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EIB Board of Governors

Luxembourg, 14 June 1999

The Bank steps up its support for growth and employment in Europe and creates a Balkans task force

■ **Sir Brian UNWIN, President of the EIB,** declared during the press conference following the Board of Governors Meeting : "The Member States have congratulated the EIB on the unprecedented variety and volume of its activities last year in support of economic and monetary union and for the enlarged Union of the future. To support growth and employment in the EU, we are now positioned amongst the largest providers of risk capital funding in Europe and are becoming increasingly active in the human capital areas of health and education. We shall intensify these activities in response to the specific requests to the Bank from the recent European Council in Cologne.

We have also continued our successful proactive euro funding strategy. The Bank is now using its position as the largest non-sovereign international borrower to create a large diversified pool of the new currency through its Euro Area Reference Note (EARN) issuance programme.
As the biggest source of long-term funding in Central and Eastern Europe, we remain committed to strengthening development of the candidate countries. The Governors particularly welcomed the crucial role the Bank will play in the huge effort to be made for the reconstruction of the Balkans and the establishment of the special EIB Balkans Task Force."

Statement to the Board by Sir Brian Unwin, KCB, President of the EIB and Chairman of its Board of Directors

Lending operations within the European Union

In addition to the sustained development of the ASAP programme, the Bank maintained its strong support for investment in traditional priority areas such as Trans-European Networks (TENs), small and medium-sized enterprises (SMEs) and projects to improve the environment and quality of life. Accordingly, nearly EUR 9 billion was lent for TENs and related infrastructure in the transport, telecommunica-

The Board of Governors was chaired by Bosse Ringholm, Swedish Minister of Finance and EIB Governor for Sweden

Trans-European Networks

"In line with the conclusions of the European Council meeting, the Governors endorsed an increase in Bank activity in support of high-technology TEN projects. The EIB has the necessary qualifications and financial resources to underpin projects ushering in 'intelligent transport systems' (ITS) in the areas of electronic road traffic management and satellite-based navigation management, such as the 'Galileo' project." (1)

tions and energy transmission sectors, including many key Public-Private Partnership (PPP) projects; EUR 2.4 billion went to SMEs under traditional global loan arrangements with partner banks; and over EUR 6 billion went to environmental projects, such as water conservation and management, measures to combat atmospheric pollution or to urban development projects.

Our increasingly close collaboration with the banking sector is illustrated by the fact that global loans accounted for almost a third of total lending and nearly two thirds of all Bank lending was through, or guaranteed by, banks.

Lending operations outside the European Union

The concentration on investment to stimulate growth and employment within the Union was not at the expense of lending outside the Union, which rose in 1998 by over one third to nearly EUR 4.5 billion. Loans in the Mediterranean region reached some EUR 900 million in support of the Euro-Med partnership, with particular emphasis on encouraging private-sector development. In the Lomé countries of Africa, the Caribbean and the Pacific, and in South Africa, we lent a record EUR 700 million; and we fulfilled our mandate by lending over EUR 350 million in Asia and Latin America, predominantly for projects with a particular European dimension. We also donated EUR 250 000 each to Honduras and Nicaragua as a contribution to emergency relief following Hurricane Mitch.

But the largest volume of Bank lending outside the Union last year was the EUR 2.4 billion for projects in the ten applicant countries of Central and Eastern Europe and Cyprus. This was a combination of the traditional mandate and the new Pre-Accession Facility launched early last year.

The Bank's external lending mandates, together with the Lomé arrangements, are now due for renewal, and proposals will soon come to the ECOFIN Council. It is most important that early agreement should be reached so as to allow the Bank to continue its activities and adequately protect its credit standing. I look to you for your cooperation in achieving this. Any repetition of the delays experienced at the last renewal would seriously interrupt the Bank's ability to maintain its support for the Union's external aid and development policies. I should add that I believe the Bank will meet the overall 25% target for commercial risk sharing which applied to the existing mandates.

Economic and Monetary Union (EMU)

So much for the bare bones of the Bank's operations in 1998. They conceal, however, an unprecedented variety and volume of activities in support not only of the economic and social welfare of the present members of the European Union but of the enlarged Union of the future. I should like, therefore, to say a little more about some of the highlights.

As I indicated last year, a top priority of the Bank during the past two years has been to support the successful launch and sustainability of EMU. The Bank's borrowing and lending policies have both been targeted at this objective.

Euro borrowing strategy

During 1998 the Bank intensified its pro-active euro funding strategy. Our objectives were to use our position as the largest non-sovereign international borrower to create a large and widely diversified pool of the new currency and in so doing to establish benchmarks across the whole yield curve. Accordingly, over half our EUR 31 billion borrowings were in euro and euro-tributary bonds, including a euro global issue of EUR 2 billion and the first ever pure euro issue. Since the launch of our euro strategy in 1997 the Bank has created a total of some EUR 27 billion in euro-related issues, with maturities ranging from 5-30 years.

We are continuing this strategy this year in particular with the launch in March of our Euro Area Reference Notes (EARN) Issuance Facility, committing the Bank to a minimum issuance amount during the year. The programme benefits from the support of a group of top European and international banks committed to placement and market making in the new issues. Our aim is to create an EIB euro debt pool of well over EUR 50 billion by the middle of this year. Subject to market conditions

(1) The text in the boxes refers to the main conclusions of the Board of Governors as stated in the EIB's press release.

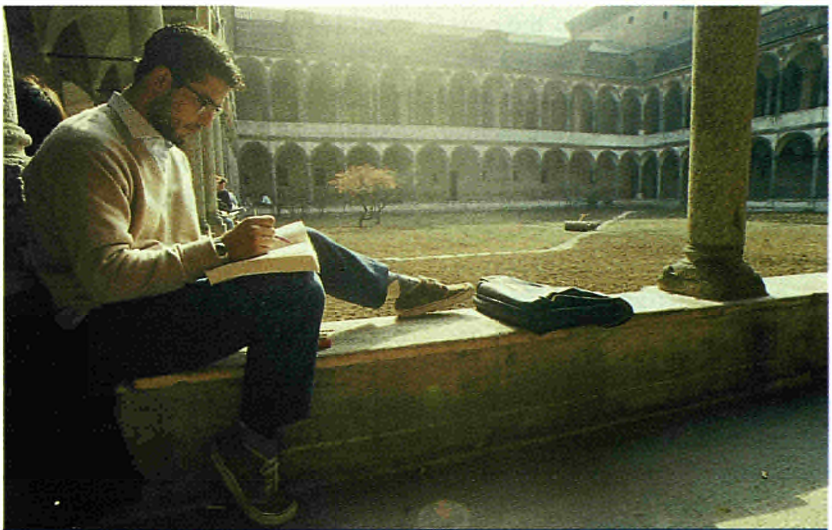
- the euro is after all only six months old and the markets are still in the process of adjusting to its advent - we hope again to raise at least half our estimated EUR 30 billion of borrowing this year in euro issues. There is no doubt that the markets have much appreciated the Bank's pioneering contribution towards creating confidence in the euro during the critical months prior to its birth.

Amsterdam Special Action Programme (ASAP)

When I reported to you last year ASAP was well underway but still in its early stages. 1998 saw consolidation and intensification of the programme. As I have recently reported at the ECOFIN Council, under the SME window, which focuses on equity and quasi-equity operations for high growth and innovative SMEs, we have now committed over EUR 600 million through specialised partner financing institutions in all Member States. Last month the Board of Directors approved a proposal to double the EUR 125 million European Technology Facility managed by the European Investment Fund (EIF), and I hope that you will agree today to the necessary appropriation of a further EUR 500 million from the EUR 1 billion from the Bank's surplus for the ASAP programme. Together with the EIF, which is also committing its own resources and managing a further facility using budgetary funds, the Bank is now among the largest single providers of funding for risk capital in Europe, with a large share of early stage and start-up projects.

In the other ASAP areas we have committed or approved some EUR 4 billion for projects in the health and education sectors - universities, hospitals, schools and training establishments - and over EUR 4 billion for 27 urban renewal projects, including housing schemes in depressed areas. We have also stepped up our lending in support of TENs and the environment, particularly for PPPs. Indeed, three PPP projects in the UK which the Bank helped to finance - a Scottish schools project and two major road schemes - have recently won the UK Award for Innovation and Excellence in their respective sectors.

In carrying out these operations we have greatly increased our experience and expertise - particularly in the health and education sectors, where we virtually started from scratch - and intensified our partnership with the financial sector. Indeed, the venture capital



Education, health and urban renewal

The rapid growth in Bank lending to these new sectors (EUR 8.2 billion committed in 18 months) prompted the Governors to call for these sectors henceforth to be treated as an integral part of the EIB's field of activities. This constructive move followed on from the earlier 1997 ASAP decision restricting the eligibility of these sectors for EIB finance to a period of three years and giving priority to projects located in assisted areas.

Venture capital for SMEs

With a view to building even more solidly on initiatives already taken to boost the equity of innovative SMEs, to making this a permanent feature over the next four years and also to extending such initiatives to other categories of job-creating SMEs, the Bank has now decided to:

- double EIB funding for the European Technology Facility (ETF), managed by the European Investment Fund (EIF), from EUR 125 to 250 million;
- double the reserve established to cover the risk associated with these venture capital operations, thereby increasing it from EUR 500 million to 1 billion, drawn from the EIB's operating income;
- in principle, to allocate to this reserve in due course an additional amount of EUR 1 billion for the years 2000-2003.

programme is only possible through the intermediation of the financial sector.

Enlargement and pre-accession support

Last year we launched the new Pre-Accession Lending Facility which is at the Bank's own risk and, together with the traditional mandates, enables the Bank to lend up to EUR 7 billion up to the beginning of next year in the candidate countries of Central and Eastern Europe and Cyprus.

With some EUR 10 billion already committed since 1990, the Bank is now the largest single source of international finance for these countries. In accordance with the priorities of the Pre-Accession Partnership Agreements, our lending has focused on economic integration, both with the European Union and within the region, and on support for the adoption of the *acquis communautaire*, particularly in the area of communications infrastructure and the environment. In 1998 some EUR 1.5 billion went to transport schemes, such as the modernisation of railway lines in Hungary, Latvia and Romania, road improvements in Bulgaria, Lithuania, Poland, the Czech Republic, Romania and Slovenia, and urban transport projects in Budapest, Krakow and Kattowice.

Pre-accession Facility

"The Governors were pleased to note the substantial effort made by the Bank in Central and Eastern Europe and, in line with the conclusions of the Cologne European Council meeting, noted with approval the principle of renewal, with effect from 31 January 2000, of the current pre-accession facility for the period 2000-2003 and beyond, with an amount which is likely to be substantially higher."

To demonstrate the Bank's commitment to the applicant countries the Board of Directors added a visit to Tallinn to their annual "external" Board Meeting held last month in Finland. I was able to sign an important new roads loan contract with the Finance Minister on that occasion, and the Prime Minister, Mr Laar, expressed strong public appreciation of the role the Bank is playing in helping Estonia to move towards accession.

The Bank is also seeking to help develop the new capital markets in Central and Eastern Europe. It is important that the applicant countries should be encouraged to support the development of their local capital markets. We have accordingly launched bond issues on Euro markets in Czech Koruny, Estonian Kroon and DEM-indexed Polish Zloty to help channel international and domestic savings into local productive investment projects. We have also placed our first AAA-rated bonds in the Hungarian and Czech domestic markets. We shall seek further opportunities to continue this programme - in effect, replicating the pioneering work done by the Bank in the past in the markets of the then new member countries, Greece, Portugal and Spain.

I hope you will agree, therefore, that during 1998 the Bank faced up to its two main strategic challenges - EMU and enlargement - with vigour, enterprise and success.

Future challenges

So much for the past. I now turn to future challenges, with particular reference to the conclusions of the recent European Council at Cologne.

Growth and Employment in the European Union

The Cologne Council called on the Bank to take further initiatives in the fields of risk capital, investment in human capital and the environment, regional development and future enlargement. I welcome these requests and assure you that, just as following the Amsterdam Council in June 1997, the Bank will respond quickly and effectively.

So far as risk capital and SMEs are concerned, your agreement today to release an extra EUR 500 million from the ASAP "reserve" will be an immediate response to the Summit's request. It will enable us to press on with the existing ASAP venture capital programme and to double the existing EUR 125 million European Technology Facility.

Allocation of a further EUR 1 billion from the Bank's surplus over the period 2000–2003 would enable this successful programme to be maintained. We shall, however, with the EIF, need to give careful thought to the best targets, drawing on our experience so far. Clearly SMEs undertaking advanced technology investments are a priority, but we should keep our present flexibility in favour of innovative SMEs in other sectors, which are equally important for job creation. Consultation with your administrations will remain particularly valuable to us.

So far as "human capital" - education, health and urban renewal - is concerned, we have rapidly developed substantial expertise in the Bank and I much welcome the proposal that we should continue

Balkans task force

"The Board of Governors expressed the wish that the Bank be actively involved, in its capacity as the Union's financing institution, in the considerable efforts needed to reconstruct the regions devastated by the conflict in the Balkans.

The Governors endorsed the establishment by the Bank of a '**Balkans Task Force**' for identifying infrastructure that needs to be rebuilt as a matter of priority in the transport, telecommunications, energy and environmental sectors by means of EIB financing provided at short notice."

and widen this programme. I am also pleased at the reference in the Council conclusions to environmental protection and renewable energy. We are already considering how the Bank can most effectively contribute to the process launched by the Kyoto Summit and we shall bring forward proposals in all these areas.

Promoting regional development in the European Union is the core task of the Bank. Again, therefore, I welcome the emphasis put on the Bank's role in this in the Summit conclusions. As you may recall, in proposing the capital increase last year, I stressed the need for the Bank to have an adequate capital base on which to sustain investment in the less-developed regions during the next few years following the reform of structural assistance. This will be our top overall priority and we are already discussing with the Commission a new cooperation framework between the Bank and the Commission under which we can maximise the effectiveness not only of our loan financing but also of our technical expertise.

I have noted also the comments in the Cologne conclusions on TENs. As you know, the Bank is by far the largest financer of these networks, having approved loans of nearly EUR 60 billion so far, contributing to investment of three times that amount. We shall be ready to work with the Commission and Member States in reviewing the priority TENs list and in finding ways to speed up investment, particularly mixed public-private financing, in which we have great experience.

I welcome also the importance placed by the Council on the information society and innovation, which feature in the Employment Pact. These are driving elements for the European economy and the Bank could contribute a great deal more in this sector, drawing on our experience over a long period of financing of telecommunications and multi-media networks.

Finally, as I have already indicated, we are also ready to develop further our lending operations in the applicant countries. We are about to put to the Board of Directors proposals for renewal of the Pre-Accession Facility and I hope that you will play your part at the ECOFIN Council by ensuring that the parallel lending mandate to the Bank in Central and Eastern Europe is also quickly renewed. I hope also that you will look favourably in due course on an extension of the eligibility rules of the EIF, together with some other statutory changes, so they too can increase their support for infrastructure investment in the region.

I must, however, make two points clear. First, it is essential for the financial soundness and standing of the Bank that all these operations should be conducted in accordance with sound banking principles. This will always underlie our approach. Second, we shall need to allocate more staff and more resources if we are to fulfil these commitments and also to play the role in the reconstruction of the Balkans.

Reconstruction in the Balkans

The post-war reconstruction will need a huge effort by many institutions and organisations. Political coordination must be provided for the European Union by the Commission; and all potential sources of finance and support must be harnessed.

In view, however, of our long experience in the region – we have been operating there since the late 1970s – the EIB, as the European Union's financing institution, must play a major part from the beginning in the reconstruction programme. In order to be effective, a lending facility analogous to the "soft" World Bank IDA loans will be necessary. This is essential to enable the Bank to offer the conditions (exceptionally long maturities and grace periods, and low interest rates) necessary for loans to be taken up, particularly in the infrastructure field. Our experience in the 1960s and 1970s, when we managed similar "special loans" in Africa and the Mediterranean region, leaves us in no doubt about this. At a later stage, however, we would aim to provide normal EIB lending in tandem with special loans, leading to a progressive phasing out of the latter.

This will require a specific allocation from the budgetary funds to be made available for reconstruction in the Balkans. The Bank could manage these in the framework of the proposed new Agency, and so use its financial and technical expertise to deploy long-term IDA type loans alongside grants made by the Agency on behalf of the Commission. Many details need to be considered further, but in my view it is the best way of mounting vital reconstruction loan finance quickly and effectively and achieving the maximum synergy between European Union institutions.

The Bank has already created a "Balkans Task Force" to start working on these issues, and will carry this forward in close cooperation with the Commission and the IFIs. I hope, therefore, that you will consider this proposal favourably and that you and the Commission will also ensure that the Bank is involved at the highest level in the various fora that will be coordinating and guiding the European response.

Strategic Framework and Corporate Operational Plan

Your agreement to the capital increase to EUR 100 billion a year ago was linked to the approval of a Strategic Framework incorporating a new Corporate Operational Plan (COP) to be discussed and approved by the Board of Directors.

I am glad to report that the first such Plan was approved by the Board early this year and set out the priorities for the Bank's operations, inside and outside the European Union, during this year and the year 2000. It was the first comprehensive Plan of this kind ever produced by the Bank, embracing all its activities, and it will be rolled over at the end of each year, if possible on a three-year basis. I shall report to the Board of Directors by September on progress with the Plan and seek their guidance on rolling it over at the end of the year.

On a specific point in the Plan, which several of you raised last year, I am glad to tell you that the Bank has now started to implement proposals for adding a risk premium to its mark-up in appropriate priority cases. Although a modest step in itself, this is a radical departure of principle from the Bank's previous pricing policies, and will need to be very carefully monitored and reviewed.

The balance sheet

The total balance sheet increased by 12.3 % to ECU 176.4 billion at the end of 1998 (these will, of course, be our last accounts expressed in ECU). Total disbursed loans outstanding amounted to some ECU 133 billion. As explained in the notes to the accounts, the statutory ceiling was complied with in the light of your decision to increase the subscribed capital to EUR 100 billion with effect from 1 January 1999.

Our gross operating surplus last year was ECU 1 345 million, representing a return on average own funds of 7%. The increased return compared to the previous year (in spite of a general fall in interest rates) is explained by the greater fall in the average rate on borrowings.

After consultation with our external auditors, and with the endorsement of the Audit Committee, an increase of ECU 150 million in the Fund for General Banking Risks is proposed. Like last year no additional specific provision is recommended. After provisions and exchange rate adjustments, the net result for the year amounted to ECU 1 195 million.

Organisation and management

Despite the huge increase in the volume and complexity of the workload, tight control has continued to be exercised on both costs and staff. In 1998, total administrative expenditure and depreciation grew by only 2.2 % in BEF terms (or 3.3 % in ECU terms) excluding special items and additional expenditure for the euro transition. This compares with a 13% increase in loan signatures. Moreover, only 18 net additions to staff numbers took place. Once again, I cannot overstress the sheer hard work, dedication and professionalism of the staff who achieved the results I have described. The EIB still has a budget that is smaller than that of all its main international counterparts, and compares much more than favourably with them in terms of productivity.

Although progress has been slower than I had hoped, we are carrying forward our fundamental review of Human Resources Management policies in consultation with the staff and their Representatives with the objective of producing a more flexible organisation with clearer assignment and recognition of management responsibility, and better career opportunities. A new com-

Accounts and balance sheet

"On the basis of a report from the Bank's Audit Committee, the Board of Governors also approved the Bank's accounts as at 31 December 1998. With a total of EUR 176.4 billion, the EIB's balance sheet showed a net increase of 12.3% at the end of 1998; outstanding borrowings amounted to 123.8 billion and outstanding loans to 155.6 billion."

prehensive senior management training course will soon begin and, consistent with our strong equal opportunities policy, I am glad to have been able to appoint recently the first female Director General in the Bank. We have also started a "stage" programme for young graduates from the Member States.

We have recently signed a new four-year Tripartite Agreement with the Commission and the Court of Auditors governing the latter's audit of those operations in which the Bank employs Community budget funds. I hope that we shall soon be able to reach a similar agreement in relation to the EIF, where the position is different in view of the shareholding of the Fund, which includes nearly 80 public and private financial institutions.

Finally, I am glad to report that, as a result of careful planning and a tremendous effort by all those concerned - who, as in many other institutions, worked throughout the Christmas and New Year holiday - the Bank successfully converted its IT and other systems to the euro at the beginning of this year. We are also well advanced on the further changes necessary for the millennium and, subject to testing, hope to have all systems ready before the summer.

Governance

When you approved the capital increase last year, in the context of a new Strategic Framework, you asked the Board of Directors "to initiate a review of the governance of the Bank, in anticipation of the prospective enlargement of the Union, and present a progress report to the Board of Governors for its Annual Meeting in 1999".

There are two documents in front of you in response to this. The first is a short set of principles resulting from discussion in the Board of Directors. The second is a longer background paper.

This question raises issues of great sensitivity. On the one hand, it is possible to take the view that since "the Bank works", there is no point in trying "to fix it". Against that, however, it is clear that it would be very difficult indeed for the present governance structure to work efficiently if it were simply expanded by analogy with the past to take account of enlargement. Changes on this account, some of which will require statutory amendment, must be made; and there are other possible changes in any case that might enhance the efficiency and effectiveness of the Bank.

The Bank cannot proceed in isolation from changes that might be made in other Community institutional arrangements following the next Inter-Governmental Conference. This is no reason, however, not to get on with some practical improvements that can be made now within the present statute and at the same time to press on with further work on those changes requiring an amendment to the Statute that will be necessary to cope with enlargement.

In order to carry forward their work the Board of Directors would be very glad to have your comments and guidance so that a further report can be submitted to you next year.

May I just add in the context of governance that I am grateful for your support for the new Code of Conduct for the Management Committee which the Chairman of the Governors has circulated. This is the first such document, following a similar Code of Conduct established for the staff of the Bank. I am glad to say that it has also inspired the Audit Committee who, with the Bank's help, are now preparing their own Code of Conduct and the Board of Directors has accepted my proposal that we should prepare one for them to consider too.

Conclusions

This is my last Annual Meeting and I hope that you will be able quickly to agree on a successor and so ensure the continuity of management and direction that the Bank requires. I do not propose today to indulge in a nostalgic review of the past six years except to say that the already important role of the Bank, as the Community's financing institution, has developed substantially during that time and I feel privileged to have been able to play a part in it. It is important for its credibility and standing that the Bank should retain its integrity and autonomy of decision making, under the responsibility of its own governing bodies. But at the same time the Bank is an increasingly powerful instrument of European Union policy - as the Cologne Summit has again confirmed - and one of my principal objectives has been to develop that role, both inside and outside the Union. The Union has a precious asset in the form of the Bank, and it must carefully safeguard it for the future.

It only remains for me to thank you and your predecessors for the support and friendship that you have given me during my period of office. My deep thanks also go to my colleagues on the Management Committee, to the Board of Directors and, most particularly, to the exceptionally high-grade and hardworking staff of the Bank, for the support they have given me during this very exciting period. ■

In 18 months: EUR 8.8 billion for growth and employment in Europe

In response to the Resolution on Growth and Employment adopted by the Amsterdam European Council (meeting on 16 and 17 June 1997), the EIB launched its "Amsterdam Special Action Programme" (ASAP), designed to support investment in labour-intensive or job-creating sectors associated with innovative SMEs, health and education, urban renewal, the environment and trans-European networks.

Within the space of 18 months, ASAP has expanded rapidly, with EIB loans amounting to more than EUR 8.8 billion committed. This three-year programme (October 1997-2000) is intended to have a leverage effect, with some EUR 20 billion being mobilised under cofinancing arrangements at Union level.

EUR 4 billion in the new sectors of health and education

Under ASAP, the EIB has extended the scope of its financing operations to cover health and education, as projects in these sectors can be vital in improving social conditions at local level, while at the same time having a rapid impact on employment.

The EIB has to date approved loans totalling EUR 3 979 million in favour of 28 capital projects or programmes located in 14 EU Member States - in assisted areas, where the need to extend and modernise health and education facilities can generally be considered most pressing.

Major projects in the health sector centre on modernisation of hospital infrastructure in Germany's new eastern Länder (Berlin, Mecklenburg-Vorpommern, Sachsen-Anhalt) and in Greece, as well as of teaching hospitals in Austria, Sweden, Spain and Italy.

In the field of education, projects financed involve universities and educational institutes in Ireland, Germany, France, Spain, Portugal and Sweden, plus secondary education facilities in the French overseas department of Réunion and in Scotland, the latter project being carried out in the form of a public-private partnership.

Global loans focusing specifically on smaller-scale projects in these two sectors have been approved or signed in France, Belgium, the Netherlands, Denmark, Finland and Sweden. The generally very rapid pace of drawdown by the intermediaries highlights the real need for finance to modernise medium-scale secondary education infrastructure and hospitals in the countries concerned.

Alicante University campus, Spain.

EUR 4.2 billion for urban renewal

The EIB has also stepped up its lending for urban renewal projects, such as rehabilitation of rundown districts or establishment of business centres, boosting economic vitality and social cohesion in the towns concerned. Some of these projects, carried out in the form of public-private partnerships, are mobilising bank finance for schemes which, in the past, were funded exclusively from public budgets.

As at the end of May 1999, the EIB had approved 27 urban renewal projects or programmes located in nine EU countries and totalling EUR 4 188 million. A number of these programmes involve a whole range of infrastructure (water or energy networks, road improvements, urban heritage schemes, creation of open spaces and leisure areas, etc.) across cities such as Rome, Bologna and Florence, together with several towns in the Italian Mezzogiorno, plus Amsterdam, Berlin, Leipzig, Mannheim, Linz, Tampere, Barcelona, Valencia, various urban centres in Andalusia and the Balearic Islands, and Bastia. Others focus on renovation of stations or public transport systems in Leipzig, Düsseldorf and 26 other towns in Germany, as well as in Lisbon. Again, others provide finance for construction of new housing or renovation of social housing in Amsterdam, Lisbon, seven towns in the United Kingdom and in the Land of Saxony.

EUR 620 million in equity for SMEs

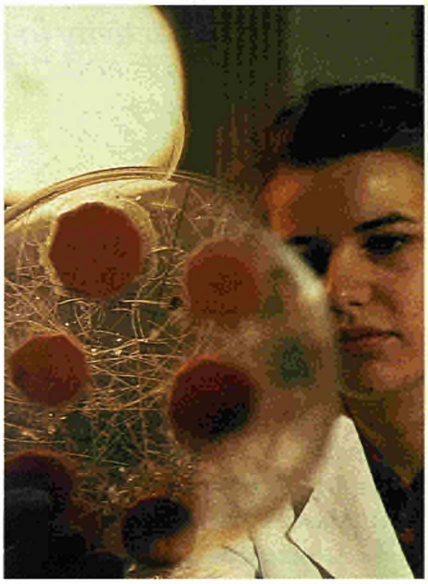
ASAP's most innovative aspect has undoubtedly been the establishment by the EIB of its "SME Window", set up to develop venture capital activities Europe-wide in favour of innovative SMEs - those producing or using new technologies - or SMEs which are growing rapidly and therefore offer considerable job-creating potential. This window, under which the risks are guaranteed by a EUR 1 billion reserve drawn from the EIB's operating surplus, has given rise to a number of risk-sharing operations between the EIB and its partner institutions from the European banking community.

As at the end of May 1999, the Bank had launched and/or already set up 26 operations of this type totalling EUR 620 million and involving 14 of the 15 countries in the Union; the EIB has thus become a major source of venture capital finance throughout the Union. So as to cater as effectively as possible for the diversity of banking structures and the specific needs of SMEs in the different Member Countries (given that venture capital is, by its very nature, a locally-based activity in the case of SMEs), each of these operations, varying in size between EUR 5 million and 50 million, offers specific facilities especially designed to meet local requirements. They can however be classified under three categories:

- injection of capital or acquisition of a holding by the EIB in an existing or newly-created venture capital fund; operations of this kind – which are the most frequent – involve specialist banking partners, sometimes of public origin (such as the German Landesbanken or regional venture capital funds in the United Kingdom and Spain), sometimes private, with the finance coming, if necessary, from a number of Member Countries and being combined for a particular operation;
- a capital injection by the EIB into an insurance structure for venture capital funds, such as the operation concluded with SOFARIS (Société française de garantie des financements des PME);
- long-term loans to an intermediary, with specific repayment clauses enabling the intermediary to advance subordinated loans or mezzanine finance to SMEs; operations of this kind have already been concluded in the United Kingdom, Luxembourg and Finland.

In all the cases in point, these risk-sharing operations imply substantial participation by one or more co-investing partner institutions, whose commitment is at least equal to, if not greater than, that of the EIB, thereby ensuring that the funds mobilised will act as a catalyst. Thus, the EIB estimates that, over the next three years, these operations will have the effect of mobilising EUR 4 billion to 5 billion in Europe for boosting SME equity.

In addition, in November 1997 the EIB and its affiliated institution, the European Investment Fund (EIF) (1), established the European Technology Facility (ETF) for investing in venture capital funds. Administered by the EIF, this facility was endowed with EUR 125 million by the EIB; it operates as a "fund of funds", acquiring stakes in venture capital structures which specialise in providing equity finance for innovative SMEs. To date, the ETF has committed EUR 76.9 million for the acquisition of 17 shareholdings.



In tandem with the EIB-funded ETF, the EIF has also committed some EUR 78 million from its own resources for similar operations. Furthermore, the EIF manages the "ETF Start-Up" facility, financed as to EUR 150-190 million from the EU budget and designed specifically to invest in venture cap-

(1) A public-private partnership set up in 1994, the EIF has the following shareholders: the EIB (40%), the European Commission (30%) and some 80 EU banks (30%). Its purpose is to furnish guarantees for the financing of SMEs or trans-European networks (TENs) and, since 1997, to acquire stakes in venture capital companies.

ital funds involving a higher level of risk than those supported through the ETF or from the EIF's own resources. The EIF therefore has a total of some EUR 350 million up until the year 2000 to channel into development, alongside the EIB, of the venture capital industry in Europe.

The combined operations of the two institutions therefore offer the full range of equity finance for SMEs, from start-up and development capital to the acquisition of holdings to accompany the flotation of SMEs on the new markets.

Expansion of activity in support of TENs and the environment

Under ASAP, the EIB also intends to step up its lending for trans-European networks (TENs) and environmental protection, areas already attracting an average of some EUR 12 billion annually during the period 1996-1998.

Approvals in these sectors exceeded EUR 15 billion in both 1997 and 1998, up by more than EUR 2 billion compared with the average for the two preceding years. Operations approved over the past twelve months centred on new road projects in Spain, Portugal and Germany, investment in railways in Finland and Portugal and extension of Helsinki, Madeira, Madrid, Nuremberg, Basle/Mulhouse and Cologne/Bonn airports. Loans for priority TENs focused in particular on the Øresund link between Denmark and Sweden, the PBKAL high-speed rail link in Belgium, motorway sections in Greece and rail infrastructure in Italy and the United Kingdom.

Finally, ASAP finance totalling EUR 1.3 billion has been approved for ten or so more traditional water resource management and waste processing projects in France, the United Kingdom, Germany, Spain, Portugal and Belgium. These operations include various global loans, such as one being deployed in the Seine-Normandie area of France, specifically intended for financing environmental schemes undertaken by SMEs.

Boosting job creation

Finance advanced by the Bank under its Amsterdam Special Action Programme is focused, more specifically than its other activities, on promoting investment in labour-intensive sectors, thereby helping to stimulate employment. Hence, in addition to strengthening the equity of SMEs - where the impact on employment is, by definition, difficult to quantify at the time of the investment - the EIB is concentrating ASAP operations on financing infrastructure projects targeting urban renewal and human capital, which can be carried out relatively rapidly, taking three years on average.

A study using economic input/output models shows that investment of EUR 1 billion has the effect of creating some 20 000 man-years of employment during the construction of such infrastructure. The impact on the economy, evaluated in this way, takes account not only of the civil engineering works but also of purchases of equipment and services from suppliers, indicating that about half the new jobs are created indirectly and that a quarter of these jobs are in the service sector as a result of the projects' spin-off effect for suppliers.

Thus, on the basis of an average project implementation period of three years, each EUR 1 billion invested gives rise to some 6 000 to 7 000 jobs annually. With total EIB lending in the infrastructure sector running at EUR 18 billion each year, which underpins aggregate investment of some three times this amount (2), it would seem that projects supported by the EIB serve to create some 320 000 jobs a year during the construction phase for such infrastructure.

Once a capital project has been completed and enters into operation, it is more difficult to evaluate precisely its long-term impact on employment; in effect, under some projects jobs may disappear at local level if the investment is part of a Union-wide process of rationalisation or restructuring, although the jobs that remain will be competitive and more permanent.

The ratio of jobs to capital invested suggests that in the manufacturing sector new investment of EUR 1 billion is associated with some 8 000 to 10 000 jobs. However, this ratio has been steadily declining in recent decades, as the economy has required greater amounts of capital. Assuming that new capital projects are about half as labour-intensive as the current average, an investment of EUR 1 billion would serve to create 4 000 to 5 000 permanent jobs, i.e. three quarters of the jobs linked to the construction phase. *Mutatis mutandis*, it can be assumed that during their operational phase public infrastructure projects will have roughly the same long-term effect on employment, as a result of their positive repercussions for private-sector investment. ■

(2) On average, the EIB finances 33% of the total investment cost of the projects it supports.

The European Investment Bank's euro benchmarks (EARNs)

Introduction of the euro is leading to greater competitive pressure on the capital markets. Governments in the euro area and, increasingly, regional and local authorities too are competing for the finest borrowing terms, in common with banks. Moreover, larger corporations are substantially stepping up their issuance of bonds, thereby paving the way for a rapidly growing euro corporate bond market. In this more competitive environment, borrowers need permanently to reassess their positioning with regard to investors and to adjust to market needs.

The European Investment Bank's objective is to borrow on the markets on the keenest possible terms to finance its lending for economically sound investment projects contributing to Europe's further integration. The Bank is the largest European non-government borrower and has borrowing needs comparable to many European sovereign issuers. The Bank's ambition is thus to issue bonds whose structure and terms are comparable to those of the foremost government bonds. The EIB wishes to offer investors the best complement to bonds issued by governments within the area and to have a large and geographically diversified investor base.

The Bank's "euro strategy" ushered in the first euro benchmarks

The Bank started to prepare for the euro area in 1996/97 with its "euro strategy". This strategy aimed at having bonds denominated in the new currency available at the very commencement of European Monetary Union in order to strengthen the Bank's position on the market and to contribute towards a smooth start for the euro capital market. To this end, the Bank issued bonds denominated either directly in euro or in currencies of European Member States with a clause allowing for their immediate re-denomination into euro once the new currency came into existence and the respective currency participated in EMU. The latter were designated as "euro-tributaries" as it was planned to re-denominate and consolidate them into single large euro bonds. Hence, attention was paid to issuing tributary bonds with the same coupon and maturity, but in different currencies, which would allow their later consolidation into single issues of benchmark size. The increasing convergence of interest rates in 1997 and 1998 facilitated such parallel issuance of bonds in different currencies but with the same conditions. Meanwhile, most of the tributary issues of 1997 and 1998 were re-denominated and consolidated on 15 February and 15 April of this year into euro benchmarks.

Further benchmarks to come under the EARN issuance facility

With the euro now introduced and Europe's capital markets becoming rapidly integrated, the Bank is seeking to benefit from the wider and deeper euro markets and to build up a strong market position. It will issue bonds of sufficient size, comparable to that of its now consolidated earlier euro-tributaries, which in itself will contribute to their liquidity. Greater liquidity will be further guaranteed by organising adequate market making on the secondary market. In addition, the Bank will ensure greater transparency in its bond issues by announcing, in good time, its issuance programme for the year ahead. It will secure greater consistency by issuing bonds at regular intervals and with standardised coupons and final maturity dates.

EIB bonds with such features fall within the new EARN issuance facility, adopted in March 1999. EARN stands for Euro Area Reference Note and is a registered trademark of the European Investment Bank. All of the Bank's future large benchmark issues in euro will be referred to as EARNs.

In addition, existing euro and euro-tributary issues dating from 1997 and 1998, re-denominated and consolidated on 15 February and 15 April 1999, will also be designated as EARNs, provided that they are of adequate size. For instance, the existing EIB 4.000 % 15 April 2009 bond will be identified as EARN 4.000 % 15 April 2009.

Under the EARN issuance facility, the Bank will issue, market conditions permitting, a minimum amount of EUR 2 billion per quarter. All new EARNs will be for at least EUR 2 billion, although the target size will be EUR 3-5 billion. In other words, where market conditions allow only the launch of a 2 billion EARN, the Bank will attempt to increase its volume at a later stage by launching further issues with the same coupon and maturity until the target size is reached. Such increases will be achieved through syndicated issues, block trades or auctions, as well as through exchange offers allowing holders of earlier EIB bonds denominated or re-denominated in euro to exchange their bonds for EARNs.

Establishing an EARN yield curve across the whole maturity spectrum

The Bank aims to issue only one EARN for each maturity unless, of course, an existing EARN has an off-market coupon. Furthermore, it will concentrate issuance on coupon and final maturity dates falling on either 15 February or 15 April.

The upper annual limit for issuing new EARNs will be set in December to become effective on 1 January of the following year. For 1999, the limit on the facility has been set at EUR 15 billion.

The first issue launched under the new EARN facility, in April 1999, was a EUR 2 billion bond with a 4% coupon and a maturity date of 15 April 2009. It increased the size of an existing benchmark with the same coupon and maturity date from 2 billion to 4 billion and thus contributed to its liquidity on the secondary market.

The Bank will increase the size of these outstanding bonds as market conditions permit. By issuing new EARNs with different maturities, it will cover the whole maturity spectrum. The objective is clearly to establish a complete EARN yield curve which could serve as a European benchmark for non-governmental bonds.

In 1999, the Bank expects to borrow a total equivalent to some EUR 30 billion, comprising 20 billion in euro and the remainder in other currencies. Of the 20 billion in euro, 15 billion will be borrowed under the EARN facility. By virtue of their substantial liquidity, EARNs are likely to be purchased mostly by large institutional investors. The remaining EUR 5 billion will be raised by issuing smaller bonds tailored to the specific needs of major investors, just as the Bank has always done.

The liquidity of EARNs will result from their size and from arrangements made by the Bank with a network of dealers which have undertaken to ensure such liquidity through extensive trading and repo market responsibilities.

Market making for greater liquidity of EARNs

The EIB has appointed 10 large internationally active banks as "primary dealers" which underwrite and distribute EARNs and have pledged to make a market in all EARNs, thus securing their secondary market liquidity. It has further appointed a group of currently 21 banks as "dealers" which complement the "primary dealers" by broadening the distribution of EARNs and adding liquidity to the secondary market.

Appointments as "primary dealers" and "dealers" are, of course, not permanent; their privileged cooperation with the European Investment Bank will depend on actual results, namely on their success in establishing EARNs as surrogates to the best European government bonds. ■

EARN-designated benchmarks

At present, four more existing benchmarks are being designated as EARNs. These bonds had also been issued in 1997 and 1998 as part of the Bank's "euro strategy". Hence, as a result of its earlier strategy, the Bank has a number of euro benchmarks outstanding that can now be designated as EARNs. EARNs currently outstanding cover the following coupons, maturity dates and volumes:

EARN 4.500%	15 Feb 2003	EUR 2.2 bn
EARN 5.250%	15 Apr 2004	EUR 3.1 bn
EARN 5.750%	15 Feb 2007	EUR 2.6 bn
EARN 5.000%	15 Apr 2008	EUR 5.1 bn
EARN 4.000%	15 Apr 2009	EUR 4.0 bn.

The Bank has three more euro-denominated issues outstanding that may be designated as EARNs once they have been increased to the EUR 2 billion minimum issue size:

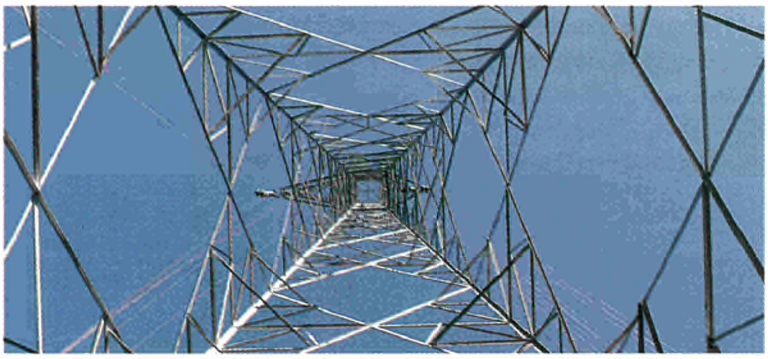
EARN 3.875%	15 Apr 2005	EUR 1.0 bn
EARN 5.500%	15 Feb 2018	EUR 0.5 bn
EARN 5.625%	15 Feb 2028	EUR 0.5 bn.

Securing Europe's energy

The European Investment Bank has been active in financing energy investment for over 40 years, mainly within the European Union Member States. As the EU's financing arm, it has a central role in furthering EU policies, including those in the field of energy. EU policies addressing the energy sector became more clearly defined after the oil price crisis in the mid-1970s, which brought home to Europe the extent of its over-dependence on energy imports, particularly oil. The EU's response was to develop energy policies focused on reducing dependence on insecure energy imports.

However, the EIB has financed energy projects since its establishment in 1958, mainly under its principal objective to support development in the EU's less-favoured regions, or as an investment of common interest to the Member States. Up to 1972, the EIB advanced a total of 380 million units of account for energy projects, which represented over 13% of its total lending in the period.

Since then EIB energy lending has greatly expanded in terms of volume, reflecting the evolution of EU energy needs and policy. On the basis of five-year averages, EIB lending for the energy sector very rapidly increased, from 2.2 billion u.a for the five years 1974-1978 to ECU 14.6 billion for the period 1994-1998.



EIB approach to energy

The broad policy responses to EU energy issues were formalised by the 1980s. These emphasised the need to develop existing energy supplies, to diversify the sources and nature of energy imports to spread dependence and ensure better supply, to promote more rational use of energy and to encourage research and development into alternative forms. The recent evolution of EU energy policy thinking has extended the main energy objectives from security of energy supplies to include enhancement of EU competitiveness and protection of the environment (EU Commission White Paper "An energy policy for the EU", December 1995).

New emphasis is now being placed on sector liberalisation to promote competition, particularly in the electricity and gas sectors, on encouraging the completion of integrated energy networks and on acceleration of the shift towards more environmentally friendly fuels or technologies. The increase in the EU's dependence on imports is making improvement of security of energy supply even more important, and the promotion of energy savings, new efficient technologies and renewable energy forms is gaining momentum.

For the EIB, supporting the EU's energy objectives translates into three broad areas for action. Its role is to provide long-term finance for sound investment projects that: ensure security of energy supplies through the development or expansion of indigenous supplies; diversify energy supplies; and involve the introduction of rational energy use.

The Bank's lending for energy projects in the past decade has totalled over EUR 26 billion, or around 5% of total energy investment in the Union. The trend in EIB lending in volume terms has steadily grown, to total nearly ECU 15 billion over the last five years (1994-1998). As a percentage of EIB lending activity, energy accounted for nearly 40 % of loans up until the 1980s. Since then the percentage share in overall activity has dropped to 14 % for the five-year period 1994-1998.

Indigenous energy supplies

Historically, since the trauma of the energy crisis in the mid-1970s, the EIB's lending has closely mirrored the evolution of European and Member States' priorities. EIB lending for investment in development of indigenous resources in terms of volume grew rapidly and peaked in the late 1980s and early 1990s. Since then such financing has been on a declining trend.

In the 1970s and 1980s, the Bank financed a number of nuclear power and nuclear fuel reprocessing projects in Belgium, France, Italy and the UK, as well as numerous oil and gas field developments on and offshore in Italy and in the North Sea. At the same time the Bank supported hydro-electric schemes in Germany, Greece, Italy, and the UK, and later in Spain and Portugal. Finance also went to a large variety of oil and gas pipeline schemes that contributed to bringing domestically developed resources to centres of consumption and included contributions to the gradual development of a Europe-wide pipeline gas supply network. A similar pattern is also evident in EIB lending for electricity transmission investment.

In the last ten years (1989-1998), the EIB has advanced over ECU 7.6 billion for development of indigenous resources, with over half going towards oil and gas production, in particular for the continuing exploitation of numerous on and offshore oil and gas reserves in Italy, and oil and gas fields in the Danish, UK and Norwegian sectors of the North Sea. Financing of major domestic gas transmission and distribution schemes has declined rapidly in recent years, with projects supported being mainly in Denmark, as the development of a pan-European gas grid has become established.

Most of the electricity production projects financed were for hydro-electric schemes in France, Greece, Italy and Portugal and more recently in Austria, Finland and Sweden, as well as a hydro-electric scheme in Norway, with power reaching the European grid via Denmark. Electricity production projects also included a hydro-electric power station on the Danube below Vienna in Austria, and the construction of new lignite-fired power stations next to lignite mines in Germany to replace obsolete units.

Other projects to reinforce the development of indigenous resources included a lignite mine in Greece, modernisation of a uranium enrichment plant in France, and nuclear fuel reprocessing facilities in Belgium and the United Kingdom.

Diversification of supply

The Member States have also placed considerable emphasis on developing energy projects that lead to diversifying away from reliance on imported oil, mainly by improving access to gas supplies. The EIB's support for such investment grew gradually during the late 1970s until the early 1990s, when there was a rapid increase in response to European initiatives associated with the establishment of the single market and the identification and adoption of priorities for Trans-European Networks (TENs) for transport and energy by the European Council at Essen in 1994. Most of the priority energy TENs have now been completed.

In the 1970s and 1980s, the EIB supported investment in the modernisation and conversion of power stations away from fuel oil, and investment in major gas transmission infrastructure projects. Europe-wide gas transmission investments by the energy industry have led to the creation of a massive pan-European gas supply network. This network is fed by indigenous resources, in particular the North Sea, or with external supplies coming mainly from Russia and Algeria. Construction of lines bringing Russian gas through Austria into Italy and from the Czech border into Germany and on to France has been supported by the EIB. Similarly, the EIB has financed investment to develop gas transmission links bringing supplies from the North Sea, including the Norwegian sector, to the Belgian, Danish, German and Dutch networks. Gaslines were also extensively funded by the EIB for transporting supplies from Algeria through Tunisia and under the Mediterranean into Italy.

At the same time, EU Member States have made considerable efforts to modernise and extend their electricity networks, to convert or construct power stations able to use alternatives to fuel oil such as gas or coal, and to develop cross-border electricity links. In the past the EIB has consistently lent for such projects, including the international electricity links joining the UK and French grids, improved links between the French and Italian grids and the electricity connection between Denmark and Sweden.

Trans-European Networks

In the last ten years, the EIB has lent EUR 7.6 billion for investment promoting the Union's diversification of energy objective, of which the great bulk, some EUR 6 billion, went mainly for gas transportation projects. This included considerable amounts for the extension of the transmission and distribution infrastructure for natural gas supplies along with the conversion of cities and municipalities away from town gas, especially throughout Italy, as well as in Austria, Denmark, Germany (in particular eastern Germany), Spain and Portugal.

EIB support for major gas transmission projects saw a particularly dramatic peak in 1996, with the new emphasis on TENs investment. In the mid-1990s, the EIB also began providing finance for construction of the new gasline bringing supplies from Algeria, through Morocco and under the Strait of Gibraltar, into Spain and Portugal. In addition it financed the gasline bringing Russian supplies from the Bulgarian border into the Greek network.

The EIB also continued to support other key links in the expanding, integrated pan-European gas transmission network. This included the construction of transmission lines through Italy, a second trans-Mediterranean line for Algerian supplies through Tunisia, and the links bringing Russian gas into the EU market through Austria. In Germany, the Bank financed investment extending the European gas grid within the country and projects linking Russian and Norwegian supplies into the network.

Other major investment in gas transmission included development of facilities bringing Norwegian gas into Belgium and France, the interconnector between Belgium and the UK, and projects connecting the Dutch, French and German networks. The Bank also supported the interconnector between Ireland and the UK gas network through Scotland.

During the period, the Bank also continued to finance a number of dual-fuel fired power stations in Greece, Italy and Portugal, including environmental investment for the desulphurisation and denitrification of flue gases.

Rationalising energy use

Since the 1980s, EIB financing for projects involving more efficient energy use has steadily increased, a trend that seems likely to continue. Eligible projects under this heading cover a wide spread of investment in all economic sectors, ranging from plant modernisation or production of energy saving equipment or materials in industry, to infrastructure increasing efficiency of energy production and transportation, the substitution of coal or gas for oil, the use of waste material for energy production, and the development of renewable resources (see EIB Information, No 99, 1998, for a review of EIB lending for renewable energy). In many cases, measures to improve energy efficiency also result in cost reductions in industry and generally lead to significant environmental improvements.

It is worth noting that during the early 1980s the EIB also made a number of global loans - or lines of credit - to financial intermediaries particularly in Denmark, France and Italy, as well as in Germany and Portugal for onlending to small and medium-scale investment promoting rational energy use. These global loans supported projects in industry, as well as in the public sector for schemes ranging from small hydro-electric plants, to energy saving investment in public buildings, development of alternative energy sources such as biogas and geothermal power, and small district heating infrastructure projects.

In the last 10 years, the EIB has channelled nearly ECU 11 billion for investment in rational energy use. Of this nearly half supported investment involving efficiencies in the electricity sector.

The major part went to electricity transport and distribution projects, allowing for better rationalisation and for balancing out demand

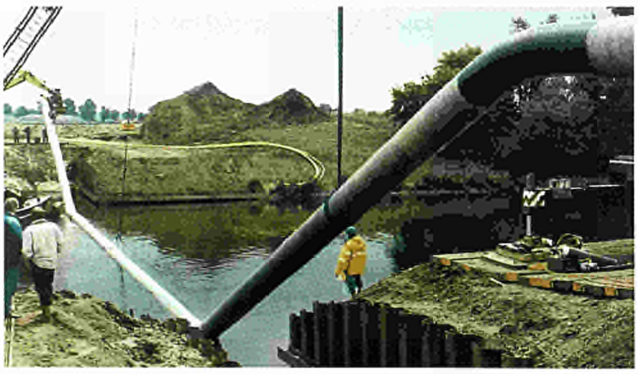
through external supplies such as joining the networks of the Islands of Corsica and Sardinia with the Italian mainland grid, or construction of linkages between the Norwegian and Danish, German and Swedish, German and Danish and Spanish and Portuguese grids, as well as extensive investment for upgrading and modernising existing networks in Finland, Germany, Greece, Ireland, Italy, Portugal, Spain, Sweden and the United Kingdom. The Bank also supported investment for the development and modernisation of power generation and replacement of obsolete plant, including the uprating of thermal power stations in Italy, the construction of gas-fired power stations in Ireland and Belgium. Geothermal power station projects were also financed in Italy and Iceland, and windpower farms in Italy and Spain.

Just under a quarter of the financing went for a variety of investment ranging from household and urban waste incineration plants producing power and steam for district heating schemes to projects for strengthening and expanding the local power and heat distribution grids in Austria, Denmark, France, Germany, Italy, the Netherlands, Portugal, Spain, Sweden and the United Kingdom, and the conversion of power stations from fuel oil to other fuels, in particular gas.

The balance went towards miscellaneous projects such as modernisation and improvements in energy use in refineries in Denmark, Germany, Italy, Spain and Portugal, and investment to reduce energy consumption in industry, including chemical complexes, paper mills, food processing factories, breweries, steel and industrial gas plant and cement works.

Future EU energy trends

Growth in energy demand in the EU has significantly slowed up in the past decade, reflecting the evolution towards less energy intensive activities and increasing adoption of efficient technologies. Natural gas use is expected to continue to increase at the expense of solid fuels and to a lesser extent oil. At the same time energy imports are likely to expand rapidly as indigenous EU oil and gas production stabilises or declines. Investment will be needed in coming years for the exploitation of new, more difficult indigenous oil and gas fields, and to modernise and renew the transmission grid to accommodate the growth in gas imports and utilisation.



Electricity demand is expected to be modest with the current reserve capacity in power generation within the EU, though in the longer term the replacement or prolongation of nuclear capacity in some of the larger EU countries is likely to increase demand for new investment in the sector. Further investment opportunities are also in prospect for the development of new technologies and more efficient solutions such as combined heat and power.

Beyond the EU

While the bulk of EIB lending activities are focused on projects within the EU Member States, the Bank also finances investment, including in the energy sector, in non-member states within the framework of the EU's external cooperation and development policies. Of particular significance is the EIB's support for energy projects in neighbouring regions, Central and Eastern Europe, the European Economic Area (EEA) non-member countries and the Mediterranean region, especially as some of these investments have implications on the supply of energy into the European Union area.

Since 1990, the EIB has lent nearly ECU 1.2 billion for energy projects in Central and Eastern Europe, largely for modernisation and rehabilitation of power stations and electricity transmission and distribution networks in Albania, Bulgaria, the Czech Republic and Slovakia. Gas and oil pipeline projects were supported in the Czech Republic, Poland, Slovakia and Romania, and district heating schemes in Estonia, the Czech Republic and Romania. EIB financing of energy schemes in the Central and Eastern European countries applying for EU membership is projected to increase rapidly as the candidate countries bring their energy sectors up to EU standards.

In the Mediterranean region, the EIB has advanced over ECU 1.5 billion in the past decade for energy projects ranging from electricity power stations in Egypt, Lebanon, Morocco and Turkey to electricity transmission and distribution schemes in Cyprus, Egypt, Lebanon, Morocco and Gaza-West Bank, as well as international linkages between the Moroccan and Spanish grids, and the Turkish and Syrian networks. Gas production and distribution projects were also supported in Algeria, Egypt, Tunisia and Turkey.

The EIB has supported energy projects in the EEA countries of Norway, Iceland and also in Sweden and Austria before accession. Such investment in these countries is seen as contributing directly to the interests of the EU. In the past ten years, the Bank has lent over ECU 1 billion for energy projects in Iceland, Norway and Sweden, in particular for the development of oil and gas resources in Norway - supplies largely destined for the EU internal market. Other electricity projects in Norway, Sweden and Iceland have been referred to above.

To complete the picture of EIB external EU energy financing, it should be noted that the Bank also supports such projects in the African, Caribbean and Pacific states under the Lomé Convention, in South Africa and in Asia and Latin America. ■

The EIB Forum 1999
Euro Markets: Changes Ahead

Paris, 21- 22 October 1999

BEI/EIB FORUM
1999 PARIS

This fifth EIB Forum will focus on "Euro Markets: Changes Ahead", a topic of crucial importance for the success of Economic and Monetary Union.

The euro is accelerating trends such as concentration in the banking sector, co-operation between Europe's markets in stocks and bonds, and emergence of a rapidly growing corporate bond market. Markets may become a more important source of finance for business, competing with banks and exerting pressure on the whole of Europe's financial industry to become more specialised and efficient. A new and more diverse range of highly specialised financial institutions might serve businesses' financial needs more effectively and contribute towards speeding up the ongoing process of restructuring and rebuilding European industry. Financial markets could become an important driving force for Europe's industrial modernisation and competitiveness.

Successful restructuring and new dynamic business development would, in turn, attract investors to Europe's capital markets, including investors from abroad, and ultimately enhance the attractiveness of the euro. It would help to bring Europe back onto a solid growth path and tackle its number one economic and social problem, persistent high unemployment. The EIB Forum 1999 will discuss the prospects of this happening.

The main thrust of the EIB's borrowing and lending operations, totalling over EUR 30 billion annually, is focused on supporting capital investment to promote Europe's modernisation and future enlargement.

As the European Union's financing institution, the EIB has already introduced, in 1996, a pro-active euro strategy onto capital markets and used its position as the world's largest international borrower to contribute to a sizeable and widely diversified pool of euro-denominated debt instruments available right at the start of monetary union. In March this year, the Bank launched its "Euro Area Reference Note" (EARN) issuance facility for its benchmark issues, with a view to establishing them as the best complement to the euro area's government bonds. Of course, changes ahead in euro markets will also impact on the Bank's activities.

The Bank is similarly strongly committed to growth and employment in the Union which it supports by providing long-term loans for sound investment projects in the public as well as the private sector. In recent years, the Bank has successfully launched a special action programme to promote investment in human capital as well as in Europe's venture capital industry for innovative small and medium-sized enterprises.

A meeting place for experts, the Forum aims to promote exchanges of views and professional contacts between specialists involved in the subjects highlighted at this event. It will bring together over 350 delegates from banks and other financial institutions, industry, trade unions, parliaments, governments, regional public bodies, international organisations, universities and the media. Its fifteen speakers will represent a wide horizon of economic, financial and political views and operational expertise.

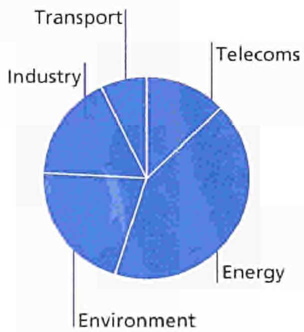
The European Investment Bank Forum 1999 follows on from a Forum held in London in 1998 on "The European Challenge: Investing for Jobs". In Stockholm, in 1997, the annual EIB conference dealt with integration and co-operation in the Northern and Baltic regions whereas, in Madrid in 1996, the focus was on the economic, political and environmental problems of the Mediterranean region. The first EIB Forum was held in Amsterdam in 1995 concentrating on the issue of private-sector participation in financing major infrastructure. As in the case of the previous events, the proceedings of this year's Forum will be published and widely distributed within and outside the EU to those interested in the Forum's theme. ■

For further information on the EIB Forum 1999 programme and in order to receive the proceedings of previous EIB Forums, please contact Mrs Yvonne Berghorst, EIB Forum Secretary, Information and Communications Department, Fax: +352-4379 3191.

Renewal of the ALA Mandate

The European Investment Bank started its operations in support of EU co-operation policy in Asia and Latin America (ALA) under a mandate to lend up to EUR 750 million between 1993 and 1995. Another mandate was given in December 1996 to lend up to EUR 275 million for the period ending in June 1997. A third, ongoing mandate foresees the Bank lending up to EUR 900 million during the period 1997 to end-January 2000.

EIB lending in Asia and Latin America by sector: 1993 - 1998



With loans provided for more than 30 projects in some 20 countries, the European Investment Bank is bound swiftly to complete, by the beginning of the year 2000, its third lending mandate. A significant proportion (58%) of loans has been devoted to private-sector investment projects. By the end of 1998 out of a total of EUR 1.4 billion, 42% had gone to energy projects, 21% for the improvement and protection of the environment, 17% for industrial investment, 13% for extension and modernisation of telecommunications infrastructure and 7% for transport.

At the end of April 1999 the European Commission adopted a proposal for a Council of Minister's Decision on new mandates for the European Investment Bank's lending to third countries. The proposal includes EUR 1 225 million for an enlarged group of Asian and Latin American countries over a period of three and a half years starting on 31 January 2000. Indeed, the European Commission proposal also foresees the possibility for the EIB to grant loans in support of projects located in four new countries: Laos, Nepal, South Korea and Yemen.

Mutual interest is the core concept for EIB lending in ALA countries. Projects financed by the Bank must present a mutual interest for both the country in which the investment is implemented and the European Union. The EIB lends for well-defined capital investment projects carried out by private or public companies incorporated in the beneficiary country. Viable public and private-sector projects in economic infrastructure, industry, agro-industry, mining, energy and tourism may be considered. Special emphasis is given to the improvement and protection of the environment both through specific environmental projects and as a basic requirement for any type of investment.

EIB loans are project oriented and linked to the fixed asset components of an investment. The EIB typically finances large-scale projects (upwards of EUR 25 million) through individual loans, either directly to a project promoter, or indirectly through a government or financial intermediary. As sufficiently high credit standing is offered, the Bank is also developing partnerships with banks and credit institutions by providing them with global loans, from which they may onlend for smaller (less than EUR 25 million) projects.

The Bank is increasingly emphasising financial support for **private-sector projects** implemented by joint ventures between ALA and EU firms. European firms and the international banking community operating and investing in these countries have shown a strong interest in such projects, the number of which is increasing as a result of a general trend toward privatisation in ALA countries.

The EIB may also consider **public-sector projects** that foster closer relations between Asia, Latin America and the European Union (e.g. telecoms and transport) or favour integration among countries of the respective region, such as energy, transport, and communications projects establishing cross-border links. In an effort to improve the global environment, the Bank also finances public-sector projects aim-

The countries eligible for European Investment Bank financing under the current ALA mandate

ASIA :

- ASEAN Group :

Brunei	Bangladesh
Indonesia	China
Malaysia	India
Philippines	Macao
Singapore	Mongolia
Thailand	Pakistan
Vietnam	Sri Lanka

LATIN AMERICA :

- Andean Community :	- Central American Common Market :
Bolivia	Costa Rica
Colombia	El Salvador
Ecuador	Guatemala
Peru	Honduras
Venezuela	Nicaragua

- MERCOSUR :

Argentina	Chile
Brazil	Mexico
Paraguay	Panama
Uruguay	

ing at the development of renewable energy or the implementation of anti-pollution devices, for example. Finally, the EIB may help finance public-sector projects involving a high content of technology from Europe.

The EIB can co-finance investment up to 50% of the cost and co-operate with other project financing institutions, particularly with those of the European Union's Member States, the World Bank group, as well as with regional development institutions such as the Asian Development Bank and the Inter-American Development Bank.

Like any long-term lender whose resources consist of funds borrowed on capital markets (and in keeping with its Statute), the EIB requires appropriate security for its loans. Typically, the security for public-sector projects is provided by public authorities. Private-sector projects usually benefit from security provided by first-class banks or corporates. In certain circumstances, guarantees may be limited to covering essentially commercial risks. In such cases, the guarantor's liability would not extend to risks of non-transfer of foreign currency, expropriation, civil disturbance or war. ■

Appointments at the EIB

■ **Caroline Reid** has been appointed Director General of the Projects Directorate of the European Investment Bank. The Projects Directorate (PJ) is responsible for the technical, environmental and economic evaluation of projects under consideration for EIB financing.

Mrs Reid joined the EIB in 1974 as an Energy Economist. In 1985 she was transferred as a loan officer to the Energy/Environment Division of the Department for Lending Operations in Italy based in Rome. She was promoted Head of Division in 1988 and six years later became the first woman to be promoted to the Bank's Senior Cadre, on her appointment as Director of the Department for Lending Operations in Italy. She is currently the most senior woman on the EIB's staff outside the Management Committee.

Mrs Reid holds a B.Sc. Honours degree in Economics and Statistics from Bristol University. She started her professional career in 1969 as an Assistant Economist for the British Gas Council. She then worked for the National Institute of Economic & Social Research in London.

Mrs Reid succeeds **Herbert Christie**, who is retiring. Mr Christie has been Director General of PJ since its inception in 1995, and before that he was Head of the Economic and Financial Studies Directorate. Before joining the EIB, Mr Christie worked mainly in the UK Treasury.

Thomas Hackett has taken over from Caroline Reid as Director of the Department for Lending Operations in Italy, moving from his post as Director of the Department for Lending Operations in Ireland, the United Kingdom and the North Sea.

Mr Hackett joined the EIB in 1981 in the Finance Directorate, responsible for capital markets in the UK. Appointed as Head of Division in the same Department three years later, he contributed to the EIB's financial risk management, introducing *inter alia* deferred rate setting. Appointed as Director of the Department for Lending Operations in Ireland, the United Kingdom and the North Sea in 1993, he assisted in integration of the Bank's borrowing and lending operations, as well as in developing complex structured lending transactions, PPPs and venture capital financing.

Prior to joining the EIB, Mr Hackett worked for 13 years with Warburgs in the City of London. He holds a degree in Modern Languages from the University of Sussex.

Jean-Claude Bresson has been appointed Director of the Capital Markets Department, succeeding **Ulrich Damm**, who has retired. The Capital Markets Department is responsible for the Bank's annual funding programme. As the world's largest international borrower, in 1998 the EIB borrowed EUR 31 billion in 20 currencies. Over half of the total was in euro

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and euro-tributary bonds, including a euro global issue and the first-ever pure euro issue.

Mr Bresson joined the European Investment Bank in 1971, responsible for the EIB's borrowing activity within the Finance and Treasury Divisions. He was then promoted Deputy Director of the Capital Markets Department, with specific responsibilities for co-ordinating the EIB's euro funding programme. He holds a degree in Economics from the University of Paris and a diploma in business from the "Ecole Supérieure de Commerce de Paris". He began his career at CCF in Paris in 1963.

Barbara Steuer has been appointed Deputy Director of the Capital Markets Department. In addition to deputising for Mr Bresson when necessary, Mrs Steuer will continue to retain direct responsibility for capital market operations in EU currencies (excluding the euro) as well as in Central Europe, the Mediterranean and Africa. In order to establish continuity in this market area, Mrs Steuer has now been nominated as Director of the Department in succession to Mr Bresson when he leaves the Bank in December 2000.

Appointed Director of Financial Control and Accountancy, **Patrick Klaedtke** joined the Bank in February 1999, succeeding **François Roussel** who has retired.

Mr Klaedtke came to the EIB with broad geographical and institutional experience. After gaining his degree in Business Administration from the University of Trier, he first embarked upon his career in the world of finance with KPMG in Luxembourg as an auditor. He joined Morgan Stanley Luxembourg in 1989 as Controller and head of the fund administration department. He served the same institution subsequently from different posts in Zurich, New York and Frankfurt, contributing to its establishment in emerging markets and its changeover to the euro.

In March 1999, **Patrick Thomas,** Director of the Department for Lending Operations in Asia and Latin America, was appointed as Executive Director of the Asian Development Bank (ADB), for the next three years. He will represent Belgium, France, Italy, Spain and Switzerland on the ADB's Board of Directors.

His appointment will strengthen further cooperation between the EIB and ADB and more generally between Multilateral Financing Institutions (MFIs).

Trained as an engineer, Mr Thomas joined the EIB in 1983 after fifteen-years' experience in industry and later on in development finance and consultancy for several African countries. Starting his EIB career as a loan officer, he then became Head of Division for certain African countries in 1986. In 1994 he took up responsibility for lending operations in Asia and Latin America (ALA). ALA activities have been developped in recent years as a financing instrument in favour of the private sector for projects promoted by European Union sponsors (in sectors such as infrastructure, water, energy, telecoms, industry, etc.) in the context of a risk-sharing scheme.

Pauline Koskelo, has been appointed to the Bank's Senior Cadre with the title of Co-Director of the Legal Affairs Directorate. Having joined the EIB in 1995, Mrs Koskelo has been responsible for general legal, inter-institutional and Community law matters, as well as coordination of activities within the Directorate.

Prior to the EIB, Mrs Koskelo held, apart from tenures in the Institute for Private Law at the University of Helsinki Law Faculty and the Helsinki District Court, different positions in the Ministry of Justice in Finland where she was responsible for legislative matters in various fields (mainly those related to commercial law), including international cooperation and EU-integration issues. She has also written and lectured extensively on those topics. She holds a Master of Law degree from the University of Helsinki. ■