a fraction of the duration of the loan - have been supplemented by the variable-rate loan and the convertible loan, a form of variable-rate loan with the option of converting to fixed rate. Derivatives have also taken off appreciably in recent years, especially currency and interest-rate swaps, enabling the Bank both to schedule borrowings separately from loan disbursements and to increase its role as an intermediary and financial catalyst.

With a view to commanding a guaranteed stream of resources, the EIB floats

attractive lending rates possible, within a particularly competitive financial environment.

With the EIB's core lending activity focused on EU Member States, it follows that the majority of the Bank's resource-raising operations are conducted in the fifteen currencies of the Union plus the ECU: these account for between 80% and 85% of total annual borrowings. But the relative importance of these currencies is also due to the preference on the part of those borrowing from the Bank either

straight benchmark issues on the major European markets as a complement to State borrowings on the latter. Strategically placed and highly liquid, most of these benchmarks comprise large amounts of paper issued, in keeping with demand, on the domestic or international market at either fixed or variable rates. They reflect the growing internationalisation of financial markets which has encouraged large borrowers to launch global bond issues simultaneously in the United States, Europe and the Asian countries.

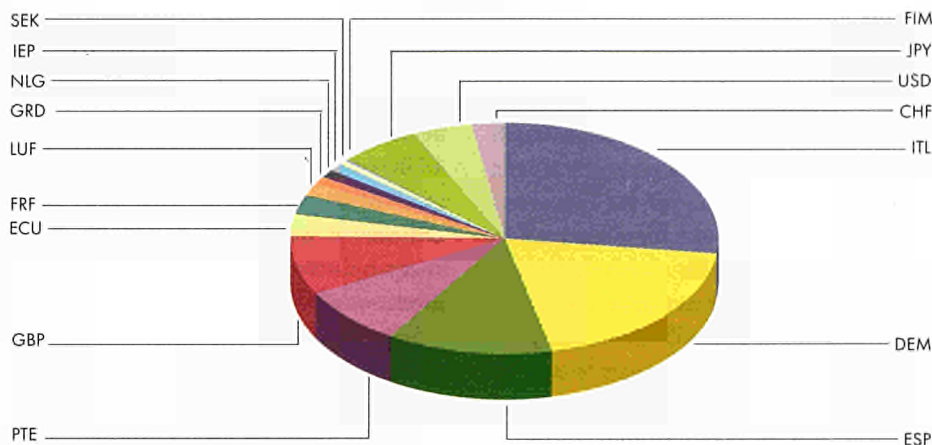
This is not to say that the EIB has eschewed other forms of placement, given its need to enjoy access to the widest possible range of instruments permitting cost-effective resource-raising. Structured issues are custom-made for investors in terms of maturities, currencies or a combination of interest-rate structures.

Instruments of this kind are exemplified by: zero-coupon bond issues denominated in PTE or ITL; step-up coupons in FRF or ESP; dual-rate issues (initially fixed, then variable, rate) in ITL; dual-currency issues on which the interest is paid in one currency (e.g. the yen) and the principal redeemed in another (USD or AUD); or even certificates whose issue and redemption prices are determined in relation to the SE share index on a specific market (i.e. for the Deutsche Mark, Germany's DAX index). All such structured issues are accompanied by currency and/or

The EIB's dealing room



Breakdown by currency of resources raised (1991-1995)



interest-rate swaps making it possible for the EIB to draw readily on the net proceeds for financing its fixed or variable-rate loan disbursements.

MEDIUM-TERM NOTE PROGRAMMES

In addition, with the emphasis on the swiftness and efficiency of its operations - particularly those accompanied by swaps - the EIB has set up medium-term note (MTN) programmes. Initially conceived for the United States in order to fund early redemptions and to consolidate the Bank's footing on a market where it tended to make infrequent appearances, MTN programmes have grown in importance in recent years.

They may take the form of programmes denominated in a single currency and earmarked for a specific market, be this domestic - BMTNs (negotiable medium-term notes) issued in France in March 1996 - or international - ESP MTNs on the "Matador" market, Euroyen and Eurolira MTNs. But the EIB has also created programmes helping to establish a link between the domestic and the international market by virtue of its issues on either one (in IEP, for example) and has also launched highly flexible multi-currency Eurobond programmes. All these programmes

offer the advantage, as part of an overall package that can be drawn on over several years in accordance with pre-established issue documentation, of floating smaller or medium-sized issues with maximum operational efficiency and on more attractive conditions than is possible with larger issues.

INNOVATIVE ISSUING TECHNIQUES

As a large-scale borrower permanently present on the markets, the EIB is particularly interested in seeing that its issues perform successfully from the outset and that it enjoys continued scope for returning to the markets. Consequently, the issuing techniques employed by the Bank on the different financial markets are attuned both to the nature of these markets and to investors' preferences.

For large issues necessitating substantial participation by the financial community, the EIB has adopted the price discovery system, whereby investors are informed, before the issue as such and before the final terms and conditions are established, of the maturity and yield likely to be offered in relation to comparable benchmarks. This system, used, in particular, by the Bank for borrowings denominated in DEM and GBP, helps to sound out investors

in advance as to their precise intentions and to conclude operations on advantageous terms even when markets are temporarily reaching saturation point.

The EIB also has continued recourse to more conventional techniques such as competitive bidding whereby banks are requested to tender for the terms on which they would be prepared to float an issue, the duration and amount of which have already been notified to them. This technique, which serves to reduce costs levied by participating banks, makes it essential to read the market correctly in terms of investors' intentions, failing which the attractiveness of the bid could be to the detriment of sound placement of the issuer's bonds.

By remaining in constant, individual touch with the international financial and banking community, the EIB is able to maintain an ongoing dialogue with its partners in the banking world as to the arrangement of its public issues and private placements. What is more, the EIB has always preferred to have direct access to institutional investors and is set to build on this access in future, particularly by concluding and developing MTN programmes. Its "roadshow" briefings in various key financial centres serve to emphasise the Bank's presence.

#### INTEREST-RATE HEDGING: NEW STRATEGY

As a financial intermediary which has to be able to meet its borrowers' requirements for currencies which cannot necessarily be best obtained on the markets, the EIB is obliged in its resource-raising strategy to optimise considerations of cost-effectiveness, liquidity and product range.

In the circumstances, recourse to currency and/or interest-rate swaps is essential inasmuch as this enables the EIB to tailor its borrowings to loan disbursement needs by, for example,

undertaking straight or reverse fixed/floating interest-rate swaps in a particular currency or by using a currency in abundant supply on the market as a means of obtaining another currency for disbursement purposes. There has been a fourfold increase in these operations since the end of the 1980s to today's level of a notional total of between ECU 3 and ECU 4 billion. It goes without saying that swap operations have meant the introduction of highly circumspect risk-monitoring procedures. Rating-related limits have been set for each of the counterparties with which the Bank does business; where certain counterparties do not enjoy sufficiently high ratings, they have been offered scope to provide equivalent collateral, and special-purpose vehicles have been accepted as back-ups to swap operations with the EIB.

Given volatile conditions on the main financial markets, the Bank has also developed a system for hedging against interest-rate fluctuations, notably by concluding deferred-rate setting (DRS) contracts which make it possible to rediscount the cost of a borrowing already issued when disbursing the net proceeds in loans. A similar mechanism has been adopted within the EIB by constructing a portfolio of bonds which are then resold in line with loan disbursement needs. Hedging operations are reinforced by corresponding ALM (asset/liability management) measures geared to an all-embracing approach to hedging over the longer term.

Finally, as regards target-related funding where the aim is to obtain resources at sub-LIBOR costs much lower than those that can be achieved by other issuers and varying according to the currencies and terms sought, the Bank launches issues which are swapped for floating-rate funds themselves scheduled for subsequent reswapping to cater for the EIB's currency or interest-rate requirements. This opportunistic strategy enables the Bank to con-

struct operations without automatically making the corresponding funds immediately available in loan disbursements but on a basis that still allows borrowers to benefit therefrom whenever they decide to draw their loans down.



In serving the interests of the European Union and supporting projects giving tangible expression to its priority objectives, the EIB has in recent years increasingly separated the scheduling of its borrowings from their disbursement in loans. The Bank's function of intermediary or financial catalyst has been consolidated by a strategy consistent with the goals assigned to the Bank under the European treaties. Those goals are to establish and build on the EIB's standing as a borrower in keeping with the Bank's role as the lending arm of the European Union entrusted with promoting the balanced and integrated development of the Union. ■

# Portugal's first decade in the European Union

When it joined the European Union in 1986, Portugal was confronted with the task of adjusting its economy to face the challenges posed by greater European integration (1). Comprehensive modernisation of infrastructure and industry was required to increase competitiveness and allow the country to take full advantage of the wider European market. In fact, accession to the EU had a dynamic effect on Portugal's economy. The annual volume of EIB lending in Portugal increased from ECU 100 million in 1985 to ECU 1 232 million in 1995. EU transfers combining grant aid from the Union's Structural Funds and loans from the European Investment Bank helped the country's advance on the road to industrial competitiveness and higher living standards. During this period Portugal probably benefited more from EU membership than most other countries with its GDP per capita growing from about 53 per cent of the EU average to some 67 per cent.

## COMBINATION OF LOANS AND GRANTS

EIB loans are one of several sources of EU finance available to Portugal and other assisted regions of the Union. Since the introduction of grant funding under the European Regional Development Fund (ERDF) to promote regional development, with a view to achieving economic and social balance, the regions of the Member States have been subdivided according to their level of development or to "Objectives". The

(1) The European Investment Bank provided its first loans for projects in Portugal in 1976, ten years before the country joined the European Union. During the so-called 'pre-accession' period ending in 1985 the Bank lent a total of ECU 725 million.

main thrust of the funding is directed at "Objective 1" areas, the least developed regions, which receive about three quarters of the ERDF funds. The whole of Portugal is eligible for assistance from EU Structural Funds under Objective 1 and from the Cohesion Fund.

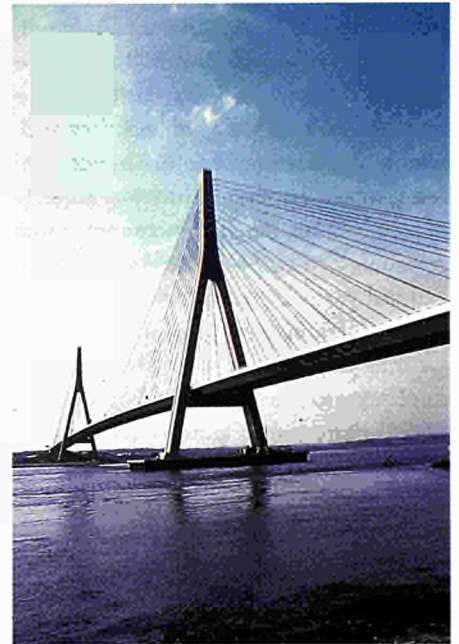
The Cohesion Fund was set up by the Maastricht Treaty and provides grants to selected projects in the four countries with lowest GDP *per capita* (Greece, the island of Ireland, Portugal and parts of Spain) in the environmental sector (notably water supply and treatment) and transport infrastructure, in particular those improving links with the rest of the Union.

There is also a number of so-called "Community Initiatives", involving grant financing aimed at overcoming the problems of particular economic sectors (such as textiles) or reconvert-ing areas heavily dependent on economic activities in decline.

Finally, Portugal is a beneficiary of the EEA Financial Mechanism, which provides grants and interest rebates funded by a number of EFTA States. It was set up when the European Economic Area (free trade area between the EU and the EFTA countries with the exception of Switzerland) was negotiated and is managed by the EIB on behalf of the EEA countries and the European Union.

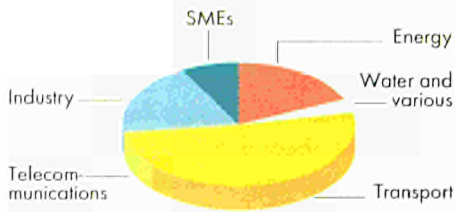
Community assistance strives to combine, in an appropriate way, assistance in the form of grants and loans to maximise the economic stimulus of the resources deployed. That combination is determined through a close working partnership between the EU Commission and the EIB.

Against this background, the construction of the second road bridge across the Tagus estuary, between Montijo on the south bank and Sacavém, close to the Lisbon's Expo '98 site, is a good example of EIB support in cooperation with the Commission for one of the largest infrastructure projects currently under construction in Europe.



The bridge is being built by a private consortium under a concession, which includes the right to operate both the old and the new bridges. EU funds have been used to achieve an equilibrium to allow the concessionary a fair financial return, keep the national contribution to the capital cost to a minimum, and ensure suitable levels of service. As a result, approximately one third of the cost is being funded by grants from the Cohesion Fund and another third in long-term loans from the EIB with the support of a group of leading national and international financial institutions.

**Distribution of EIB lending in Portugal  
(1986 - 1995) by sector:  
ECU 9 billion**



### EIB LENDING REACHES ECU 9 BILLION

EIB loans for projects in Portugal during the first decade of EU membership totalled ECU 9 billion. These helped finance projects costing some ECU 22 billion, representing a considerable proportion of total new capital investment in the country. Projects supported by the EIB in recent years amounted to some 20% of gross fixed capital formation in Portugal; nearly half of them also benefited from grants from the Union's Structural Funds, from the Cohesion Fund (since 1994) or from the Financial Mechanism of the European Economic Area (since 1994).

About three quarters of the funds (ECU 6.4 billion) were devoted to strengthening **basic infrastructure** essential for the development of the country. Top of the list was the financing of **roads** (ECU 2 billion to BRISA and Junta Autónoma de Estradas), specifically the motorways serving Lisbon and Oporto and providing links with Spain and the other EU countries, as well as national and secondary roads throughout the country. **The rail network's** mainlines were modernised with EIB loans, totalling nearly ECU 400 million, going to CP and Nós Ferroviários de Lisboa e porto.

Various loans also contributed to the upgrading of **port and airport** installations (ECU 126 million), in particu-

lar for improving links with the Azores and Madeira as well as many other destinations in and outside the European Union. Funding was similarly provided for strengthening **telecommunications** networks throughout the country (ECU 818 million).

In the **energy sector**, loans totalling ECU 1.5 billion were granted for a thermal power plant at Sines (EDP) and hydroelectric plants in the north and centre of the country as well as for power transmission and distribution schemes. An EIB loan to Transgás for a connecting gasline from the Spanish border to Western Portugal is bringing cleaner natural gas to house-

holds and industrial users in Lisbon and other urban areas. In addition, the Bank is also financing the local gas distribution networks in central and southern Portugal.

Financing **industry and services** (ECU 2.5 billion) is another EIB priority. Apart from several large loans provided for investment in the automobile industry such as the Volkswagen/Ford plant at Setúbal, the development of the Somincor copper mine in the Alentejo, and paper production plants operated by Soporcel and Inapa, a number of other private investors in Portugal were also financed, notably Sonae in the wood sector and the Amorim

### THE EIB AND THE NAVEGADOR MARKET

One of the core objectives of the European Single Market was the progressive establishment of an area without internal frontiers, with freedom of movement of goods, services and capital. In line with these objectives, the EIB contributed to the development and internationalisation of the capital markets in the Member Countries. In this context, the Bank inaugurated the market for Escudo-denominated foreign bonds, the so-called 'Navegador' or 'Caravela' market, launching a first fixed-rate bond issue of PTE 5 billion in 1988.

Between 1988 and the end of 1995 the Bank has been by far the largest issuer on the Navegador market, collecting PTE 357.5 billion. In March 1994, the EIB again played a pioneering role in launching the first floating-rate issue on the Navegador market using for the first time the LISBOR market index for its bonds.

In 1995, the Bank raised the equivalent of ECU 1 billion in Escudo-denominated bonds (eight per cent of total EIB borrowings). The largest issue to date was a PTE 50 billion operation launched by the EIB in November 1995.

However, a single financial market also entails increased competition among financial institutions. In this context, the specific characteristics of the EIB, as a Bank and EU institution, have made it a valuable partner for Portugal's financing institutions, notably in the study and evaluation of major projects, in the intermediation of EIB loans to small and medium-scale ventures, in the provision of guarantee facilities and in the lead management and syndication of EIB bond issues on the national and international capital markets.

group in the cork and hotel industries. EIB global loans (credit lines) totalling ECU 636 million to local banks helped finance some 2 200 small and medium-sized enterprises (SMEs). This close partnership with the Portuguese financing institutions allowed the EIB to reach SMEs throughout Portugal. This was one of several areas of cooperation between the EIB and Portuguese financial institutions. The development of the financial sector culminating in Portugal's membership of the European Monetary System in 1992 was, incidentally, a notable Portuguese achievement of the last decade.

Any project in Portugal is eligible for EIB financing *prima facie* under the regional development objective, provided it is financially viable, technically sound and economically justified. As in the other Member Countries, many projects financed by the EIB in Portugal meet several Union policy objectives simultaneously. Other priority objectives include energy saving and diversification of energy sources, industrial competitiveness (mainly through the funding of advanced technology) and the development of small and medium-sized enterprises. The EIB is also playing a major role in the financing of efficient **trans-European networks (TENs)** in the fields of transport, telecommunications and energy, which are vital for European integration. Of particular interest is the objective of environmental protection and improvement of the urban environment.

#### EMPHASIS ON URBAN DEVELOPMENT

In Portugal, the major population concentration is to be found along the coastal strip. The outskirts of metropolitan areas like Lisbon and Oporto have also grown, as people have moved from the city centres and the countryside. Almost a third of EIB financing in Portugal has so far been concentrated in the Lisbon area because of the rapid economic development and expansion of

the city. Here, the Bank financed in particular the extension of the metro, the construction of the second bridge over the Tagus, motorway bypasses and the development of an area upstream from the city where the Lisbon '98 Exhibition will be held.

The largest single transport investment in the capital was that of the metro, with a cost estimated at about ECU 1.2 billion. Developing the metro was essential to contain and reduce road congestion. This is being achieved by breaking the previous single inverted Y shaped network into three distinct lines, able to handle greater volumes of traffic, and linking them with other types of public transportation such as buses, trains and ferries. This scheme has benefited from some ECU 600 million in EIB loans and attracted interest rebates under the EFTA Financial Mechanism. The EIB's share in total financing has been increased beyond the Bank's normal level of support, in line with the "Growth Initiative" decided by the Edinburgh European Council of Heads of State and Government in December 1992.

A railway line under the "25th April" bridge, connecting Fogueiteiro, in the Setúbal district and linking up with the circular railway line in Lisbon, a crucial complement to the new road

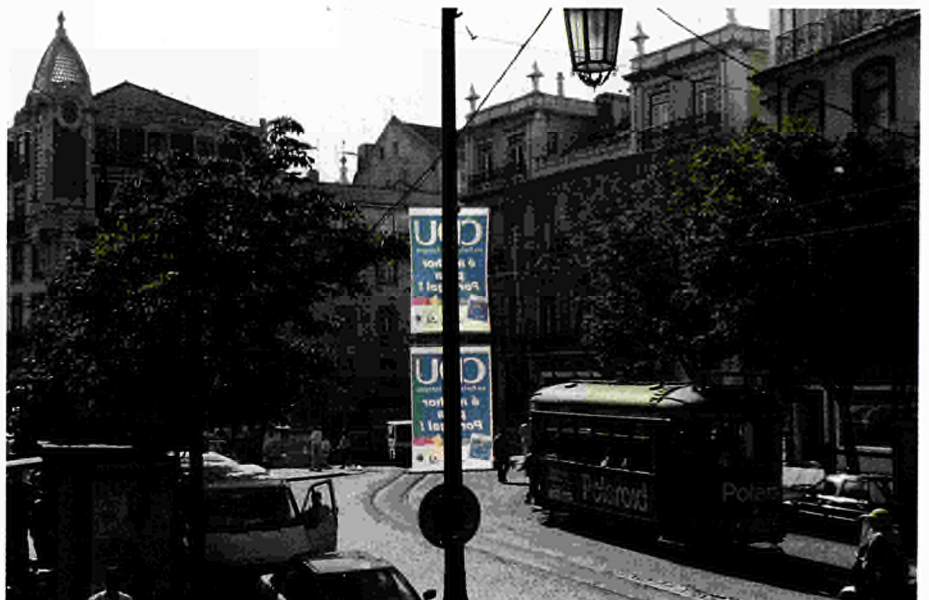
bridge, is also being financed by the EIB. This new rail link (together with other improvements to the interface with the Lisbon metro) is essential for upgrading connections between the north and south of the Tagus and for reducing congestion on the "25th April" road bridge, by diverting some of the road traffic to rail.

The largest EIB-financed road schemes in Lisbon were the inner and outer ring-roads and a north-south link between the second ring and the viaduct giving access to the bridge.

EIB loans also helped finance improvements to the Lisbon-Sintra railway and the sewage treatment facilities along the coast west of Lisbon.

Several loans were granted for the modernisation and extension of the telephone network under an impressive investment programme carried out by Portugal Telecom.

The EIB has thus contributed a substantial part of the funding for various large infrastructure projects being undertaken at present in the Lisbon area. The improvement of living conditions in the capital should become increasingly evident as more and more of these infrastructure works are completed.



Similarly, many EIB loans helped fund telephone, road and railway schemes in and around the city of Oporto.

An example of EIB financing in the environmental sector is the multi-purpose water collection and supply scheme to secure water supplies in the eastern Algarve. The project is being undertaken by the Instituto Nacional da Água and includes construction of a dam on the River Odeleite.

#### EIB LENDING IN THE AZORES AND MADEIRA

To develop basic infrastructure on the Azores in the mid-Atlantic, the EIB helped improve electricity generation and distribution. It also financed the development of airports (Flores, São Miguel), roads, harbours (Terceira) and

tourist facilities, as well as the acquisition of aircraft for flights between islands in the groups.

In Madeira, the Bank helped finance extensions to the port and airport at Funchal, an access road to the airport, development of the power supply grid, a sewage collection, treatment



and offshore disposal scheme and telephone connections with mainland Portugal and Africa. In addition, in response to regional problems caused by natural disasters, the EIB contributed to reconstruction in Madeira, after the cyclone of October 1993.

Portugal as a whole is striving to catch up with its EU partners by strengthening the manufacturing and service sectors to equal those of other Member States. In partnership with Portuguese financial institutions and public and private investors, the EIB is playing an important role as a provider of long-term funds for high-priority infrastructure investment and business schemes. The EIB is committed to help achieve the goals set by Portugal's regional development plan in the remaining years of the century and beyond. ■

## The EIB presents ...

### A NEW VIDEO FILM



A new 13-minute video entitled

'Financing European Integration' and explaining the role and activities of the EIB is now available in English, French, German, Italian and Spanish.

The film describes the EIB's dual role as a bank and an EU institution and outlines the Bank's decision-making, by the Board of Governors, Board of Directors and Management Committee, for raising funds on the capital markets and financing projects appraised by the staff of the Bank.

Television stations, Chambers of Commerce, Infocenters, professional associations and universities will find the film a valuable support for explaining and understanding the work of the EU's financing institution.

*VHS PAL copies (BVU for TV stations) may be obtained free of charge by contacting Ms Pernille Sørensen, EIB, 100 Bd Konrad Adenauer, L-2950 Luxembourg, Tel. 4379-3141 Fax 4379-3189.*

### GUIDE TO TENDERING FOR CONTRACTS

This "Guide to tendering for contracts" for projects financed by the EIB is designed to provide promoters, and their suppliers, with information on the procedures attaching to EIB financing with regard to tendering and briefing of potential bidders as well as compliance with Community legislation. The publication (8 pages) does not go into the details of specific cases or projects, but

is intended rather to serve as a general guide. Further information can be obtained by contacting the EIB.

The publication is available in the different languages of the Union.

### A CITIZEN'S GUIDE TO THE INSTITUTIONS OF THE EUROPEAN UNION

"Serving the European Union" is a joint publication by the Union's institutions explaining their respective roles in the inter-institutional set-up and their working together. The booklet (32 pages) has not been written for those with a deep knowledge of how the European Union works; it is for the citizen in need of a helpful guide.

The publication is available in the eleven languages of the Union. It can be obtained from all EU institutions and at the EIB free of charge.

*Both publications can be ordered from the Information and Communications Department, Information Desk, 100, Boulevard Konrad Adenauer, L-2950 Luxembourg, Fax 4379-3189. ■*



# EIB lending for the urban environment

Protection of the environment and improvement of the quality of life in densely populated urban areas where two out of every three Europeans live and work, is a major challenge to the European Union and a topic of great public concern. The European Investment Bank, committed to the Union's policy objective of safeguarding the environment, supports the improvement of the urban environment and the quality of life of European citizens through the financing of urban transport, urban renewal and waste management projects. The Bank centres its lending activity on infrastructure where, among other things, the objective is to promote sustainable urban structures through appropriate investment in public transport and other schemes reducing traffic congestion and associated pollution. Between 1991 and 1995 the Bank advanced over ECU 7 billion for the urban environment.

## THE EIB'S ENVIRONMENTAL LENDING

The two key components of the EIB'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. Over the past five years (1991-1995), some ECU 22 billion have been provided for environmental projects encompassing a broad spectrum of operations ranging from schemes improving the quality of drinking and bathing water, including vast river systems, wastewater collection and treatment works, of which many involving municipal sewerage and sewage treatment, treatment of effluent from industrial plants, equipment designed to reduce atmospheric pollution from coal-fired power stations, incineration plants, refineries and industrial factories, solid waste collection and processing, reforestation

projects, schemes combating soil erosion and flooding to urban environment projects.

Small or medium-scale environmental ventures promoted by local authorities or private enterprises are financed through global loans. These loans are similar to temporary lines of credit opened with other banks or financial institutions operating at European, national or regional level.

As for other European Union objectives, the majority of loans goes to investment located in the assisted areas, eligible for funding from the European Union's Structural Funds and Cohesion Fund. Outside the European Union, where the EIB operates within the framework of the Union's co-operation policy, most of its lending is in water catchment, treatment and supply.

## URBAN TRANSPORT

The continuing growth in road traffic flows is one of the most urgent urban problems. Sustainable mobility, reconciling the need for mobility and protection of the environment as well as a high level of safety, is a

priority on the Union's political agenda and a key area in the EIB's environmental lending activity. To alleviate the negative impact of traffic congestion and noxious emissions, the Bank finances well-conceived public transport schemes and road works, such as construction of by-passes, ring-roads, bridges, tunnels and car parks. Public transport investment includes conventional underground rail lines, innovative light rail networks, tram lines and bus systems. EIB financing has supported many major urban transport schemes throughout the Union, including underground rail lines, light rail networks, tram lines and bus systems in Athens, Lisbon (1), London, Madrid, Manchester, Naples, Nantes, Rome, Sheffield, St. Etienne, Strasbourg, Stuttgart, Toulouse and Valencia as well as schemes to develop roads, bridges, tunnels, car parks and by-passes in Amsterdam, Athens, Barcelona, Bordeaux, Copenhagen, Dublin, Düsseldorf, Helsinki, Innsbruck, Marseilles and Lyons.

The largest share of EIB funding for urban transport is in light rail and underground schemes as the Bank wishes to support the traffic, environmental and urban regeneration benefits generally associated with rail traffic.

## AN INTEGRATED APPROACH

The EIB pays special attention to ensuring that individual urban transport schemes form part of an integrated transport plan or a comprehensive strategy to enhance the quality of urban life for the city or conurbation as a whole. This urban policy can be part of a regional policy plan. Individual projects seek to foster an effective integration of public transport systems and suitable connections between public and private modes as well as of long and short distance movements of traffic. On the other hand, long distance net-



(1) See also the article "Portugal's first decade in the European Union", page 5.

works, in particular the Trans-European Networks (TENs), should be linked into local systems.

Sometimes transportation projects are accompanied by amenity-improving operations such as pedestrianisation schemes and the provision or remodelling of public open spaces. Accompanying measures such as suitably located park and ride facilities and traffic management policies are in most cases part of the planning background, even if they are not directly financed by the Bank.

Urban transport funding may also contribute to cultural and architectural heritage protection objectives. The EIB has financed schemes helping the renewal of urban centres of historical interest in Barcelona, Dublin and many cities in Italy, for instance Bologna, Ferrara, Florence, Savona and Trento.

**URBAN WASTE AND OTHER PROJECTS**

EIB lending for urban waste processing projects includes the collection and treatment of household and industrial waste and the disposal of toxic waste. The Bank's operations over the years 1991-1995 encompassed sewerage and wastewater collection and disposal facilities in a range of cities in Eastern Germany, Greece, Spain and Italy and many others in Amsterdam (The Netherlands), Copenhagen, Aarhus, Grindsted, and Odense (Denmark), and Belfort, Lyons and Nancy (France). Household and similar waste incineration plants, often combining heat and power, were for instance financed in Alkmaar, Beuningen and Klundert (The Netherlands), Antwerp (Belgium), Nantes and Cergy-Pontoise (France), in Madrid and on the Island of Mallorca (Spain), in Aarhus (Denmark) and North-Rhine Westphalia (Germany).

Other urban development schemes funded by the EIB are industrial restructuring programmes designed to transfer

factories and industries to out-of-town sites as for instance in Spain and Italy.

**PROJECT APPRAISAL**

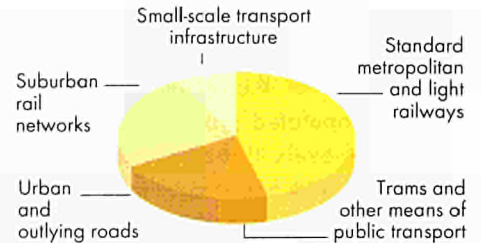
The procedure to appraise urban investment projects is no different from the normal in-depth appraisal executed by the EIB. A multi-disciplinary team of economists, engineers and financial experts examines the economic, financial, environmental and other technical aspects of the project. An environmental impact assessment is always part of the appraisal procedure. A main feature in the Bank's appraisal of urban projects centres on judging whether the project is inserted into a coherent urban development strategy. This can be a complex operation since traffic management programmes often consist of sets of measures aimed at finding a balance between conflicting objectives. There may be, for instance, conflicting interests between protecting the historical centre from negative impacts of traffic and exploiting its economic and commercial potential as a pole of attraction to visitors and a suitable location for modern urban activities. In assessing the technical, financial and economic viability of the project as such, EIB staff may also face particular problems. The impacts of traffic management measures, such as time savings or changes in modal choices, and their financial and economic implications may be difficult to trace and quantify precisely.

**LINKS WITH OTHER EU INITIATIVES**

The EIB works closely with the European Commission to co-ordinate their respective actions supporting environmental projects with the aim of achieving an optimum mix of EIB loans and grants from the European Union's Structural Funds and Cohesion Fund. The "Objective 2" regions of the European Regional Development Fund (ERDF), i.e. those affected by industrial decline, in particular include many urban areas.

A key instrument of urban environmental policy within the framework of the ERDF is the "URBAN Initiative", one of the

**Urban transport within the European Union from 1991 to 1995**  
ECU 5.8 billion



"Community Initiatives" launched by the European Commission for the years 1994-1999 to overcome the specific problems of certain economic sectors or areas in industrial decline. The "URBAN Initiative", focusing on underprivileged neighbourhoods in medium and large cities, provides ECU 400 million in grants for "Objective 1" regions, i.e. the less developed regions, and ECU 200 million for "Objective 2" areas. These grants are complementary to the mainstream of ERDF funds under the heading of "Community Support Framework" financing, i.e. grants provided on the basis of national or regional development plans, along with EIB loans as, for instance, for the Lyons urban renewal programme.

The EIB assists the Union's Cohesion Fund-providing grant aid for environmental and transport infrastructure investment in the four countries with the lowest GDP *per capita*, Greece, Spain, Ireland and Portugal-in identifying and assessing projects. The Bank also finances projects receiving grant aid and interest rebates from the EEA Financial Mechanism funded by the EFTA countries (2). Urban rehabilitation is one of the areas eligible for financing from the EEA Financial Mechanism; the extension of the Lisbon metro is being partly financed under the Financial Mechanism, as well as the modernisation of rolling stock and infrastructure for suburban railway systems in Spain's nine largest cities. ■

(2) See also EIB Information N° 84, pages 10 and 11.

# METAP: helping to preserve and manage a shared resource in the Mediterranean

Twenty-two countries on three continents share an immense cultural and natural heritage in the Mediterranean basin. Despite the political, economic and social diversity of these peoples, they have a strong regional identity built on centuries of commerce and communication. The Mediterranean environment has always been close to the centre of European history, as the local populations took advantage of the sea's coastal and marine resources. Today the Mediterranean region is facing a new set of environmental challenges, as countries on the southern and eastern shores have moved rapidly over the past few decades from agricultural to industrial economies. At the same time, populations are growing rapidly and urban migration has intensified. These trends are having an immense impact on the shared environment of the Mediterranean. The scarcity of natural resources, particularly arable land and fresh water, in the region, coupled with inadequate environmental management, have led to increasing economic and public health costs.

Working in partnership, the European Investment Bank and the World Bank in the late 1980s co-ordinated international support to address the degradation of the Mediterranean region's natural resources and cultural heritage, particularly of the sea which is considered to be one of the region's most valuable assets. Of equal concern was the alarming increase in water scarcity in the southern and eastern Mediterranean region, and the increasing burden of inadequate environmental services in the region's rapidly growing urban areas. In their report, the "Environmental Program for the Mediterranean", the EIB and the World Bank drew attention to the urgent need to stop pollution and set out a strategy to build the necessary

environmental institutions and to facilitate investment through the establishment of the Mediterranean Environmental Technical Assistance Program (METAP). METAP built on several legal

tal situation in the Mediterranean. METAP II (1992-1995) translated the general objective of cleaning up the Mediterranean into practical steps, mainly through building up appropriate



instruments and declarations at European Union, United Nations and Mediterranean levels, reflected in the Blue Plan, a component of the Mediterranean Action Plan (MAP).

## A COMPREHENSIVE APPROACH

METAP, launched in 1990 to help halt and reverse the environmental degradation of the Mediterranean basin, has brought together four key donors: the European Investment Bank, the World Bank, the European Commission (EC) and the United Nations Development Programme (UNDP). Its objectives are to assist, at a national and regional level, countries with a Mediterranean coastline to find solutions to common environmental problems by developing policy options and mobilising grant resources.

METAP has followed a three-phased approach: METAP I (1990-1992) concentrated on taking stock of the environmen-

tal situation in the Mediterranean. METAP II (1992-1995) translated the general objective of cleaning up the Mediterranean into practical steps, mainly through building up appropriate institutional frameworks and preparing feasibility studies for investment projects. METAP III will carry these objectives further, with an emphasis on progressive implementation of regional and country-specific investment schemes. It integrates technical assistance at all levels: individual, regional, national, trans-national, including North-South dialogue, and the exchange of know-how and experience, mainly for project preparation activities (pre-investment phase), to assure a sound project pipeline, investment financing, training and international cooperation/coordination/control through the Mediterranean networks (1).

(1) Mediterranean Networks (partly supported by METAP) include: MED POL for marine pollution, MEDCITIES linking coastal cities with similar pollution problems, MEDPAN as a forum for national park managers, MEDNEA as a forum for national environmental ministries or agencies, MEDWAN for water-resources authorities and agencies, and MEDGEOBASE as a database for coastal zone planning using satellite scans.



### CONCRETE AND SATISFACTORY RESULTS

During the first two phases of METAP, nearly 100 technical assistance activities have been funded with a total of over ECU 23 million (USD 30 million) (2) in 21 Mediterranean countries. METAP funds supported capacity building and project preparation activities in the fields of integrated water resource management, solid and hazardous waste management, prevention and control of marine oil and chemical pollution, as well as coastal zone management (including biodiversity). Of this, nearly 85% geographically went to activities in countries on the southern and eastern rims of the Mediterranean.

Environmental capacity building, project identification, and action planning

activities financed by METAP have identified or contributed over ECU 1.1 billion (USD 1.4 billion) to ongoing or planned investment in these countries. Through its donors, METAP can draw on or combine resources from various international and European Union environmental programmes: the European Union's MEDSA (pre-investment costs) and LIFE (investment financing in the European Union and other Mediterranean countries), ENVIREG (investment financing in the Union) and the "Horizontal Facility" (3) (countries outside the EU), as well as the Global Environment Facility (GEF), a multilateral fund, implemented by the World Bank, the UNDP and the United Nations Environment Programme (UNEP), providing grants and concessional loans to developing countries mainly for biodiversity and international waters.

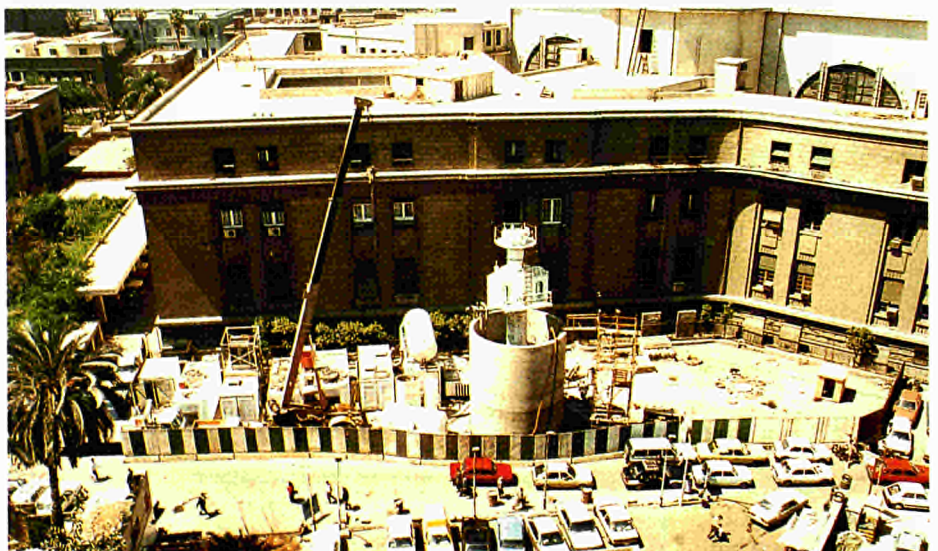
An independent evaluation team acting on behalf of the METAP partners has reviewed 27 schemes in 6 countries and concluded recently that the METAP program is valued and desired by the countries concerned, for increasing environmental awareness and its catalytic and innovative role in stimulating appropriate investment activity. The new financial envelope for METAP III, to be decided at a Ministerial Conference later this year, is expected to be reinforced with stronger support from the EIB and the other donors.

The EIB and the World Bank will continue acting as co-managers of the program to take responsibility for the execution of individual activities on behalf of the METAP donors.

It will take more than a few years of technical assistance to counter the environmental impact of 5 000 years of human activity in the Mediterranean Basin. METAP should therefore be seen as a co-ordinating mechanism for international partnership to reverse pollution-caused degradation and improve environmental conditions for the benefit of peoples on all sides of the Mediterranean Sea. For the EIB, it has also served as an example for the development of other regional initiatives, notably for similar programmes concerning the Baltic, as well as the Oder, Elbe and Danube River basins. ■

(2) ECU 1 = USD 1.3 at 31.12.1995

(3) The Union's co-operation with the Mediterranean region was given fresh impetus with the launching in 1992 of its Redirected Mediterranean Policy. The EIB is playing a key part in implementing the financial co-operation component of this policy, which foresees ECU 1.5 billion of EIB loans allocated bilaterally to specific beneficiary states under 5-year individual Financial Protocols. This is supplemented by a global "Horizontal" or "Off-Protocol" facility of ECU 1.8 billion for the Mediterranean as a whole. The "Horizontal" facility is aimed at financing infrastructure projects with a regional dimension or interest, as well as projects to protect the environment, the latter attracting a 3 % interest rate subsidy on EIB loans, financed out of European Union budgetary resources.



# Operations Evaluation at the EIB

Operations evaluation has long been part of working procedures at the European Investment Bank for its operations outside the European Union, carried out partly independently and partly in co-operation with the European Commission as stipulated in the Lomé Conventions. The EIB has now decided to embark on a new phase of ex-post evaluation (1) to include operations within the Union, and an Evaluation Unit (EV) has been set up for this purpose.

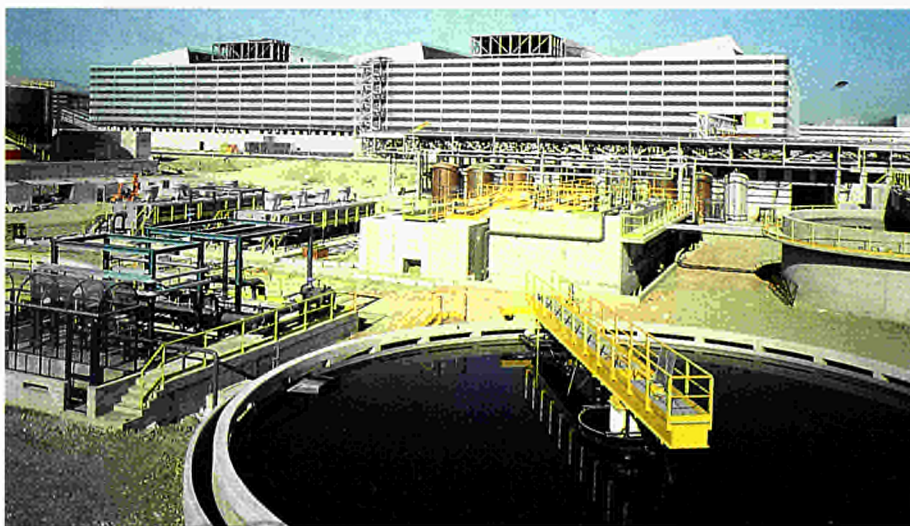
## EV'S TERMS OF REFERENCE

The Operations Evaluation Unit's terms of reference were drawn up on the basis of the EIB's own experience and discussions with other multinational or bilateral financing institutions active in ex-post work. Special attention was paid to the EIB's particular circumstances where the donor/recipient relationship, dominant in multilateral financing institutions primarily concerned with developing countries, is replaced by a client/bank relationship in which the market is the driving force.

EV conducts impartial ex-post analyses of projects financed by the EIB in the Member Countries of the European Union or outside the Union in order to :

- improve ongoing and future operations in the light of past experience;
- increase transparency in the conduct of EIB operations, in particular with reference to the Bank's contribution to implementing Union policies;
- strengthen, in collaboration with the EIB's operational departments, the Bank's capacity for self-evaluation.

The Evaluation Unit will analyse a series of projects in relation to a sectoral theme, a statutory objective or a region, according to an annual work programme



approved by the EIB's management. In the course of these analyses, EV will also verify the efficiency of the EIB's procedures as well as of its lending policies.

It will produce annual activity reports and publish ad hoc reports on some of the studies it carries out. Regarding these publications, the Bank will of course guarantee confidentiality vis-à-vis its clients and ensure that individual promoters are not identified.

In collaboration with the Information and Communications Department (EI/Inf), the new Unit will represent the EIB in international fora where operations evaluation methodologies and experiences are discussed.

## TEAM EVALUATION

The evaluation process relies on a team of EIB professionals. EV staff includes a technical adviser, a financial analyst, an economist, and three assistants. It is headed by Jean-Jacques Schul, an agricultural engineer by training, who led the EIB's technical advi-

sers from 1990 to 1995. Before joining the European Investment Bank in 1978, Mr Schul had three years' experience in the Operations Evaluation Department of the World Bank. As one of the EIB's senior staff, he will ensure that the EV's findings are brought to bear in senior management decisions. The other members of EV are Bernard Bélière (technical adviser), Peter Helger (financial analyst) and Flavia Palanza (economist).

As the credibility of evaluations depends on their impartiality, EV staff are free to use their own judgement and express their own opinions. Such freedom will be guaranteed by EV's position within the EIB, as a Unit directly answerable to the President and to the Management Committee.

## 1996 WORK PROGRAMME

Having already carried out a study on Sewage Treatment Plants, EV's first assignments for 1996 will concern the performance of the EIB's portfolio of telecommunications projects and the Bank's contribution to regional development and European Union infrastructure through its financing of rail and road projects. ■

(1) The term "evaluation" is synonymous with the term "ex-post evaluation" used by other organisations.

**FIRST EV REPORT**  
**PERFORMANCE OF A SAMPLE OF NINE SEWAGE TREATMENT PLANTS**  
**IN EUROPEAN UNION MEMBER COUNTRIES**

The Operations Evaluation Unit's (EV's) first publication is based on an ad hoc study carried out on behalf of the Bank by an outside consultant. It is an evaluation of the technical, financial and environmental performance of nine Sewage Treatment Plants (STPs) in five European Union (EU) countries, which were financed during the period 1985-1993. The conclusions are those of the outside consultant, complemented by EV comments where appropriate.

As shown in the table below, the consultants rated the nine STPs according to a 5-level scale: excellent (A); minor improvements possible (B); minor problems need attention (C); structural problems need attention in the long run (D); and, no data available (na).

**PERFORMANCE RATINGS**

PERFORMANCE	A	B	C	D	na	TOTAL
1. Technical	2	7				9
2. Financial	4	2	2		1	9
3. Environmental	1	6	2			9
4. Sustainability	1	1	4	3		9

The breakdown of financial data was not sufficient to permit a full analysis of capital charges, overheads and revenues for each separate unit : promoters manage several plants and clients are charged according to the volume of clean water supplied while STP operating costs depend on the volume of waste water treated. However, the available data indicate a generally healthy situation among the STPs analysed (four public enterprises, four private, and one mixed), with costs slightly exceeding allocated revenues in two plants only. This satisfactory financial performance confirms earlier findings in another EU country and suggests that the STPs evaluated largely respect the "polluter pays" principle.

All the stations were shown to be making a significant contribution to pollution abatement. Environmental performance measured against applicable EU and national standards was considered to be adequate bearing in mind that EU Waste Water Directive 91/271/EC will come into force only after 31st December 1998. However, reduction in key pollution factors is heavily dependent on the presence of secondary and tertiary treatment facilities, currently absent from two STPs constructed before the Directive was issued in 1991. In terms of sustainability, based on the plants' potential to meet future environmental standards for both waste water and sludge, a number of structural problems remain to be solved.

The consultants completed their report with five key recommendations on EIB procedures : (a) the EIB should monitor more systematically STPs' performance; (b) it should actively promote exchange of technical information among STPs; (c) for projects involving several plants, more detailed accounting procedures would stimulate greater quality and efficiency; (d) the EIB should apply the "total solution concept" in which projects are defined to satisfy longer term needs; and (e) pre-audit questionnaires should be used systematically. Measures have been taken for the adoption of the last two recommendations; for the others, the EIB is considering action in the light of competing objectives.

Full report is available on request from the EIB's Information and Communications Department -fax (+352) 43 79 31 89

# The EIB at fairs and exhibitions in 1996

In keeping with the European Union institutions' commitment to transparency and openness, the European Investment Bank has widened the scope of its information and communications policy, in particular by increasing the use of electronic media technology and

the banking sector, economic operators in the public and private sectors, and the media. The Bank also aims to increase public awareness of the EIB's role and achievements furthering European Union policy objectives. In the case of important European political events such



Visit of the EIB Governor for Greece, Minister for National Economy, Yannis Papantoniou to the EIB stand at the Thessaloniki fair.

intensifying inter-institutional co-operation in the field of publications and participation in fairs and exhibitions. The Bank also contributes to public debate on key European issues through organising the EIB Forum. The first EIB Forum in Amsterdam in May 1995 examined the role of the private sector in financing large infrastructure. The second, to be held on 24-25 October 1996 in Madrid, will focus on the outlook for partnership in the Mediterranean.

The EIB is increasingly present at major fairs, exhibitions and other media events which are of interest to the Bank. The EIB's objective is to establish and extend relations with reference groups such as

as the European Council meetings, the EIB's objective is to provide an information and contact point for the journalists who regularly cover major European Union events or meetings.

In 1995, the EIB attended, among others, the City Transport '95 Exhibition in Paris, the International Trade Fair in Thessaloniki, the International Engineering Fair in Brno, the International Fair in Bucharest and the European Finance Convention in Madrid. The Bank has its own information stand and, in addition, participates with other European Union institutions in a large EU stand, coordinated by the European Commission. ■

1996 PROGRAMME	
29 March	European Council Meeting, Turin
1-7 April	Rand Easter Show, Johannesburg
15-21 April	Flanders Technology, Ghent
9 May	La Journée de l'Europe, public event on the Kirchberg, Luxembourg, organised by the EU institutions based in Luxembourg
21-22 June	European Council Meeting, Florence
7-16 September	International Trade Fair, Thessaloniki
24-26 September	The European Market for Infrastructural Projects, Rotterdam
22-25 October	International Conference and Fair on Environmental Technology (UTECH), Vienna
24-25 October	EIB Forum 1996 on "The Mediterranean: Working in Partnership", Madrid
6-7 December	European Council Meeting, Dublin

Visit of the European Commissioner, Franz Fischler, Innsbruck Autumn Fair.



# 1st Quarter of 1996: ECU 3.9 billion in loans

During the first quarter of 1996, the EIB lent ECU 3 888 million in all for projects furthering European policy objectives.

Within the European Union, financing totalled ECU 2 554 million in individual loans made available for relatively large-scale capital schemes and ECU 1 277 million in global loans, concluded with banks and national or regional institutions, designed to promote small and medium-scale ventures. The EIB mounted operations in nine Member Countries (Denmark, Sweden, United Kingdom, Netherlands, Belgium, Germany, France, Italy and Spain). In addition, it financed the launch by EUTELSAT of three television satellites and helped to strengthen infrastructure in Iceland.

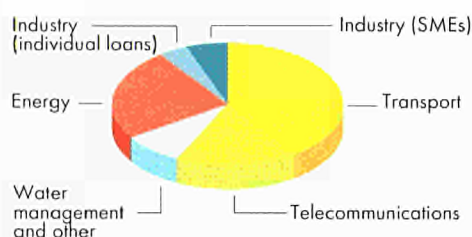
In terms of sectoral breakdown, almost ECU 1.2 billion centred on land-based transport: in the United Kingdom, sections of the trans-European road network linking, on the one hand, Scotland and the North of England to London: A1 (M), near Peterborough, and the link road between the A1 - M1 in Yorkshire; and connecting, on the other, near Bristol, the M4 and M5 motorways. In Denmark and in Sweden, the Bank continued to finance fixed links across the Öresund (a priority TEN) and the Great Belt, as well as modernisation of the Swedish railway system. In France, it advanced funds for extension of the Mediterranean TGV line towards Marseilles and Nîmes, part of the European outline or master plan for the high-speed train network.

In the energy sector, lending centred on a new submarine gasline conveying North Sea natural gas from the United Kingdom to Belgium plus electricity generating and transmission facilities.

Sewerage and wastewater treatment and disposal, solid waste processing, urban development and urban transport schemes attracted further financing, primarily in Germany (ECU 310 million, including close on ECU 133 million in the form of global loan allocations).

Finally, the bulk of lending in industry and the service sector went in favour

**Sectoral breakdown of financing  
(1st quarter 1996)**



of more than 200 SMEs and a network of mail distribution centres.

In the course of its continued support for capital investment meeting the EU's policy objectives, the EIB remained particularly alert to the importance of schemes helping to develop the less-favoured regions; as well as providing assistance totalling ECU 1 300 million under this heading, it forged ahead with appraisal of a large number of projects, especially in those areas targeted for Community support under the Structural Funds.

Outside the European Union, the Bank advanced ECU 57 million in all: ECU 45 million in Argentina for the MERCOSUR road network; ECU 10 million in Lithuania for natural gas transmission and supply; and ECU 2 million in Zambia via global loans.

## ECU

Below are the ECU values in national currencies, as at 31 March 1996; these rates are applied for the first quarter of 1996 in preparing financial statements and operational statistics of the EIB:

DEM	1.89393	BEF	38.9220
FRF	6.45791	LUF	38.9220
GBP	0.841361	ITL	2013.64
NLG	2.11969	ESP	159.231
DKK	7.31144	PTE	195.643
IEP	0.815591	GRD	309.181
SEK	8.59750	ATS	13.3188
FIM	5.94323	USD	1.28350

EIB-Information is published periodically by the Information and Communications Department of the European Investment Bank in eleven languages (Danish, Dutch, English, Finnish, French, German, Greek, Italian, Portuguese, Spanish and Swedish).

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Photos: EIB photographic library

Printed in Belgium by Ceuterick on Artic Silk paper awarded the "Nordic Swan" environment label  
IX-AA-96-0002-EN-C

