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The EIB's Employment Package

At the Special Summit on Employment (Luxembourg, 20 and 21 November 1997), Sir Brian Unwin, President of the EIB, informed the European Heads of State or Government of the progress made by the Bank in setting up its "Amsterdam Special Action Programme" (ASAP) to bolster growth and employment in Europe.

The various components of ASAP were approved by the EIB's Board of Governors on 20 August in response to the Amsterdam European Council Resolution (1). The purpose of ASAP, which will last three years (from September 1997 to the year 2000), is to direct a substantial proportion of EIB lending towards projects involving more labour-intensive sectors of the economy and thereby bolster employment by increasing activity.

The main innovation of the programme consists of a genuine assumption of risk by the Bank in favour of job-creating projects implemented by small and medium-sized enterprises (SMEs). Thus, within the framework of ASAP the EIB is setting up a "special window" in favour of innovative SMEs which have demonstrated strong growth potential supported by the production or use of goods with a high technological content. However, ASAP also involves increased EIB lending in job-creating and labour-intensive sectors, such as the trans-European networks (TENs), environmental protection, urban renewal, health and education (see box article, p. 3).

(1) The Amsterdam European Council meeting took place on 16 and 17 June 1997; see EIB Information No. 94; 4-1997, page 1.

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AN INNOVATIVE OPERATION, BASED ON EXPERIENCE

In asking the EIB to invest in favour of growth and employment, the European Council recognised the "important role of the European Investment Bank and the European Investment Fund in creating employment through investment opportunities in Europe (...) consistent with sound banking principles and practices".

With nearly ECU 21 billion invested in the European economy in 1996, the EIB in fact accounts, through the projects it is supporting, for almost 5% of gross fixed capital formation (GFCF) in Europe. Alert to needs at this level, the Bank had already,



over the past few years, significantly adapted the range of its financing facilities to bolster growth in Europe by making available its financial capacity, its expertise in project evaluation and its ability to act as a catalyst vis-à-vis the European banking community in favour of projects with a formative effect on economic activity. The main stages of this development can be summarised as follows:

In December 1992, the EIB put in place its "Edinburgh Facility", designed to speed up the financing of transport infra-

structure, environmental protection and urban renewal schemes. By the end of 1994, when this initiative was brought to completion, ECU 7 billion had been granted for some 134 major projects and hundreds of medium-scale infrastructural projects involving 11 of the 12 then Member States.

Following the emphasis placed on SMEs by the European Council meetings in Copenhagen (June 1993) and Cannes (June 1995), the EIB expanded its operation in favour of small and medium-sized firms and established, in parallel with its traditional global loans, which enable it to provide finance for some 10 000 SMEs a year, a temporary facility involving ECU 1 billion in loans (2) with interest-rate subsidies in favour of job-creating SMEs. By the end of 1996, the creation of 45 000 jobs had thus been supported from EIB and European Union resources in the 15 Member Countries.

In June 1994, the EIB, the European Commission and 77 commercial banks from all the Member Countries of the Union set up the European Investment Fund (EIF), a novel Public-Private Partnership (PPP) (3), for the purpose of supporting investment by granting guarantees in favour of TENs and SME capital projects. Since its creation, the EIF has guaranteed 22 TEN projects and 23 bank investment portfolios in favour of SMEs involving more than ECU 2 billion, including ECU 630 million for SMEs.

In December 1994, the EIB stepped up its action to underpin the financing of the trans-European transport, telecommunications and energy transfer networks by proposing to the European Council meeting in Essen that a "Special TENs Window" be established to enable the Bank to provide tailor-made finance for these often exceptionally large projects, which

(2) The subsidy is equivalent to 2%, financed from the European Union's budgetary resources.

(3) The EIF has capital of ECU 2 billion and its main shareholder is the EIB (which has a 40% stake), with the remainder being shared between the European Commission (30%) and the 77 banks (30%).

generally produce a return only in the longer term. Since then, the EIB has made substantial use of this window and has established itself as the leading source of banking finance for these key infrastructural schemes. It has thus invested more than ECU 35.7 billion in TEN projects, particularly the priority ones, with a total value of some ECU 137 billion, the construction of which involves more than 80 000 jobs within the Union.

In June 1995, the EIB's Board of Governors decided to widen the eligibility for Bank lending to encompass research and development (R&D) and the retail sector, in order to accommodate the financing requirements of innovative ventures in these sectors. As a result, hundreds of projects promoted by industrial and other SMEs have been financed from credit lines ("global loans") and substantial assistance has been provided for large-scale projects, for instance in Germany (BMW Rolls Royce, Quelle, Otto-Versand), Austria (Steyr-Puch), the United Kingdom (Ford-Jaguar, Pirelli), France (SNECMA, PSA-Trémery, Atmel-Rousset) and Italy (Pirelli).

In June 1996, the EIB and the other EIF shareholders authorised the Fund to develop venture capital operations in favour of TENs and innovative or developing SMEs. The EIF was authorised to commit ECU 75 million by the end of 1998 and has already concluded eight operations of this kind totalling more than ECU 20 million for Belgian, French, Scandinavian, German and British SMEs.

In August 1997, the EIB defined its Amsterdam Special Action Programme (see box article, p.3).

NEW AND STABLE JOB OPPORTUNITIES

The development of these new activities to promote employment - in particular within the SME sector - will be assisted by using the EIB's surpluses. In their resolution of 20 August 1997, the Governors decided that the Bank could, over the next three years, draw up to ECU 1 billion

ASAP: OPERATING PRINCIPLES

The Amsterdam Special Action Programme (ASAP), a pro-active response to the Resolution of the Heads of State or Government on Growth and Employment adopted at the European Council meeting in Amsterdam (June 1997), contains a number of novel features, in particular that of the assumption of risks by the EIB in favour of innovative SMEs, guaranteed by means of the Bank's operating surpluses to the tune of ECU 1 billion up until the year 2000. The principal features of the programme, which had already occupied the minds of the Bank's managing bodies for a number of months, are as follows:

1. A special SME window

This window has been set up to provide, from EIB resources, high-technology or growth-oriented SMEs with risk-sharing instruments, subordinated loans or venture capital assistance. It involves first of all a number of "risk-sharing global loans", arranged by the EIB in close cooperation with its partners from the European banking community. In some cases these tailor-made global loans may also lead to venture capital being provided for specialist banking subsidiaries. With a reserve of some ECU 800 million drawn from the ECU 1 billion earmarked for ASAP, risk-sharing global loans and venture capital injections are expected to make funds of between ECU 5 and 8 billion available for innovative SMEs.

At the same time, a new "European Technology Facility" (ETF) has recently been created by the EIB jointly with the European Investment Fund (EIF) in order to provide venture and equity capital to support projects carried out by growth-oriented and high-technology SMEs. The ETF has been allocated ECU 125 million by the EIB and is being administered by the EIF under a Bank fiduciary and management agreement. The ETF will acquire holdings in funds or venture capital companies which specialise in providing equity for SMEs in their start-up phase or undergoing expansion; the anticipated leverage effect is expected to be of the order of ECU 500 to 800 million of quasi-capital for SMEs. The ETF's ECU 125 million will augment the ECU 75 million of venture capital operations already arranged by the EIF since June 1996. This means that a total of ECU 200 million in venture capital is being allocated by the two institutions in favour of innovative SMEs, i.e. a volume whose critical mass is in line with the requirements of Europe's economy which, in 1996, invested some \$500 million (ECU 430 million) in the form of venture capital.

2. Education, health, urban renewal and the environment

Expansion of EIB operations in the fields of education, health, urban renewal and environmental protection has been approved by the Governors. The Bank has started to examine major projects targeting education and health in Germany, Spain and Greece, and global loans are being arranged in favour of this type of investment in Belgium, France and the Netherlands. At the same time, existing global loans in favour of infrastructure projects are being extended to cover health and education. The Bank is also fine-tuning its lending procedures for urban renewal and environmental protection schemes (in these areas it provides finance worth ECU 4 to 6 billion a year), in respect of which some 20 projects are in the final stages of negotiation in Germany (notably in Berlin), France, Spain, the Netherlands and Italy.

3. TENs: a fresh impetus

Fresh impetus has been given to financing trans-European networks (TENs) and other large-scale infrastructure projects: the Bank, which participates in the high-level Working Group chaired by Mr Neil Kinnock (Member of the European Commission) on financing TENs, will extend certain aspects of its "Special TENs window" through, inter alia, particularly long grace and repayment periods, "custom-made" financing, earlier participation in project preparation and increased support for Public-Private Partnerships (PPPs). In recent months, the EIB's Board of Directors has approved loans totalling over ECU 3.6 billion for TENs, including several PPPs, in Germany, the United Kingdom, Belgium and Italy. Where certain major infrastructural and environmental projects are concerned, the Bank will, in specific cases, be able to consider raising the amount of its loans above the normal ceiling of 50% of project cost and provide its support earlier by financing feasibility studies.

CONFERENCE ON EMPLOYMENT

On 15 January 1998, the EIB will, at the initiative of its Chief Economist, Alfred Steinherr, bring together a number of renowned experts and economists for a conference on the economic aspects of employment in Europe. The major topics will be a study of job creation trends, the problems involved in generating employment by SMEs and their financing, together with an examination of the linkage between investment and employment.

The main experts will include Mr José Viñals, the Bank of Spain's Chief Economist, Mr Michael Burda from Berlin's Humboldt University, Mr Charles Bean from the London School of Economics, and Mr Jacques Drèze and Mr Henri Snessens from the Catholic University of Louvain.

Information and registration details may be obtained from the **Secretariat of the EIB's Chief Economist**, Ms Halahan, fax (+352) 4379 3492.

The EIB has also decided to devote its **1998 Annual Forum** to the problems of employment in Europe. This event will be held in London next year, on 22 and 23 October. EIB Information will provide details of the programme for this Conference in its future editions.

from its operating surpluses to cover the risk of financing new projects fostering employment within the Union. These resources, not to be regarded as subsidies, will act as reserves against the risk associated with these initiatives.

In keeping with its remit, which is to support investment in favour of economically-justified, financially-sound projects, the EIB is setting up ASAP in the light of realities on the ground in the various Member States, rather than by establishing a single mechanism with pre-determined country or sector quotas. It is accordingly gearing its lending to health and urban renewal, since these are areas in which projects suffering from government budget cutbacks can easily be defined and have a real impact on employment. By the same token, Bank lending is to be channelled towards education, in order to enrich the Union's human capital by improving facilities for training young people and to contribute towards modernising or extending premises used for educational purposes.

The most innovative feature of ASAP, however, is the provision of finance for SMEs on a risk-sharing basis. This "SME window", which will augment the EIB's

global loan operations in favour of smaller businesses, will involve, on the one hand, the establishment of venture capital instruments financed by the EIB and managed by the EIF (the "European Technology Facility" - ETF) and, on the other, a series of risk-sharing global loans arranged in close co-operation with the banking sector in all Member Countries. These global loans will take various forms, depending on the country in question, in order to meet as effectively as possible SMEs' additional equity requirements and in the light of the scope offered by the banking sector in the various regions of the Union. Here the EIB's aim is to participate in strengthening the venture capital or quasi-capital structures in the Union which, except in the United Kingdom and the Netherlands, remain relatively limited in comparison with North America or Japan.

Although it is premature at this stage to give precise figures, the leverage which is expected to result from ASAP could, depending on the effectiveness of the various financial instruments put in place, increase the volume of lending to SMEs by somewhere between ECU 5 and 9 billion, including ECU 500 to 800 million in venture capital over the next three years.

RAPID, CONCRETE ACTION

During the summer and since the summer break EIB staff have established in the Member Countries the operational contacts required for the rapid introduction of ASAP lending. The Bank has thus been able to present specific measures to the Heads of State or Government at the special European Council meeting on employment held in Luxembourg on 20 and 21 November 1997.

EIB staff are therefore currently evaluating some forty or so projects and global loans - including risk-sharing loans - which are eligible under ASAP. Some ten operations have already been approved by the Bank's Board of Directors, for an aggregate amount of ECU 1 310 million, and a number of finance contracts (worth in excess of ECU 440 million in all) have been signed: global loans for education/health in Belgium (Crédit Communal-Dexia), in France (CLF-Dexia) and the Netherlands (BNG) and a project in the field of education in Valencia, in Spain. At the same time, the EIB and the EIF have set up the ETF (ECU 125 million), with the result that this facility is now up and running, providing venture capital for SMEs in Europe. ■



Preparing for the EURO – redenomination of existing debt

Being one of Europe's most prominent and largest international issuers of bonds and thus bound to play an important role in the future EURO market, the Bank is actively co-operating with most of the Member States and the European Commission in considering the legal and technical aspects of introducing the EURO. As argued in an earlier article (1), it will be important to redenominate existing debt in national currencies into EURO at an early stage in order to create a *critical mass* of liquidity available in the new currency and to enable the EURO capital market to get off to a good start in 1999.



national currencies into the new denomination EURO. Basically, it is a simple book-keeping exercise, not a foreign exchange transaction as the conversion rate is an administratively fixed multiplier only.

As regards conversion into EURO itself, two different ways are being discussed and will be used. They are generally known as the "top-down" and the "bottom-up" methods.

The "top-down" method applied to a debt issue would involve conversion of

the minimum denomination specified in the terms of the issue. The issue is deemed to be divided into a fixed number of units of that minimum denomination. The unit is converted at the official conversion factor (six decimal places), rounded to EURO cents (two decimal places) and the result then multiplied by the original fixed number of units. The total, expressed in EURO, will, inevitably, differ slightly from the original amount of the issue. If the sum of the units exceeds the nominal amount of the whole, a certain amount will be repayable in cash in respect of each unit. If the sum of the units is less than the nominal amount, there will in effect have been a notional early redemption of the issue.

At the European Council of December 1995 in Madrid, Member States agreed that, from 1999 on, all quoted government bonds would be issued in EURO. Interest and redemption payments on such issues will henceforth be made automatically in EURO. Private issuers are free, until 31.12.2001, to issue bonds in EURO or national currencies; thereafter all new issues will have to be denominated in EURO.

As to outstanding debt, there is no obligation for anyone to redenominate before January 1, 2002. Until then, the redenomination of tradable debt is subject to the principle of "no compulsion, no restriction". Only thereafter will redenomination become compulsory for every issuer and for all types of debt in EU currencies.

WHAT EXACTLY DOES REDENOMINATION MEAN?

In its simplest form it denotes the conversion of one of the European Union's

HOW IS CONVERSION INTO EURO TO BE TECHNICALLY HANDLED?

Experts distinguish between three basic approaches to redenomination.

1. **Redenomination** : A change in the currency unit in which the nominal value of a security is expressed at the conversion rate, rounded to the nearest EURO cent. This exactly preserves the economic value of the security.
2. **Renominalisation** : This means, after redenomination, a change in the nominal amount in which the security is held and traded.

This is intended to simplify trading and clearing. Such renominalisation may be achieved by a reduction in the minimum nominal amount of a security to 1 EURO or 1 EURO cent, or by the repackaging of an odd amount to achieve a round tradable amount in full EUROS. The process of renominalisation creates rounding errors, especially when the rounding is to the nearest full EURO, rather than to the nearest EURO cent. These differences could be compensated for by cash payments.

3. **Reconventioning** : This means a change in the terms of a security issue to reflect the different conventions prevailing in the market for securities in the new denomination. The intention is to make existing securities more comparable with or fungible with new EURO securities. This can normally only be achieved by calling a general meeting of bondholders.

See the Bank of England's publication: "Practical issues arising from the introduction of the EURO", published in April 1997.

(1) EIB Information N° 92, page 14.

The "bottom-up" method would start at either the level of each individual investor's holding of bonds to be redenominated or, at the level of each bond. In each case, it would then be converted at the official conversion factor, and rounded to the nearest cent (not EURO, as in the case of the "top-down" method). If the investor's holding is in the name of a bank, a similar exercise will be applied by the depository to all accounts in the name of banks. Each bank would adjust its customers' accounts so that they were equal in total to its own holdings (in EURO) with the depository. The depository would then make any small adjustments necessary to ensure that the sum of the holdings registered with it was equal to the converted amount of the original issue.

A case can be made for both the "bottom-up" and the "top-down" methods. Each country has to decide by itself on the merits or disadvantages of each system. Technical factors, cost considerations and the legal environment are some of the elements that will finally determine the choice.

On present tendencies, it seems that the "bottom-up" method of conversion into EURO will be more commonly used, while the "top-down" approach will remain rather the exception. The use of diverse methodologies will also have implications for the private sector which, however, is likely to follow the decisions of its own government in terms of redenomination. There are already some examples of this: in France, major issuers, mostly public, have already made it known that they will opt for the method chosen by the French government. In Germany, KfW has publicly declared that it will follow the pattern set by the German government.

As a result, at least two differently converted types of paper will exist, with rounded

nominal amounts of bonds in EURO sharing the market with decimal places in EURO cents. However, such initial diversity should not endanger the liquidity and transparency of the European bond market in the longer term. Confusion may be overcome relatively quickly once the details are better known, and in addition markets will exert pressure for adopting the most viable of the different methods.

WHO WILL DECIDE ON REDENOMINATION?

Theoretically, such a decision can be taken by at least three parties: the respective government in charge of handling its own currency; the issuer of debt; and investors holding debt in their portfolios. This leaves the door wide open for the potential decision-makers. In fact, two conflicting principles may apply and may therefore lead to completely different results.

To start with, it is undisputed that a participating government will decide on redenomination as regards its own debt. This is an expression of its sovereign rights (the famous "lex monetae") in which no other party may interfere.

More delicate is the question: Who decides on redenomination regarding debt of public agencies or government-owned companies? Also, what about private debt, and what is private? Does it also include debt of public borrowers, contracted privately or not? Can contractual agreements be overruled by government decisions, meaning that practically all issues have to comply with what is decided in the matter elsewhere? Not surprisingly, the questions are far from being answered. Sorting them out will probably require a mixture of leadership by governments and market-led initiatives.

WHO WILL BEAR THE COSTS OF REDENOMINATION?

This is an extremely sensitive matter and discussion has already started in a number of countries, especially between Bankers' Associations and governments. Not much information is available on this matter as yet, although it is pretty clear that costs are unlikely to be charged to bank clients, especially before 2002. The main discussion is taking place between the banks and the government, with different outcomes for each country.

As shown, a number of questions still need to be answered. *EIB Information* will report later on further progress made.

EIB ANTICIPATES REDENOMINATION

As mentioned before, early redenomination should contribute to the "critical mass" of EURO liquidity as a whole. An individual converted issue will not necessarily be liquid, but it will certainly be generally more acceptable to markets and investors than bonds in national currency that have not been redenominated. Since the size of an issue has a substantial impact on its liquidity, the EIB as well as some other issuers have hit upon the idea of issuing "EURO-tributary" bonds.

The underlying idea here is to issue large amounts, in different EU currencies prior to 1999, convert them into EURO at the earliest possible date and thereafter merge them with one another. This creates large bond issues that will certainly have substantial market attraction, in particular if they are also made deliverable into the various Futures Exchange systems. The EIB has already successfully launched quite a number of such "tributary bonds" and more will follow, allowing the Bank to create large issues in EURO, tradable and liquid enough for the market in 1999. The EIB even hopes to have a EURO yield curve in place right from the start, in 1999. ■



New METAP regional office opens in Cairo

The European Investment Bank and its partners in the "Mediterranean Environmental Technical Assistance Programme" (METAP) opened a regional office in Cairo in the summer 1997, to assist in the preparation of future environmental investment projects in co-operation with national authorities of the countries concerned.

METAP was launched in 1990 to address the Mediterranean countries' very specific environmental problems. The programme is co-managed by the EIB and the World Bank, in partnership with the European Commission and the UNDP.

The METAP regional office comprises two Units: a Capacity Building Unit (CBU) and a Project Preparation Unit (PPU). The

cooperation to carry out project preparation activities, which in turn will result in pollution abatement investments.

The regional office is supervised by a Steering Committee composed of the four partners. The CBU technical staff has three professional members. The PPU work programme for 1998 will be managed by a professional team of nine experts, with a support staff of five. Its operations are managed by Mr Aziz Bouzaher, a World Bank environmental and resource economist, and his deputy, Mr Philippe Ostenc, an EIB water and transportation expert. It comprises project preparation activities in integrated water and wastewater management, pollution "hot-spots" identification, and

So far, METAP has completed two phases of activity. METAP I (1990-1992) made an inventory of the environmental situation in the Mediterranean. METAP II (1992-1995) involved the creation of ad hoc institutional frameworks and the preparation of feasibility studies for specific investment projects. During the last six years, METAP funds totalling more than ECU 26 million supported over 120 technical assistance schemes. 85% of these funds went to activities in countries on the southern and eastern rims of the Mediterranean.

The Partners have launched a third phase, METAP III (1996-2000), with the aim to reinforce the programme's objectives, focusing on the implementation of specific environmental investment schemes.



CBU is led by UNDP and assists countries in identifying and addressing priority capacity building needs relating to environmental management. The PPU, jointly managed by the World Bank and the EIB, focuses on expanding the pipeline of environmental projects and providing assistance towards achieving viable project proposals. Although managed separately, the two Units work in close

cooperation to carry out project preparation activities, which in turn will result in pollution abatement investments.

The METAP Partners and the countries concerned have agreed upon three action themes: scarcity of natural resources, combating pollution and strengthening the capacity of the environmental institutions present in the region.

The EIB, as a partner in the programme, has assigned human, technical and financial resources for achieving sustainable development, in line with the European Union's environmental strategy and policies, as well as the conclusions of the Agenda 21 established at the Rio World Conference in 1992. It will also continue to mobilise its funding capacity and experience in support of this Programme, aiming at cooperating with the Mediterranean countries in reviewing specific policy areas and types of action to be taken, in order to prepare for and benefit from the Euro-Mediterranean Free Trade Area to be established around 2010 by creating institutional capacity and identifying capital investments required to prevent and arrest pollution. ■

METAP REGIONAL OFFICE
Philippe Ostenc and Aziz Bouzaher
Tel.: +20 2 351 3598
Fax.: +20 2 351 3080
e-mail: abouzaher@worldbank.org,
postenc@worldbank.org



EIB Forum 1997

“Bridging the Seas in Northern Europe”

The third EIB Forum was held on 23 and 24 October 1997 in Stockholm, bringing together some 350 professionals from governments, parliaments and other public bodies, banks, businesses, non-governmental organisations (NGOs) and the media as well as from international organisations. This large attendance from more than 25 countries and the contributions from over 20 distinguished speakers demonstrated the relevance of the Forum's theme, which was to look at the prospects and challenges for the Northern and Baltic Sea regions and to assess the possibilities for further regional co-operation in these areas.

Northern Europe and, more specifically, the Baltic Sea region are undergoing fundamental changes. Sweden and Finland became members of the European Union only three years ago, Poland and the Baltic states are heading for EU membership, and Russia will need to be included in the region's wider integration process. Building and modernising the physical infrastructure necessary to inter-link Northern European countries of the European Economic Area and Central and Eastern European applicant countries with the rest of Europe will be a major challenge in the years to come. The EIB Forum's four sessions addressed the challenges and opportunities for co-operation in the region, the role of partnerships between cities, the approach to energy and the environment and the outlook for Northern Europe in the 21st century.

Each Forum session was introduced by a speakers' panel among whom were key players in the region's development, representing national and local authorities, banks and industries and usually with broad experience of trans-regional co-operation, as well as representatives of major NGOs in the

region. The Prime Minister of Sweden, Göran Persson, struck an optimistic note in his Opening Address by remarking that the Baltic region had the potential to become the fastest-growing area in Europe for many years to come. The combination of rapidly growing young



The Swedish Prime Minister, Göran Persson, opened the EIB Forum.



Bronislaw Geremek, since November Minister of Foreign Affairs in Poland, was Guest speaker.

market economies such as in Poland, the Baltic states and north-west Russia, and mature economies such as in the Nordic countries would create strong economic impulses stimulating economic growth. Other speakers referred to the remarkable richness and historic tradition

of regional co-operation which are now being rebuilt at all levels of society. Guest speaker Bronislaw Geremek, Historian and at the time of the Forum Member of the Polish Parliament, but since November Minister of Foreign Affairs of Poland, reminded his audience in particular of the need to reinforce the common intellectual and cultural heritage of the region and all of Europe. Europe has to develop a cultural and political identity of its own, based on common history, to create cohesion between its peoples and societies and hence to pave the way for the integration process.

The EIB's role in Northern Europe and the Baltic Sea region was highlighted by EIB President Sir Brian Unwin in his Opening Address. He stressed the Bank's commitment to promoting sustainable development in the region by substantial lending for regional infrastructure and environmental projects and participation in the Baltic Sea Joint Comprehensive Environmental Action Programme. The EIB has financed a number of projects figuring on the Programme's list of 132 environmental hot spots, including supervision and co-ordination of the pre-feasibility study for the Oder River Basin.

In all, the Bank has contributed to financing investment of ECU 31 billion in the Baltic Sea area alone in the past five years. Some speakers and delegates encouraged the Bank to step up its involvement within the region, for instance in furthering public-private partnerships. The Vice-Governor of St. Petersburg requested the Bank to include the north west of Russia in its lending operations and the representative of Greenpeace urged the EIB, as well as other banks, to lend support to establishing CO₂ reduction targets, develop proactive

lending in the renewable energy sectors and provide more funds for energy efficiency.

In his Concluding Remarks, EIB Vice-President Claes de Neergaard stated that good intentions have to be translated into deeds by adopting a pragmatic approach between governments, banks and private sector promoters and that the EIB would take the participants'

thoughts back to Luxembourg for further reflection and action.

The success of the EIB's Forum 1997, following the similar event held in Madrid in 1996, which addressed the challenges and opportunities lying ahead for the Mediterranean region, and the first one in Amsterdam in 1995 when the role of the private sector in the financing of large infrastructure was exam-

ined, has inspired the EIB to organise its next Forum in October 1998 in London. This will tackle Europe's major challenge: creating jobs.

The Proceedings of the EIB Forum 1997 will be published in early 1998 and can be obtained free of charge, in English, from the Bank's Information and Communications Department, Luxembourg. Fax: (+352) 43 79 31 89. ■

The 1997 EIB Prize

The 1997 EIB Prize competition, which was launched last year (EIB-Information No. 90), attracted a considerable number of entries from a wide variety of countries. At an Award Ceremony Dinner held in Florence on 9 October 1997, a total of ten prize-winners were presented with their awards by Sir Brian Unwin, President of the EIB, in the presence of the Prefect and the Mayor of Florence. The dinner was also attended by high-level public figures and academics as well as notable personalities from Italian industry and banking.

The winning essays were selected by an independent Jury made up of Lord Roll of Ipsden, Antonio Borges, Dean of INSEAD, Edmond Malinvaud of the Collège de France, Alberto Quadri-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.

1st prize: "Quelle stratégie optimale pour geler les parités de change au démarrage de l'UEM?" - Bernadette Frédé-

rick & Peter Vanden Houte, Research & Strategy Department, Bank Brussels Lambert (BBL). Frédérick and Vanden Houte suggest that the failure of EMU



The 1st prize winners, Bernadette Frédérick and Peter Vanden Houte and EIB President Sir Brian Unwin during the award ceremony in Florence.

would consign European integration itself to oblivion and postulate that the freezing of exchange rate parities at economically justified levels is a prerequisite for a smooth transition to EMU. In this context, they define an optimal strategy that complies with the constraints of using market rates as a reference for fixing the conversion rates, freezing exchange rates at levels that are economically justified and discouraging speculation.

2nd prize: "Eurobanking, a new world" - Jean Dermine, Professor of Finance, INSEAD. The elimination of intra-European exchange rates in the new world of the

EMU is the starting point for Dermine's examination of how the move to the euro will modify the sources of competitive advantage for banks and so permanently and fundamentally alter European banking markets.

3rd prize (joint): "The Dynamics of European Integration" - Daniel Gros, Deputy Director, Centre for European Policy Studies (CEPS). The concept of a new world is expounded by Gros, who constructs a model of European integration showing how a politically motivated trade-

liberalisation initiative can start a dynamic process of economic integration.

3rd prize (joint): "Zur Effizienz nationaler Sozialversicherungssysteme in der Europäischen Union" - Martin Kolmar, University of Konstanz. Kolmar attempts to identify those crisis components in national welfare systems that are attributable to the process of European market integration and puts forward proposals for eliminating the allocative

inefficiencies of social security systems in the EU.

Under-30 awards : *"Financial system models, corporate governance and capital investment in OECD countries: Some stylized facts"* - Pablo de Andrés Alonso & Félix J. Lopez Iturriaga, Professors of Financial Economics, University of Valladolid. Lopez and de Andrés consider the possibility of convergence of European financial systems from the angle of corporate finance: The central idea is that a possible explanation for the international variations observed in the capital structure of firms could be the role played by national financial systems in the allocation of control over the strategic investment decisions of firms.

"A more stable stability pact" - Volker Köllmann and Andri Kopperschmidt, University of Kiel. This analysis of the current proposals for a Stability Pact

(designed to ensure long-term fiscal discipline for all EMU member countries) is primarily concerned with the future of European integration. As an alternative to deficit criteria, Köllmann/ Kopperschmidt propose the reduction of debt and the building up of a low-inflation EMU through EMU member countries agreeing on a well-defined procedure to lower their overall public debt/GDP ratios and through translating into action accountability and incentive measures for the ECB.

"Comment concilier élargissement de l'Union européenne et construction monétaire?" - Jérôme Vacher, Sorbonne University. The complexities of establishing a viable EMU are taken a step further in this paper, which questions the compatibility of European monetary integration with enlargement of the EU. Vacher suggests that the introduction of the euro can be reconciled with EU enlarge-



Jury members: Helmut Schlesinger, former President of the Bundesbank (left) and Alfred Steinherr, Chief Economist of the EIB.

ment through the establishment of systems similar to currency boards, with the euro as the anchor and reserve currency.

THE 1999 EIB PRIZE

The next EIB Prize will be offered in 1999. The aim is to attract original research which contributes strongly to the evolving European policy debate and, to this end, the Prize will again be offered for **short essays on economic and financial topics related to European affairs**. The competition will be launched in Autumn 1998, with the deadline date of 2 February 1999 for the submission of entries.

The 1999 EIB Prize will offer the following awards: ECU 10 000 (first prize), ECU 7 500 (second prize), ECU 5 000 (third prize), ECU 5 000 (special topic), and three ECU 1 000 prizes for entries from persons under the age of 30.

The competition will be open to any person, irrespective of age, who has the nationality of a Member State of the EU, or a member state of EFTA, or of an Association Agreement country.

The Prize Rules, EIB Papers and other relevant information may be obtained from:

EIB Prize Secretariat
European Investment Bank
100 Boulevard Konrad Adenauer
L-2950 LUXEMBOURG
Fax: (352) 4379-3492 ■

The EIB Prize was initially established on the occasion of the Bank's 25th Anniversary and has been awarded every two years since 1985. The conditions for the award of the 1997 EIB Prize were revised radically to encourage the submission of original analyses of European financial and economic issues. The aim was to provide a neutral forum for topical policy discussions and so contribute towards the on-going debate regarding the future design of the European Union. In this context, the winning essays were presented by their authors at a Prize Conference, which took place under the auspices of the European University Institute on Friday 10 October.

Professor Patrick Masterson, President of the EUI, and Mr Alfred Steinherr, Chief Economist of the EIB, opened the Conference and introduced the sessions, each chaired by a member of the Prize Jury. All prize-winners had the opportunity to present their papers and, indeed, to defend them in the lively debates that often followed the presentations. The conference also featured talks by senior academics of the European University Institute: Professor Michael Artis discussed "Inflation targeting for the ECB?" and Professor Giuseppe Bertola raised several controversial points in a brief exposé of "Wages and employment in an integrated Europe". Professor Edmond Malinvaud concluded the conference with his analysis of "Growth and Employment in Europe: Evolving priorities and policy responses in the post-war period".

The winning essays in the 1997 EIB Prize competition have been published in a special issue of the "EIB Papers", which was distributed to all conference participants and is now available upon request from the European Investment Bank.

Bank activity as at 30 Sept. 1997

BORROWINGS: ECU 15.6 BILLION

Medium and long-term loan issues totalling ECU 15.6 billion were launched during the first three quarters, out of a projected annual programme of more than ECU 20 billion. They were denominated in 19 currencies, 80% of the overall amount being in European Union currencies, or 48% more than at 30 September 1996. Borrowing activity was concentrated in the first six months, with the third-quarter figure standing at ECU 1.6 billion.

Borrowings concluded as at 30 September came, in effect, to ECU 16.2 billion, as they included some operations initiated at end-1996.

This sharp increase in issuing activity is bound up with the level of lending operations, itself some 20% higher (ECU 14.8bn as against 12.3bn), and with the conclusion, in particular, of opportunistic borrowings contributing to a substantial reduction in the EIB's resource-raising costs, expressed in sub-LIBOR terms. Part of the proceeds of these opportunistic borrowings has already been disbursed in loans on highly-advantageous terms.

In line with its strategy in relation to the euro market, the EIB has launched issues denominated in euros as well as tributary issues in the principal European currencies (NLG, FRF, DEM, PTE, GBP and ITL) worth an overall ECU 4.9 billion.

During the third quarter, the focus of EIB operations outside the Community continued to be the markets of the Central and Eastern European countries (CEEC) with the aim of furthering their development in the run-up to future membership of the European Union (see EIB Information No. 93, 3/97, pages 1-3), as follows:

- a programme of medium-term notes has been arranged in Hungarian forints to be concluded at end-October;
- issues have been floated in Czech koruny;
- talks have continued or been initiated with the appropriate authorities in

certain countries eligible for accession to the European Union.

In addition to its borrowing activity in Europe, the EIB was present on the following markets: Japanese yen, US dollar, Hong Kong dollar and South African rand. In this last case, a portion of the proceeds was disbursed directly in loans for capital investment in South Africa.

LOANS SIGNED: ECU 13.2 BILLION

Between 1 January and 30 September 1997, the EIB made 13 174 million (+11%) in loans available for projects supporting attainment of Community policy objectives.

Within the European Union, finance contracts worth 11 943 million were signed in fourteen countries: This figure comprises:

- 8 460 million in individual loans;
- 3 483 million in global loans concluded with the EIB's partner banks or partner financial institutions. From global loans already under drawdown, 2 738 million was channelled to around 11 000 small-scale ventures, involving both the SME sector (9 530 firms) and local infrastructure, chiefly in the sphere of water management (960 schemes).

Individual loans for infrastructure remained at a high level, accounting for 81% of the total. They break down as follows:

- **Communications:** 4 358 million.

New loans concluded during the third quarter went to:

- **rail transport:** notably modernisation of the north-south link between Helsinki, Tampere and Seinäjoki, over a distance of almost 400 km. This scheme forms a key component of the Finnish railways development programme, aimed at boosting efficiency and, in the process, at making the export industry more competitive;
- **air transport:** extension of Copenhagen airport, renewal and expansion of British Airway's long-haul passenger aircraft fleet as well as modernisation of IBERIA's long-haul fleet through acquisi-

tion of two A 340-300 Airbuses for the Spanish airline, an operation also promoting Europe's aviation industry;



- **urban transport:** for Madrid's metropolitan railway network and Montpellier's tramway systems;
- **telecommunications:** establishment of a mobile telephony network in Spain.
- **Energy:** 1 361 million.

The key project attracting funds under this heading was the 840 km gasline project linking the Norwegian sector of the North Sea to Dunkirk in northern France.

This pipeline will convey gas to France and thence to Spain via the European grid.

- **Environmental infrastructure:** 1 100 million.

New projects targeted sewage treatment facilities in Cataluña and a plant in northern Germany (Hessen) combining municipal waste processing with heat and power production.

- **Industry:** 1 367 million.

During the third quarter, the EIB made loans available for constructing blending facilities for phytopharmaceutical products in Haute-Normandie, a factory turning out nylon film for agri-foodstuffs packaging in Italy's Matera Province, and industrial gas production facilities in Sussex, as well as for capacity expansion and process innovation at a semiconductor wafer production plant in Landshut, Bavaria.

- **Services:** 274 million.

One loan went towards upgrading and expanding R&D facilities for the pharmaceuticals industry in Denmark.

The commercial sector attracted funding for constructing a retail goods warehouse/distribution centre at Unna, near Dortmund in Germany and for building two shopping centres at Oporto and Lisbon in Portugal.

Outside the Union, the running total for loan operations concluded as at 30 September came to 1 231 million. The EIB assisted capital projects in the non-member Mediterranean countries (791 million), Central and Eastern Europe (200 million), South Africa (125 million), the African, Caribbean and Pacific States (18.8 million), Asia (46 million) and Latin America (50 million).

Loans concluded during the third quarter in the non-member Mediterranean countries centred on the following projects: - Egypt: modernisation of the medium-haul air fleet, construction of two motorway sections and a bridge over an arm of the Nile, plus a cement works 100 km east of Cairo; - Algeria: a gas pipeline from Alsar to Hassi R'Mel; - Turkey: SME investment via a global loan;

Lebanon: extension of the northern coastal road, upgrading of water supply, sewerage and sewage disposal facilities in Greater Tripoli, and construction of the national electricity control centre in Beirut.

Lending to the CEEC was directed wholly into the following transport projects: construction of 18 km of highways in the Slovak Republic from Bratislava to the Austrian and Hungarian borders, improvements to port channel access and strengthening of quays in the Latvian harbour of Ventspils and extension works at Sofia airport, Bulgaria.

A global loan in South Africa will help to finance small and medium-scale ventures, while in Mauritius, the EIB financed container terminal works at Port-Louis and, in the Pacific Islands, it provided credit in support of small business development schemes.

Lastly, the Ghazy-Barotha hydro-electric plant in Pakistan and extension works at two airports in the southern Philippines also attracted loan finance. ■

ECU

Below are the ECU values in national currencies, as at 30 September 1997; these rates are applied for the last quarter of 1997 in preparing financial statements and operational statistics of the EIB:

DEM	1.96612	BEF	40.5744
FRF	6.60354	LUF	40.5744
GBP	0.689591	ITL	1921.48
NLG	2.21465	ESP	166.06
DKK	7.48771	PTE	200.251
IEP	0.764949	GRD	310.728
SEK	8.43766	ATS	13.8368
FIM	5.88343	USD	1.113

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100, bd Konrad Adenauer
L - 2950 Luxembourg
tel. 4379-1 - fax 43 77 04
H320 Videoconferences 43 93 67

Office for lending operations in Italy:
Via Sardegna, 38 - I - 00187 Rome
tel. 4719-1 - fax 4287 3438
H320 Videoconferences 48 90 55 26

Athens Office:
Amalias, 12 - GR - 10557 Athens
tel. 3220 773/774/775 - fax 3220 776

Lisbon Office:
Avenida da Liberdade, 144 - 156, 8º
P - 1250 Lisbon
tel. 342 89 89 or 342 88 48 - fax 347 04 87

London Office:
68, Pall Mall - GB - London SW1Y 5ES
tel. 0171-343 1200 - fax 0171-930 9929

Madrid Office:
Calle José Ortega y Gasset, 29
E - 28006 Madrid
tel. 431 13 40 - fax 431 13 83

Representative Office in Brussels:
Rue de la Loi 227 - B - 1040 Brussels
tel. 230 98 90 - fax 230 58 27
H320 Videoconferences 280 11 40

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

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New EIB Director of Treasury



Ms Anneli Peshkoff is the new Director of Treasury at the EIB as from 1 December, succeeding Luc Winand who has now joined Euro-

pean Investment Fund (EIF) as Director of Finance, with particular responsibility for finance, treasury, accounting, risk management, control and systems.

Before joining the EIB, Anneli Peshkoff, 43, a Finnish national, has had a distinguished international career with Citibank, which she joined in 1979 in San Francisco, leading her to appointments in different European countries and spanning a

variety of treasury activities. Positions she held included Head of Treasury Marketing in Amsterdam (1985-1990), and Head of Derivatives and Capital Markets Distribution, in Milan until 1995. Since 1996, she has been Vice-President, Head of Market Risk Management, responsible for all traded products in Europe at Citibank, London. She holds a MBA in International Finance.

As Director of Treasury, Anneli Peshkoff reports to the Director General, Finance René Karsenti. Her responsibilities include the management of liquid assets of about ECU 10 billion in some 25 different currencies, investment portfolio management, and overall asset/liability management of the Bank. The Finance Directorate manages the EIB's borrowing and treasury operations and internal financial accounting. ■