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EUROPESE INVESTERINGSBANK
BANCO EUROPEU DE INVESTIMENTO
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EIB support for change in Spain's forward-looking economy (1986-1995)

Since the accession of Spain to the European Communities on 1 January 1986, a significant sea change has occurred across the whole spectrum of the Spanish economy from infrastructure to industry, including the now more proactive service sector. Spain has also played a constructive role in the shaping of the European Union (EU), while at the same time benefiting from EU support mechanisms intended to promote modernisation and to bring the country, as a fully-fledged partner, into the mainstream of Europe's political, economic and social institutions.

A few figures suffice to illustrate the extent of the changes in Spain's economy.

Over the ten years since accession, this country's economic growth rate has averaged 2.9%, higher than that recorded by the 15 EU Member States as a whole, i.e. 2.4%. Furthermore, whereas in 1986 Spain's per capita GDP stood at ECU 6 100 (the equivalent of 54% of the average GDP of today's 15 Member States), by 1995 it had risen to ECU 10 800 (61.5% of the EU average).

Over the same period, the relative contribution of each sector of the economy to Spain's GDP changed radically, reflecting a structural bias towards more advanced economic models. Whereas the farming sector's share of GDP

declined from 5.9% to 3.5% and that of manufacturing industry from 28.7% to 23%, the building and, in particular, service sectors made notable headway. Even if its importance has diminished in relative terms, Spanish industry is being modernised with the aid of foreign investment which has increased appreciably

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since Spain joined the European Community.

Another significant development during this period was the degree to which the Spanish economy opened up to outside markets: the volume of trade in goods and services soared by 250%. This upturn was accompanied by a shift towards brisker trading with other EU Member Countries, exports to which in 1995 accounted for 72% of aggregate Spanish exports as opposed to 60% in 1986; imports from these countries came to represent 65%, as against 50% previously, of Spain's total imports.

THE EIB, A PARTNER IN SPAIN'S ECONOMIC DRIVE

In its capacity as the European Union's long-term financing institution, the European Investment Bank has actively supported these developments by supplying Spain, over the decade under review, with loans totalling ECU 18.2 billion towards funding projects representing aggregate capital investment in the region of ECU 60 billion(1). In fact, the past five years have seen Spain numbering among the leading beneficiaries of EIB financing.

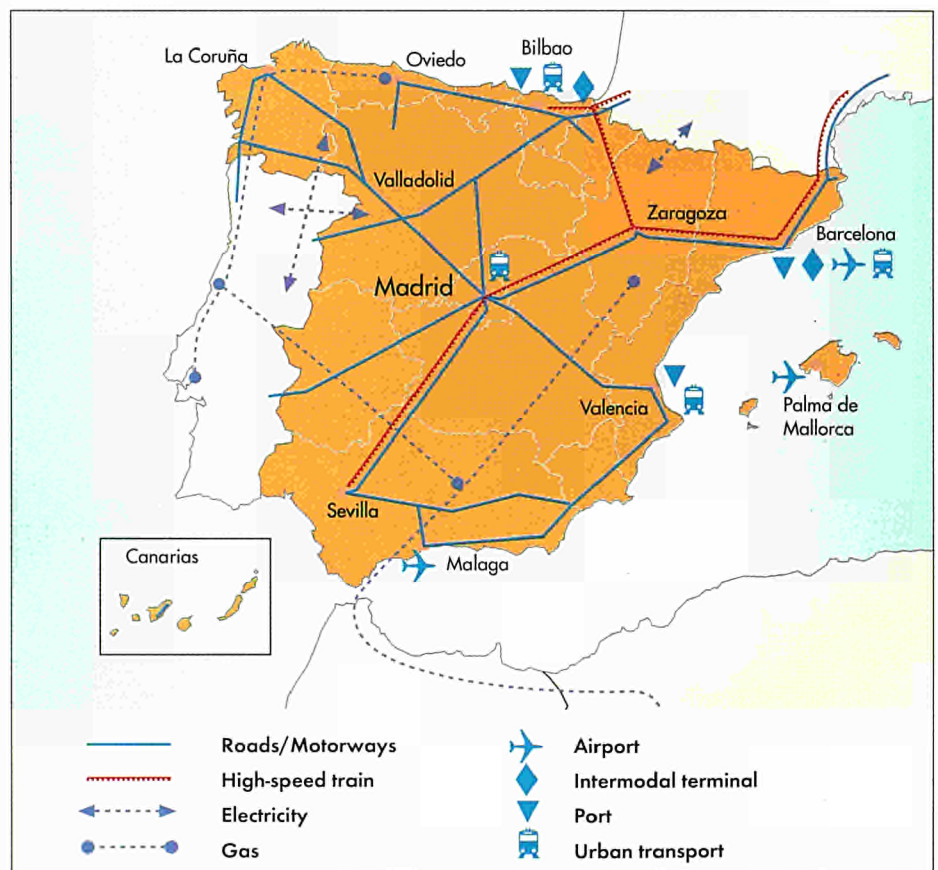
(1) The EIB's maiden lending operation in Spain dates back to 1981 under the pre-accession financial cooperation agreement concluded between this country and the EC. Over the pre-accession years 1981-1985, the Bank lent ECU 550 million in all towards capital investment in Spain.

Bank lending in Spain has frequently gone in tandem with Community grant aid. By virtue of their classification as regions lagging behind in their development, regions affected by industrial decline or rural development areas (i.e. respectively covered by Objectives 1, 2 and 5(b)), most of Spain's regions are eligible for support under the Structural Funds. Over the 10-year period in question, the Structural Funds have made payments to Spain amounting to close on ECU 20 billion, in addition to which ECU 1.5 billion has been granted under the Cohesion Fund. The latter was established in 1993 and so far Spain has been its principal beneficiary (55%).

The EIB has thus operated in close cooperation with the European Commission with a view to formulating the optimum combination of loan and grant aid. On numerous occasions, the Bank has turned its know-how to account in identifying and maximising the potential of projects attracting grants or interest rebates from the European Commission.

Finally, the EIB has taken charge of management of the Financial Mechanism set up in the context of the European Economic Area (EEA). This mechanism was created in 1992 as part of the agreement establishing a free trade area between six of the seven members then making up the European Free Trade Association (EFTA) and the (at the time) twelve members of the European Community. Under this arrangement, the EFTA Member States have been supplying financial assistance, designed to aid development and structural adjust-

Main infrastructure financed by the EIB in Spain (1986-1996)



ment, to the Community's least-favoured regions (including parts of Spain) in the form of interest rebates and/or direct grants targeted at the environment, urban renewal and rehabilitation, transport, training and education. Consequently, as one of the beneficiary countries, Spain has already received about ECU 300 million via this mechanism.

ECU 12 BILLION ADVANCED TO DEVELOP INFRASTRUCTURE

Transport and telecommunications infrastructure has attracted the bulk of EIB financing (67% of the total), a reflection of the significance attached by Spain to developing and modernising infrastructure over the period. The emphasis on investment in this area has resulted in an appreciable improvement in the quality of life (better road safety, generally shorter journey times), a more efficient production system and smoother connections between the different regions, benefiting less-favoured outlying districts in particular.

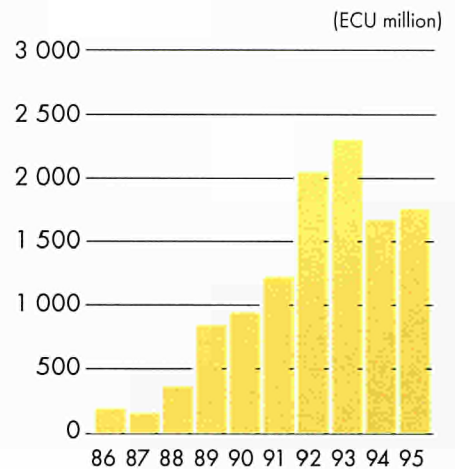
Between 1986 and 1994, the length of Spain's motorway and dual carriageway network more than doubled from 3 314km to 7 748km, registering an increase of 134%. At the same time, the existing road system was improved, mainly by creating a more balanced overall structure, as well as by eliminating bottlenecks and accident black spots and by carrying out essential resurfacing. The capital investment in question, attracting appreciable support from the Bank, accommodates strategies clearly spelled out in the national Infrastructure Master Plan under which the network is to be developed up to 2007.

During the period under review, Bank lending in the road and motorway sec-

tor totalled ECU 4.2 billion and centred on works carried out the length and breadth of the country. Given that one of the EIB's principal remits is to aid the establishment of trans-European communications networks(2), the Bank has made a point of helping to develop the Spanish road system. New links are continually being added to the latter, a noteworthy example being the motorway from Valladolid to the Portuguese border designed to connect Lisbon via Spain to the European motorway network and which is one of the priority projects adopted by the European Council at its summit in Essen in December 1994.

In the railway sector, the suburban train network also underwent modernisation during the period, especially in major cities such as Barcelona, Madrid and Valencia where the local metropolitan systems were upgraded and extended, but also in Bilbao with the construction of the new metro. All these projects benefited from EIB financial support. The

EIB financing for transport and telecommunications in Spain (1986-1995)



large-scale capital investment involved has much improved urban daily life by means of evening out traffic flows and relieving congestion in these particular city centres.

The degree of investment in railway infrastructure and rolling stock has also



(2) The idea of a skein of interlinking trans-European networks was conceived in the early 1990s, since when the EIB has approved loans totalling ECU 29.7 billion for TENs-related transport, energy and telecommunications schemes throughout the European Union. See EIB Information No. 86, November 1995.



been particularly strong, with the EIB devoting ECU 1.6 billion to this sector over the period. Major schemes implemented include commissioning of Spain's first high-speed railway line (for the AVE train) between Madrid and Seville. This landmark project, which has revolutionised transport flows from the centre to the south of the country, received a loan from the Bank for ECU 778 million.

In Spain, as in all other Member Countries of the European Union, the EIB has financed a large number of infrastructure projects forming an integral part of European networks: extension and modernisation of the road and motorway network together with its linkage into the French and Portuguese systems; the first Spanish high-speed railway line due subsequently to be extended to the border with France; power and gas grid interconnections with Portugal and France; and modernisation of the telephone network.

In another area of the transport sector, the Bank advanced ECU 1 billion as part of plans to modernise Barcelona, Malaga and Palma de Mal-

lorca airports and to renew the commercial airline fleets of Iberia, Aviaco and Binter Canarias as well as the fleet of amphibians operated by the National Nature Conservation Institute (ICONA) for combating forest fires. It also assisted modernisation of harbour facilities in Barcelona, Bilbao and Valencia.

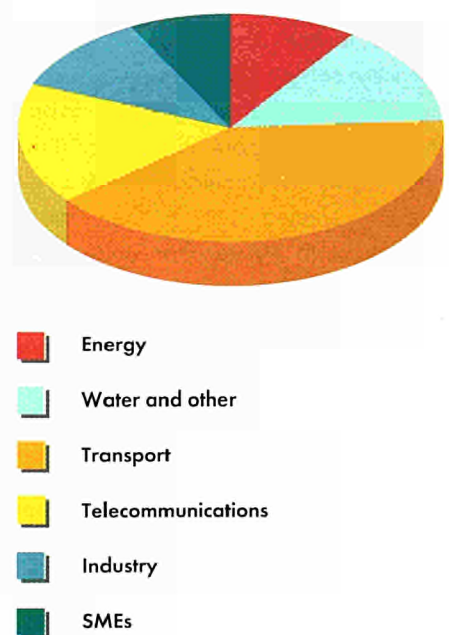
The telecommunications sector is another leading recipient of Bank lending, having absorbed ECU 3.3 billion, most of which (89%) has gone towards supporting capital investment by Telefónica de España with a view to improved digital technology and to expansion of the basic telephone network (15 million lines). The projects in question were implemented with two purposes in mind: to promote regional development and to foster communications with the rest of Europe. In addition, Spain attracted Bank financing for the launch of two Hispasat television-broadcasting satellites, the frontier technology involved in this project being on a par with that deployed in other high-tech projects elsewhere within the EU.

**ENVIRONMENTAL PROTECTION:
NOW A MAJOR OBJECTIVE**

When Spain entered the European Union considerable adaptations had to be made to the country's environmental protection policy. The new Member State had only a short time to take on board the already very extensive Community legislation. Even the Spanish authorities admitted that this gave a considerable jolt to legal and social attitudes in a country where the environment had hitherto been of secondary importance. Central Government and the autonomous communities saw through a remarkable programme designed to adapt structures, redirect priorities and set in motion proactive measures together with environmental information and education campaigns. Substantial capital investment was targeted at this sector.

The EIB's concern to safeguard the environment has been a deciding factor for all the projects financed by the Bank in Spain. When appraising each project submitted to it, the EIB systematically

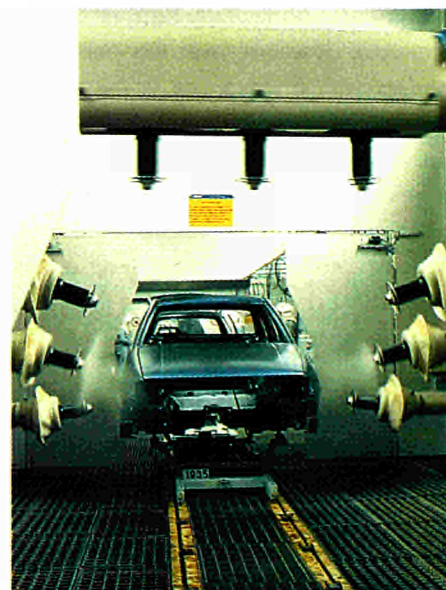
Sectoral breakdown of financing provided by the EIB in Spain (1986-1995)
ECU 18.2 billion



analyses the scheme's impact on the environment and, where appropriate, asks promoters to take remedial measures in order to avoid any possible negative repercussions.

The EIB advanced ECU 1.7 billion in loans for projects making a direct contribution towards improving and safeguarding the environment at both urban and rural levels. As with other rivers in Europe, the Bank financed works to help clear up pollution in the Nervión (Bilbao) and the Segura (Murcia). EIB support for other environmental projects encompassed drinking-water supply schemes

in Andalucía, Catalonia, Extremadura, Galicia and Madrid, sewerage and sewage disposal facilities in Andalucía, Asturias, Castilla La Mancha, Catalonia, Extremadura, Galicia, Madrid and Valencia as well as on the Balearic and Canary Islands plus municipal waste incineration and processing plants in Madrid and on Mallorca. The Bank also funded development and protection of forest areas in Andalucía, Castilla-León and Galicia, mainly with a view to combating erosion and forest fires. In short, the EIB has backed a broad gamut of measures benefiting virtually every region of Spain.



THE EIB AND THE MATADOR MARKET

In order to fund its lending requirements, the Bank makes regular calls on the capital markets where it raises resources at the keenest cost. By virtue of the quality of its issues, consistently rated AAA, its capacity for innovation and its cooperative links with the commercial banking sector, the EIB is actively contributing to the growth of the Member States' capital markets.

Over the past ten years, the Bank has helped to develop the "Matador" market (for peseta-denominated bonds issued by non-residents) through its regular presence as a large-scale borrower. Indeed, ever since the EIB's first issue in 1988, the Bank has remained by far the most prominent annual issuer on this market. Over the period 1988-1995, the EIB floated 38 securities' issues, raising ESP 764 500 million in all (accounting for 41% of the market); 1993 proved to be a record year, with the Bank tapping as much as ESP 145 billion, while the following year, it claimed the largest share of operations on the "Matador" market (60%).

The Bank has also offered investors a number of more innovative products: for example, in February 1994 it launched the biggest issue ever floated on the "Matador" market (ESP 50 billion); in September of the same year, it pioneered an ESP 25 billion capped floating-rate note issue; it has also been the first to go to the Spanish market with a step-up coupon issue. To the list of ground-breaking products can be added the first medium-term note programme launched on the "Matador" market in February of this year for an amount of ESP 200 billion.

In order to cater for its disbursement requirements in pesetas, the EIB tops up the funds raised by it on the "Matador" market through swap operations drawing on sums tapped via issues in other currencies as well as its own liquidity.

RESOLUTE SUPPORT FOR INDUSTRIAL MODERNISATION...

Since Spain became a member of the European Union, one of this country's major priorities has been to modernise its industrial base in answer to the need both to restructure the manufacturing sector more along EU lines and to contend with increased competition in an altogether larger market.

During this period, individual loans made available by the Bank for larger-scale industrial projects were focused mainly on the motor vehicle construction, chemicals and petroleum industries, all faced with vast modernisation programmes calling for a high volume of capital investment. Consequently, most motor vehicle construction firms with plants in Spain - Citroën, Ford España, Mercedes-Benz, Seat - received loans to develop new models intended to keep Spanish industry competitive. The EIB similarly advanced funds to petroleum majors - such as Cepsa, Ertoil, Petronor and Repsol - in order both to back the industry's modernisation drive and to safeguard the environment. Finally, loans were also directed towards the pharmaceuticals sector, namely in favour of Antibióticos.

Industry was particularly hard hit by the economic downturn over this period in tandem with a steep rise in the unemployment rate which climbed to levels above the Community average. By way of getting to grips with this problem, the EU Member Countries initiated measures to assist small and medium-sized enterprises (SMEs) in recognition of their key contribution to generating jobs within the sector.

Over the period 1986-1995, the Bank extended 78 global loans to financial institutions operating in Spain. Basically lines of credit, these loans served to finance almost 6 000 ventures representing aggregate capital investment in the region of ECU 2 billion. As much as 60% of the credit (drawn down in the form of EIB-approved sub-loans) was devoted to projects undertaken by SMEs, while the bulk of the remainder went to small infrastructural works carried out by local authorities, chiefly in the areas of water management and urban development.

In certain cases, EIB loans were accompanied by aid from Spain's autonomous

communities and, in others, by interest subsidies from the European Union. Particularly significant was a special lending facility set up by the Union and management of which was entrusted to the EIB. Designed to support investment by job-creating SMEs through the provision of 2% interest subsidies, this facility was operational in 1994/1995 and, in the case of Spain, was deployed by the Bank via a global loan to Instituto de Crédito Oficial (ICO). The "SME facility" made it possible to approve aggregate subsidised lending of ECU 128 million channelled to over 1 000 Spanish SMEs and underpinning investment which served to give rise to close on 4 000 new jobs.

... AND FOR THE ENERGY SECTOR

Bank financing in the energy sector has been concentrated on three sectors: petroleum, electricity and gas. Petroleum was dealt with in the section describing EIB lending to industry. Turning first, therefore, to the electricity sector, it is worth recording that the Bank has helped to extend and uprate the power



grid, in order to cater for growing demand for electricity, to improve security of supply and to reduce losses on the network. There is a single utility in the sector (Red Eléctrica de España) in charge of the high-voltage grid nationwide, together with various public and private undertakings responsible, in a given region, for electricity generation, transmission, supply and marketing. The EIB has provided loans to most of these operators for a total of ECU 1.7 billion. Works financed include the grid interconnection with Portugal, noteworthy by virtue of its positive contribution towards the ongoing process of integration within the European Union.

The period under review also saw commencement of another major project, the Maghreb-Europe gasline, which is of strategic importance in terms of diversifying and securing the EU's energy supply base. This gasline links Algeria's Hassi R'Mel deposit to the Spanish network, in turn interconnecting with the Portuguese and French grids and, by extension, with the rest of Europe. This project features on the list of the European Council's priority trans-European energy networks. Providing a clean and economic substitute for oil in both industrial and household consumption, its supplies of natural gas will have a very positive impact on safeguarding the environment. ■



One ECU = One Euro

In March 1996, the European Investment Bank went to the capital market with a 5-year ECU 500 million borrowing carrying a coupon of 6% and an issue price of 100.825%. The terms and conditions of this borrowing, launched in the wake of the European Summit held in Madrid in December 1995, specify that as from the third stage of European Union the value of the ECU will be irrevocably fixed in relation to those European currencies participating in this third stage, that the ECU will become a fully-fledged currency in its own right to be redubbed, and replaced by, the Euro. The prospectus also stipulates that when the Euro finally replaces the ECU, all payments in ECUs will be effected in Euros on a one-for-one basis.

The definition of the ECU and the "general information" section contained within the prospectus simply reaffirm point 6. of the conclusions of the December 1995 Madrid European Council Presidency to the effect that substitution of the ECU, used by the European Communities, by the Euro will be at the rate of one to one. In addition, point 2. of these conclusions spells out the fact that the decision to rename the ECU the Euro "*is the agreed and definitive interpretation of the relevant Treaty provisions*"; hence, this decision does not require amendment of the Treaty of Maastricht.

Although the European Investment Bank has set a precedent in offering to guarantee conversion into Euros, it is not the first issuer to have taken a public stance in favour of the single currency. In the course of conferences in Paris and Singapore, the French Treasury had already stated that "*there can be no doubt that securities issued in the name of the French Republic will be redeemed in the single currency on a one-for-one basis*". Furthermore, in the United Kingdom's information memorandum on its latest issue floated in January 1996 mention was made of the fact that the Euro is a new appellation for the ECU.

Nevertheless, any major borrower making calls on the capital market is naturally concerned about the intentions and wishes of investors subscribing to its bonds. Despite public confirmation of transition from the ECU basket to the Euro, as a currency in its own right, at a parity of one for one, subscribers were still waiting for an issuer on the international market to commit itself firmly to this principle.

Those banks who were potential candidates for lead-managing or underwriting an ECU-denominated issue by the European Investment Bank felt that the success

of such an operation was all the more guaranteed inasmuch as substantial volumes of redemptions in ECUs to the tune of 2 to 3 billion were awaiting placement. In the absence of fresh opportunities for reinvesting this amount of liquidity, it would be traded on the exchange market against one of the currencies making up the ECU, thereby re-emphasising the differential between the notional quotation for the ECU exchange rate deriving from the European Commission's daily calculations and the rate determined in line with market forces, i.e. supply and demand. The European Investment Bank

JOINT STATEMENT ISSUED BY THE EUROPEAN COMMISSION AND THE EIB ON JULY 31

Since the conclusions of the European Council in Madrid in December 1995, the prospectus of all new debt instruments issued by the European Community, the European Coal and Steel Community, Euratom and the European Investment Bank have contained a clause confirming the principle of one to one continuity between the ECU and the Euro. From the start of monetary union, on 1 January 1999, all interest payments and repayments of the principal will be made in the single European currency, the Euro. The substitution will be at a rate of one for one in line with the Treaty on European Union (the Maastricht Treaty), in particular Article 109I(4).

The European Commission confirms that this same principle will apply to all ECU-denominated loan instruments issued by the European institutions, including those dating from before the Madrid European Council. All outstanding loan instruments will therefore be treated in the same way at the start of monetary union.

Thus the Commission and the European Investment Bank have the same policy.

The Commission intends shortly to table proposals for Council legislation on the legal status of the Euro containing specific provisions confirming the general principle of one to one conversion for outstanding loan instruments denominated in ECU.

The total value of outstanding ECU-denominated instruments managed by the European Commission with maturity after 1 January 1999 is 2 010 million ECU. For the EIB the equivalent figure is 6 000 million ECU. This situation is clearly independent of future issues in ECU between now and 31 December 1998.

was heartened to observe that its call on the ECU market in March 1996 together with the position adopted by the EIB with respect to the Euro were perceived as significant in terms of developing and consolidating the ECU market, while at the same time easing the transition to the single currency.

The March borrowing was given a very favourable reception by investors. Developments in the spread between the yield offered by the EIB's issue and that offered by the benchmark borrowing taken for fixing its definitive terms and conditions constitute an important indicator of the success of this issue: the EIB's 6% 1996-2001 loan was floated at the end of March 1996 with a yield 2 basis points above the benchmark, namely the French Government's 6% BTAN maturing on 16 March 2001: the corresponding EIB paper is currently being traded on the secondary market at 23 basis points below the 6% BTAN 16 March 2001, highlighting firm placement of the Bank's issue.

CONTINUED PROMOTION OF THE ECU

The European Investment Bank is, in general, one of the leading players on the international capital market, but particularly so in terms of operations mounted in ECUs. The sums raised by it in ECUs as at 30 June 1996 represent outstanding borrowings of more than 9 billion out of an overall portfolio of 93 billion. Through its presence on the market the EIB has consistently endeavoured to promote and to develop placement of the ECU, whether through targeted issues on the markets of European Union (EU) Member States or on those of third countries such as Singapore and Japan. Looking to the future, the advent of the single currency will make it possible for the European Investment Bank to make larger calls on the financial markets, by virtue of the fact that, instead of floating loans in the individual currencies of EU Member Countries, it will be launching issues in solely one currency. ■

The EIF's first two years



Established in June 1994, the European Investment Fund (EIF) was designed to provide long-term guarantees for the financing of trans-European transport, telecommunications and energy transfer networks (TENs), as well as for the development of small and medium-sized enterprises (SMEs). The EIF, in which the European Investment Bank has a 40% stake alongside the European Union represented by the Commission (30%) and a group of 76 banks and financial institutions from EU member countries (up to 30%), has an authorised capital of ECU 2 billion.

The majority of the signed guarantees concern TEN projects (93% in volume terms), the remainder helping small and medium enterprises (SMEs); the operations guaranteed are in six EU countries (Italy, France, Portugal, Spain, Greece and the UK) with a further cross-border project concerning natural gas supplies from the Norwegian sector of the North Sea. Among the signed operations are: SNAM-Transmediterraneo gasline from Algeria to Italy, the mobile telephone network in Greece, the Lyons ring road motorway, the Channel Tunnel Rail Link - CTRL (high-speed train link between London and the Channel) and the Merseyside Special Investment Fund for supporting SME ventures.

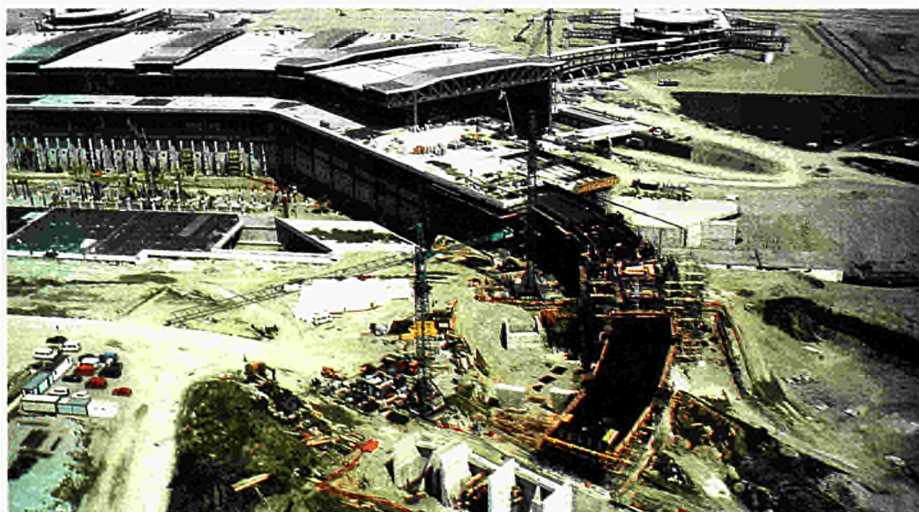
OVER ECU 2 BILLION IN 2 YEARS

At 30 June 1996, the European Investment Fund had approved guarantee operations totalling over ECU 2 billion and signed guarantee agreements for ECU 1 116 million. Agreements signed so far in 1996 total ECU 489 million.

FOR SMEs SUPPORTING THE ENVIRONMENT

Under the Growth and Environment pilot project, an initiative of the European Parliament, EU budgetary resources will be used by the European Commission to pay the costs of the EIF's guarantee to banks for lending to SMEs

One of the TENs guaranteed by the EIF: extension of Milan-Malpensa Airport



that is of benefit to the environment. The EIF is negotiating agreements with a number of banks from various EU member countries and they will put the programme into operation before the end of the year. The scheme managed by the EIF should enable the banks concerned to grant total lending of over ECU 700 million. It is expected that the EU budget will be drawn upon in other schemes to support EIF guarantees to SMEs in the Union.

A NEW DEPARTURE - EQUITY

The EIF's Annual General Meeting in Lisbon on 18 June 1996 authorised the Fund to add the taking of equity participations to its existing activity of debt finance guarantees. This possibility had been provided for in the Statutes, but not until the third year of activity. Equity operations will be concentrated in the SME sector and limited to intermediate structures, for example venture capital funds investing in SMEs in particular

countries or regions. Special attention will be given to young companies already in existence for 3 to 7 years. The priority will go to innovating SMEs (implementing innovative technology or showing ability to innovate in production and distribution systems of goods and services). The EIF will also seek

financial performance from these temporary investments. An amount of up to ECU 75 million will be invested on a Union-wide basis between 1996 and 1998 in accordance with guidelines approved at the September 1996 meeting of the Fund's Supervisory Board. ■

NEW EIF CHAIRMAN



On 2 June 1996, Georges Ugeux, Chairman of the Financial Committee, announced his resignation with effect from 30 September 1996 as a consequence of his appointment to a senior position at the New York Stock Exchange. His successor is **Thomas Oursin**, formerly Secretary General of the EIB, who will take up his duties on 1 October 1996. Mr Oursin had joined the EIB in 1974 from the World Bank in Washington. Before his appointment as Secretary General in 1994, he was Director General responsible for EIB lending outside the European Union.

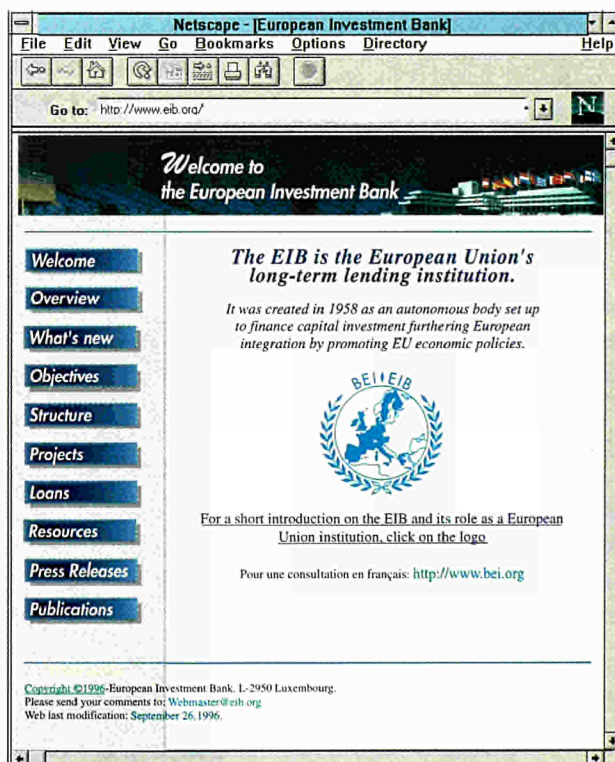
THE EIB ON THE INTERNET

<http://www.eib.org>
<http://www.bei.org>

The EIB's information server on the Internet "EIB online" has been available since the summer (1). In the meantime, the contents have been considerably expanded and the visual lay-out has been redesigned, to make it even more accessible and easier to consult.

In addition to a wealth of information about the EIB, its remits and achievements, all the EIB's press releases can be consulted on this server as well as the Bank's most recent publications. The section "What's new?" is particularly useful for those seeking information on the latest developments at the EIB, since it provides details of regular updates on the server, of particular use for those who consult "EIB online" frequently.

(1) See EIB Information N° 89, pages 12 and 13.



EIB cooperation with multilateral financial institutions

Furthering the objectives of the European Union by providing long-term loans for specific capital investment projects is the mission of the EIB. The Bank mainly contributes towards building a closer-knit Europe, particularly in terms of economic integration and greater economic and social cohesion. Loans within the European Union amount to about 90% of the Bank's total annual lending.

Outside the European Union (EU), the Bank contributes to the Union's development aid and cooperation policies in more than 120 countries. EIB loans complement the general finance contributed by the EU from budget resources for projects in non-Member Countries and which is managed by the European Commission.

Within this framework, and under specific authorisation from its Board of Governors establishing the amounts and the specific time-periods, the EIB also finances public and private-sector productive capital investment projects located outside the Union, principally from the Bank's own resources, *i.e.* from the proceeds of its borrowings on capital markets.

The Board of Governors has so far authorised the EIB to lend for capital investment projects in four groups of countries: Central and Eastern Europe, the Mediterranean region, Africa – including South Africa – the Caribbean and the Pacific, Asia and Latin America. In each of these areas the EIB seeks to cooperate closely with multilateral financial institutions (MFIs) which have different specific core remits.

The MFIs themselves differ significantly in their mandates, regional expertise and competences. Close cooperation to combine the specialist experience and operational know-how of the different MFIs

provides opportunities for pooling resources and building a more solid foundation for rapid and cost-effective action to meet local development needs.

COOPERATION FOR DEVELOPMENT

The EIB's experience in cooperating with MFIs goes back to its very beginnings. Indeed, the EIB, in its first year of activities (1958), and the International Bank for Reconstruction and Development joined efforts to support investment in a hydro-electric power plant located in the Grand Duchy of Luxembourg. In the same year, both MFIs jointly appraised and co-financed three projects (one for electricity and two in the petrochemical industry) in Italy.

Currently, EIB cooperation in financing projects with MFIs takes place outside the European Union (EU), in the Central and Eastern European countries in support of investment to prepare these countries for accession to the EU, and in more than 100 other countries as part of the European Union's development aid and cooperation policies.



Cooperation with MFIs is aimed at maximising the impact of the relatively limited resources for encouraging sustainable development. Much of this cooperation is focused on helping to complete the financing arrangements or funding packages for large-scale projects or investment programmes and on the sharing of the associated risks. Frequently, the MFIs acting together can co-ordinate their investment priorities and policies to achieve a synergy that enables development plans to be implemented, particularly in difficult sectors. Such cooperation includes sharing of the preparatory work carried out by one MFI to avoid duplication, for example, in sector analysis, institution building or project appraisal.

EIB cooperation with MFIs usually takes the form of co-financing arrangements in which EIB loans are advanced in association with funding from other MFIs. Amongst the group of larger MFIs, the EIB has so far financed projects jointly with members of the World Bank Group – International Bank for Reconstruction and Development, International Development Agency and International Finance Corporation – as well as with the African Development Bank and African Development Fund, the Asian Development Bank, the Inter-American Development Bank and, since 1991, the European Bank for Reconstruction and Development, of which the EIB is a shareholder. It has also, of course, financed numerous projects in conjunction with other regional and national funding agencies, chiefly those from the EU's Member States.

GROWING ROLE OF THE EIB

As a consequence of the major political changes over the past twenty years, the

EIB has been entrusted with implementing a growing range of mandates in non-Member Countries as part of specific European Union policy priorities. EIB lending outside the Union has therefore been growing along with lending within the Union. Cooperation with MFIs has been a useful way to implement the new remits effectively and rapidly.

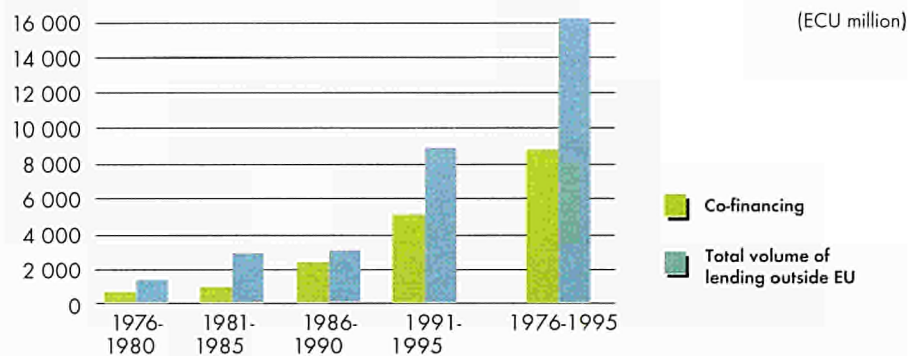
Between 1976 and 1995, more than 200 projects have benefited from EIB-MFI co-financing. Over these twenty years, the EIB advanced a total of ECU 8.6 billion under joint financing arrangements, representing 54% of the Bank's total lending outside the EU (ECU 16.1 billion). Both EIB co-financing and lending outside the EU have shown a growing trend. In the first five years (1976-1980), the EIB lent a total of ECU 584 million under co-financing arrangements, out of the ECU 1 640 million it made available outside the EU (36%); in the last five-year period (1991-1995) co-financing increased to ECU 4 970 million, with its total external EU lending amounting to ECU 8 751 million (58%).

COMPLEMENTARITY AND COHERENCE

The general principles applied in most EIB co-financing with other MFIs are complementarity and coherence. Under the complementarity heading, the EIB and the MFIs concentrate the advantages of their differing strengths, expertise and mandates to ensure a good division of labour.

Coherence epitomises the different approaches and procedures followed by each MFI. For instance, when the EIB is invited by an MFI to co-finance a major infrastructure project for which a substantial preparatory analysis has already been carried out and conditionality arrangements have already been established (e.g. with regard to tariffs or the financial strengthening of the project promoter), the EIB supports the co-financing MFI as far as possible, by adopting similar conditions.

EIB co-financing with MFIs in relation to volume of EIB lending outside the EU



Co-financing with MFIs is part of the Bank's daily business. Regular contacts are maintained with all the MFIs at inter-institutional level, and the EIB participates in joint project appraisal missions, exchange of appraisal reports, and contacts with the MFIs' field offices. Additional possibilities for maintaining and strengthening cooperation are also offered by annual general meetings of MFIs, which the EIB regularly attends. In the case of the EBRD, the EIB's President is a Governor of the Board and the EIB nominates a Director.

However, there are also problems related to such co-financing: co-ordination among MFIs and harmonisation of their respective requirements can be difficult and there is a danger that these can sometimes cause project delays. These problems cannot be excluded entirely because they lie within the very nature of the co-financing process.

SPECIAL EXPERTISE

There is a consensus among partner MFIs to limit these problems by keeping the number of MFIs involved in each project co-financed relatively small and seeking a reasonable balance between the size of the investment and the number of co-financiers. The aim is also to start discussing project and possible co-financing arrangements at the earliest possible stages of project preparation. The specialist expertise or remit of a particular MFI can also be drawn on to the benefit of the project by agreeing that the

leading role should be taken by the qualified MFI.

On a case-by-case basis MFIs also cooperate in deciding on whether to have "parallel" or "joint" co-financing facilities. Under parallel co-financing each MFI alone provides finance for specific project components and applies its own procurement guidelines separately.

Under joint co-financing each MFI contributes a given percentage of finance for the same project component and common procurement guidelines are adopted. The choice between the two approaches depends on the extent to which it is possible to divide a project into well-defined separate components.

As a whole, this cooperation policy amongst the MFIs has proven effective and has been successful in having a positive effect on the projects co-financed, as well as on the overall activities of the MFIs themselves. Cooperation is also essential if the correct responses and policies are to be developed to address adequately complex problems such as environmental improvement and protection at regional level, for instance for the Mediterranean (1), the Baltic Sea or the Danube, or to ensure the sustained development of regions such as Central and Eastern Europe. ■

(1) METAP - Mediterranean Environmental Technical Assistance Programme - a joint initiative of the European Commission, EIB, World Bank and UNDP. For further information, see EIB INFORMATION No. 88.

The 1997 EIB Prize

On the occasion of its 25th Anniversary in 1983, the Bank established an EIB Prize to be awarded every two years for a doctoral dissertation on a topic of investment or finance. A Prize Jury, consisting of six members appointed by the Management Committee, was constituted to examine the submissions and select the winning entry. The first EIB Prize was awarded in 1985.

After more than ten years without a change, it was felt that the time had come to take a new direction. As a result, the conditions of award have been reviewed and the 1997 EIB Prize will be offered with the aim of stimulating new work and providing an incentive for wider research on European themes.

THE PRIZE

To encourage a wide range of entries and to permit publication of winning essays, several prizes will now be offered. These prizes are subject to the quality of entries and the views of the Jury, which has the option of not recommending candidates for the individual awards:

First prize	10 000 ECU
Second prize	7 500 ECU
Third prize	5 000 ECU
Special topic prize	5 000 ECU
Three prizes of	1 000 ECU (1)

THE JURY

Lord Roll of Ipsden, Chairman, Antonio Borges, Dean of INSEAD, Edmond Malinvaud of the Collège de France, Alberto Quadrio-Curzio of the Catholic University of Milan, Helmut Schlesinger, former President of the Bundesbank, Jacques-François Thisse of the Catholic University of Louvain and Alfred Steinherr, Chief Economist of the EIB.

ENTRIES

For the 1997 EIB Prize, submissions are limited to short essays (as opposed to the former doctoral thesis) on economic and financial topics related to European affairs and should be:

(1) Entries from persons under the age of 30.

- written in a non-technical style (i.e. little or no mathematics);
- of a maximum length of 5 000 words, excluding graphs and bibliography;
- unpublished in the form presented (i.e. can be an adaptation of a thesis, or other work);
- presented in one of three languages: English, French or German.

In addition, a special award is offered for essays on the 1997 set topic: "In economic terms, has the nation-state become obsolete in the European Union?".

ELIGIBILITY

The 1997 EIB Prize will be open to nationals of the EU member countries and of the EFTA (Norway, Switzerland, Iceland and Liechtenstein) or Europe Agreement countries (Bulgaria, Hungary, Poland, Romania, Czech Republic and Slovak Republic). Candidates must be under 45 years of age at the time of submitting an entry and three special prizes will be offered for submissions from candidates under the age of thirty.

TIMETABLE

- An invitation to submit essays for the EIB Prize will be published in relevant economic and financial journals at least three months prior to the closing date for the submission of entries.
- Candidates for the 1997 Prize should send two copies of their entries by registered mail to the Economics & Information Directorate of the European Investment Bank (see address below) before 1 March 1997.
- The prizes will be presented at a conference to be held in Florence in October 1997 and the EIB will publish all winning entries.

For additional information (EIB Prize Rules and User's Handbook), please contact:

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ECU

Below are the ECU values in national currencies, as at 30 September 1996; these rates are applied for the fourth quarter of 1996 in preparing financial statements and operational statistics of the EIB:

DEM	1.91902	BEF	39.5045
FRF	6.49491	LUF	39.5045
GBP	0.803984	ITL	1916.92
NLG	2.15249	ESP	161.446
DKK	7.37027	PTE	195.205
IEP	0.785235	GRD	302.974
SEK	8.33167	ATS	13.4997
FIM	5.74702	USD	1.2559

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