

# The Bank of the European Union

The EIB, 1958-2008

Editors: *Éric Bussière,*  
*Michel Dumoulin and Émilie Willaert,*  
in collaboration with Charles Barthel,  
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# Preface

*The European Investment Bank (EIB) launched its first operations in 1958. Fifty years later seemed the right time to open the bank's archives to an eminent group of historians of European integration so that they could write the history of this first half-century. In doing this, they were covering a subject that has in the past received very little attention from historians, in contrast to lawyers and economists (who have devoted numerous works to the EIB).*

*This is the history of the European Investment Bank that the authors have uncovered, through their research in the archives of the EIB and other European and national institutions and interviews with a number of key figures. During the research and analysis the EIB observed two basic principles. Firstly, it wanted to provide the easiest access possible to historical sources as well as to the people who had played key roles in the past, so that the researchers could put together all the material they deemed necessary to their task. Secondly, the EIB gave the authors complete freedom in interpreting the facts and editing their work.*

*It is a truism to say that the degree of integration achieved by the European Union fifty years after its foundation has exceeded the hopes and expectations of the founding fathers in the mid-1950s. The same applies to the European Investment Bank. And it is unlikely that any of the negotiators or signatories of the EEC Treaty would have thought that the EIB would one day become the biggest lender (and the biggest borrower) among the international financial institutions and a vital player in long-term financing within the European Union. The authors of this work provide a precise description of these developments and document the context in which they emerged. To attempt to sum up the salient points of the authors' analyses in just a few paragraphs would not do them justice. But, on the basis of the historical picture they have painted, I should like to mention three characteristics that are, in my opinion, essential to properly understand the development of the EIB during the first fifty years of its existence, and will continue profoundly to influence its development in the future.*

*Firstly, the historians' analysis highlights a constant duality in the life of the European Investment Bank: it is, at one and the same time, a European institution and a bank. Depending on the period, one or other of these two dimensions tends to be given more weight. In the course of time, there has been a slow swing of the pendulum, sometimes favouring the EIB's banking dimension and at other times its role as a European institution. There is, therefore, a certain 'existential ambiguity' in the personality of the EIB. This characteristic, which is surprising on the face of it, reflects the*

*choice that was made by the founding fathers and has been confirmed over time as the treaties and Statute of the bank have been revised. The EIB, unlike the other international financial institutions with which it is often compared, does not have as part of its remit the power to define policies, since these are decided by the Council, the Parliament and the Commission. The bank's task is to support the implementation of European Union policies via the financial instruments at its disposal. If this division of tasks between a political and an implementing sphere may seem clear in principle, one cannot ignore the fact that it is very difficult to identify in practice where policy definition ends and where implementation begins. Moreover, daily practice teaches us that separating these two dimensions completely is not only inefficient but might also be dangerous. If implementation constraints are ignored when policies are being drawn up, then there is a risk of making it impossible to achieve the desired political objectives. It is therefore unavoidable that the EIB should seem a dual entity, combining in variable proportions its roles as European institution and financial intermediary.*

*Secondly, the geographical perimeter of its activities brings a further dimension of duality to the European Investment Bank. The historical analysis shows clearly that the founding fathers envisaged the EIB's activities being limited to the sphere occupied by the Member States of the European Economic Community. Because this sphere was to be enlarged considerably over the years, it quickly became obvious, however, that it made little sense to limit the EIB's activities to the frontiers of the Member States when, by operating in the future Member States, the EIB could facilitate those countries' integration into an enlarged European Union. That being said, these pre-accession activities in future Member States do not fundamentally modify the EIB's Eurocentric perspective. The difference is more in the timing of intervention than in the geographical perspective. The policies of the EU do not, however, stop at its borders and, over time, the EIB has been called to intervene in a growing number of countries in the world. Although there are certainly synergies and economies of scale to be achieved by combining operations within and outside the EU, it is just as obvious that there are important differences between these two types of activity in that their economic and social aims, the institutional environment in which they are conducted and the operational constraints to which they are subject differ appreciably. Moreover, activities outside the EU raise the issue of how these are to be conducted in cooperation with, and in a way that is complementary to, the other multilateral development bodies in which the EU Member States are also stakeholders, as well as the Member States' own development institutions.*



*Although the two characteristics discussed above have to do with the very nature of the EIB, I think it also essential to underline a third factor: namely, that the bank's role has evolved and must continue to do so in response to changes in the economic and financial environment. If the aim of the EIB does not change over time, the means needed to achieve this aim must be in line with the economic and financial situation of the moment. In the mid-Fifties, when EEC Treaty was being negotiated, Europe was faced with reconstruction problems, serious disparities between regions in several Member States and a relative shortage of financial resources. The challenge at the time was to mobilise such inadequate savings as were available and to facilitate movements of stable capital between the various Member States so that they could be invested in private or public capital capable of bringing about expansion. The idea was to enable European companies to adopt the modern production techniques already used on the other side of the Atlantic. In this environment, the EIB's role was that of an intermediary capable of mobilising the savings of people throughout the EU and of using such savings to fund the most socially and economically useful projects, also by facilitating transfers of savings to the countries and regions with the greatest need of investment. This model of 'convergence', based on the accumulation of capital and the adoption of production techniques and systems already in place in the most advanced regions, has been repeated in the course of the successive enlargements. The bases of this model of growth by imitation are still used in duly modified form for less developed countries and regions.*

*But the current level of economic development of most of the old Member States no longer has much to do with their situation of thirty or forty years ago, or with the situation of the new Member States. One major challenge facing the EU's most advanced countries is to increase their potential for growth by expanding the technological frontiers while at the same time respecting the environment and maintaining the ecological balance. This situation is fundamentally different from the traditional model of convergence. Even if there is still a need for investment of a material nature, the essential engines of growth are human capital and the capacity for innovation. For an intermediary such as the EIB, the key role is no longer so much that of mobilising a large volume of savings so as to ensure long-term funding, as of being capable of providing appropriate funding for innovation, research and education. It is more a question of risk sharing and of financing through own resources or hybrid instruments. The creation of the European Investment Fund at the beginning of the Nineties and the revision of the EIB's strategies in recent years show that the EIB Group has properly taken stock of these changes, and that it is doing everything to provide effective up-to-date support for the policies of the EU.*

*These comments clearly demonstrate that the EIB is a unique institution characterised by forms of duality derived from its heritage. The document you are now holding shows that this has not prevented the European Investment Bank from developing over the last fifty years, nor from being a formidable instrument in the service of European Union policies. But a fifty-year history is not a guarantee of longevity. While I think it is clear that the European Investment Bank will continue to play a significant role in support of European Union policies in the years and decades to come, as now and in the past this will mean striking a reasonable balance between the dimensions of duality mentioned above.*

*Philippe Maystadt*

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# Introduction



# Introduction

The EIB –  
a key player  
in the European  
project



Historians have devoted very few works to the history of the European Investment Bank (EIB). Understandably, those that have done so pay little attention to the period after the early 1970s, so until we are able to consult the archives we have to consider recent history in a different way, by making use of published documents and the oral evidence of people whose legitimate duty to be discreet often leads them to adopt a prudent view of modern-day history, a history that is in part their own.

Ahead of the 50th anniversary of its opening for business in March 1958, the EIB has therefore opted to promote the publication of a history based on first-hand research. This decision, which is clearly in line with its traditional ties with the academic world, has enabled the authors – who are equally researchers – to consult extremely valuable archives. The information gathered, which has been supplemented by the testimonies of key figures, some of whom observed the institution from the inside for long periods of its history, and by consultation of public and private archives in several EU countries, has made it possible to write this book. The work has two aims: firstly, without overlooking the existence of an abundance of economic and legal literature devoted to the bank and its activities, it seeks to be different by being a history; secondly, though published to commemorate an anniversary, it does not intend to conform to the practice that all too often dominates this literary genre, namely what might be termed a 'Merovingian' history, the tone and content of which are that of an apologia.

As each aspect of this book demonstrates, the history of the EIB cannot be separated from that of the European project itself, since the first plans for a development bank for Europe were made long before 1957. Nor can it be separated from the economic and political developments that have fundamentally affected Europe and the world. Equally, while the fate of the bank whose history is recounted in this book is closely linked to that of the European Union, the areas that it covers in its activities are much wider, are constantly expanding and are increasingly in touch with international events. The history of the EIB therefore offers a major insight into the history of Europe, its regions and the world.

The idea of creating a European investment bank dates back at least to 1949, even though, without referring too much to the past, the idea of concerted action among European countries regarding major infrastructure works, for example, is much older and underwent significant developments as far back as the inter-war period. The idea, defined but not really developed very far, was formulated within the framework of the Organisation for European Economic Cooperation (OEEC). Assuming in part the character of a regulatory body, the bank was intended to oversee the distribution of public credits 'so that investment projects are carried out in the public interest, so that production programmes do not bring about a scarcity, and so that prices are not held at a high level, to the detriment of consumers'<sup>1</sup>.

<sup>1</sup> Kipping, M., 'La Banque européenne d'investissement, de l'idée à la réalité (1949 – 1968)', ministère de l'économie, des finances et de l'industrie, *Le rôle des ministères des finances et de l'économie dans la construction européenne (1957-1978)*. Book I. *Actes du colloque tenu à Bercy les 26, 27 et 28 mai 1999*, Comité pour l'histoire économique et financière de la France (CHEFF), Paris, 2002, pp. 525-542.

After the definitive collapse of the European project in 1955, it was within the context of its relaunch at the Messina Conference that the idea of a European investment fund was decided on. This principle focused in particular on Italian concerns relating to the development of the south of the peninsula, including the islands. It also focused, with an intensity and at a rate varying from one country to another, on the concerns caused by the desire to develop a regional policy in the other countries of what was at that time the European Coal and Steel Community (ECSC).

At the Val Duchesse negotiations, during which the Treaties were drafted, the fund became the European Investment Bank. This entailed a considerable refocusing of the very nature of the concept of the institution – which, as well as being a Community instrument, is also a financial body.

Established by Title IV (Articles 129 and 130) of the Treaty establishing the European Economic Community (EEC) and by the Protocol on the Statute annexed thereto, the EIB addressed the fear of a unified economic area exacerbating the imbalances between the central regions and the peripheral regions<sup>2</sup>. As such, its task has historically been very simple in principle since its activity, aiming to ensure balanced growth 'consists in borrowing from the financial markets and on-lending the sums borrowed to finance priority projects for Community development'<sup>3</sup>.

As a 'body that can be somewhat broadly defined as a regional development bank' for those who confine it to the passive role of a financial instrument of European regional policy<sup>4</sup>, an autonomous instrument of one or more common policies, including industrial policy<sup>5</sup> and development cooperation policy<sup>6</sup>, the EIB was to ensure the promotion of economic and social cohesion – a principle reaffirmed in the protocol annexed to the Treaty of Maastricht<sup>7</sup> – 'in conjunction with assistance from the Structural Funds and other Community financial instruments'<sup>8</sup>. This link was already affirmed in Article 130b of the Single Act, that is, before the major reform of the Structural Funds.

<sup>2</sup> Prate, A., *Quelle Europe?*, Julliard, Paris, 1991, p. 171.

<sup>3</sup> EIB archives, file 6.0255, 'Composition du comité directeur', note of the management committee, 21 September 1971.

<sup>4</sup> Romus, P., *L'Europe régionale*, Labor, Brussels, 1990, p. 42.

<sup>5</sup> See, in particular: Bermejo, R., 'La Banque européenne d'investissement: une banque de développement', *Revue internationale de Droit économique*, 1987, pp. 476-520, and 1988, pp. 37-67; Dunnett, D. R., 'The European Investment Bank: Autonomous instrument of common policy?', *Common Market Law Review*, 1994, pp. 721-764; Le Portz, Y., 'La Banque européenne d'investissement dans la décennie 80', *Revue de la Banque*, 1984, pp. 57-65; Spirou, C., *La Banque européenne d'investissement, aspects juridiques de ses opérations de financement*, Schulthess Polygraphischer Verlag, Zürich, 1990 (Swiss studies in international law, No 61); Tabary, Ph., 'BEI: des techniques nouvelles au service des priorités communautaires', *Revue du marché commun*, 1986, pp. 341-345; *Ibid.*, 'Le nouvel instrument communautaire, une coopération efficace au service d'investissements prioritaires pour l'Europe', *Ibid.*, 1990, pp. 203-207.

<sup>6</sup> See Willaert, É., 'La Banque européenne d'investissement: son rôle dans le financement d'investissements en Afrique et dans la réalisation d'objectifs communautaires envers les PVD', Bitsch, M.-Th., and Bossuat, G., (dir.), *L'Europe unie et l'Afrique. Actes du colloque international de Paris, 1<sup>er</sup> et 2 avril 2004*, Bruylant, Brussels / L.G.D.J., Paris / Nomos, Baden-Baden, 2005, pp. 411-432.

<sup>7</sup> The high contracting parties [...] reaffirm their belief that the EIB should continue to devote the majority of its resources to the promotion of economic and social cohesion [...].

<sup>8</sup> Final paragraph of Article 198e of the Treaty of Maastricht.

This development is only one aspect of the bank's adaptation to the general environment and, in particular, to the construction of Europe. Furthermore, the economic and financial environment, too, has changed over time.

To understand and illustrate this development, Part Two of the book examines the bank's early history, from its beginnings to 1972. The focus is on its activities in the Europe of the Six – with a long section on the Italian question, which accounted for a significant proportion of its activity in the 1960s – and on its new and fast-moving activities outside the Community. Indeed, the first association agreements with Greece and Turkey, followed by the first and second Yaoundé Conventions, had a bearing not only on the bank's administrative structure and the search for new resources, but also on the need to appraise and grant both ordinary loans and special loans, which means that it is important to consider what proportion of the bank's overall balance sheet these loans accounted for.

The first enlargement of the Community in 1973, and the rounds of enlargement involving Greece, then Spain and Portugal, represented a shift of the European Community's centre of gravity towards the south, yet they did not distract the bank from its primary task. On the contrary, the hesitant beginnings of an industrial policy linked to the challenges posed by new technologies and the implementation of a European regional policy are important aspects of that task. Moreover, in a context of economic crisis, intensified by the two oil crises and the monetary chaos of the 1970s, the EIB was requested on all sides, and in particular by the Community bodies, to help the Member States bring about a recovery of their economies. Part Three presents both this enlargement of the geographical scope and its increased implications for the bank while describing the redeployment of its activities in Europe and their extension beyond the Community by means of the Lomé Conventions and the interest shown in the Mediterranean.

Although the bank has never undergone a revolution but rather a series of adaptations to the economic, geopolitical and de facto institutional environment, it experienced the major upheaval of the run-up to, and reality of the revolution in the east. At Community level, meanwhile, the single market, then Economic and Monetary Union, offered considerable prospects for a redeployment of activities against a backdrop of renewed global economic growth. This in essence is the theme of Part Four. The change of environment and direction, the geographical extension of loans, and the globalisation of the capital market, at a time when the EIB had all but stopped lending to the Member States, which had found other sources of finance, led it to question its remit. In fact, there was fierce debate as to whether the EIB had become obsolete or, in other words, whether the time had come for it to compete in the commercial sector. At a time when Member States in their capacity as shareholders often went down the road of privatisation at national level, it may have been tempting to think that the bank should have behaved more, or indeed exactly, like the private sector.

This is not a question that was first raised in the 1990s. It could be argued that as far back as the negotiation of the Treaty of Rome establishing the EEC, the bank has divided opinion between those who support the public service and its opponents, who are keen for it to be a profit-making financial institution in

accordance with private sector-inspired management methods. However, as is examined in Part Five, the balance that was struck as part of the negotiation of the founding text gave rise to an original institution, which in the course of history has leaned in one direction and then the other. While it may wonder whether it does too little, and too slowly, the bank, whose head office moved from Brussels to Luxembourg in 1968, has pursued an objective that consists of doing things that would not otherwise be done, and that serve a purpose other than that of merely making a profit. In this sense, the EIB, whose decision-making and management structures are not identical to those of other international financial institutions – even though there are some similarities between its Statute and those of the articles of the World Bank – and are markedly different from those of a private institution, is truly unique. In this sense too, the question is: were the EIB to be created today, would it be created in the same way as it was 50 years ago?

Historians are not futurologists. However, their work can stimulate thought about the future. For half a century the bank, through the board of governors, whose core role it is to set general guidelines for action, the board of directors, which has sole power to take decisions regarding the granting of loans or guarantees, and the management committee, which takes decisions on borrowings and manages the treasury, has built a system that makes it a European public service that is also at the service of private enterprise.

This institution, whose staff levels are very low in comparison with the volume of loans granted, is also a bank made up of professionals who are generally fond of it and very loyal. However, one of the bigger challenges faced is that of recruiting staff to replace those who leave and also to increase staff numbers in line with the increase in activity. For a long time the EIB was synonymous with networks serving European economic integration<sup>9</sup>. Is this still the case today? Now more than ever the EIB, so mindful of good governance, acting transparently and keen to engage in dialogue with civil society, is active in networks at national, European and global level. However, is its split identity still that of an institution whose aim is to help build a Europe, an area of peace and freedom? Or is there really a high risk that citizens' disillusionment with the European public idea will find an echo – albeit a sophisticated one – within the institutions themselves, starting with the EIB?

*Éric Bussière, Michel Dumoulin and Émilie Willaert*

<sup>9</sup> Willaert, É., 'La Banque européenne d'investissement: des réseaux au service de l'intégration économique à travers le cas de la France', Dumoulin, M., (dir.), *Socio-Economic Governance and European Identity. Gobernanza Socioeconómica e Identidad europea*, Fundación Academia Europea de Yuste, Yuste, 2005, pp. 77-92.





# Part One



The birth of  
an institution:  
from a European  
investment fund  
to the European  
Investment Bank



In the late 1940s and early 1950s, François Perroux's cherished idea of international 'harmonised growth'<sup>1</sup> – itself a product of the studies of Colin Clark<sup>2</sup> – went from contemplation to the beginnings of political implementation.

Harmonised growth presupposed the coordination of investments to be made through the creation of one or more new bodies. These investments, however, were merely tools in the hands of States whose role was to intervene 'effectively and continuously' according to a joint overall plan drafted in the context, for example, of a European union<sup>3</sup>.

These considerations referred to the notions of structural planning and reforms as they were formulated back in the late 1920s. They conflicted with the liberal approach, which was hostile to this overall plan 'aimed at establishing new production sources and at creating a purchasing power and a market beyond what [were] often unprofitable jobs'<sup>4</sup>.

Among the objectives set in the work programme launched by the six European Coal and Steel Community (ECSC) members in the summer of 1955, to capitalise on the European revival that took place at Messina, was the creation of a readaptation fund and an investment fund. Less than two years later the Treaty establishing the EEC, signed

in Rome on 25 March 1957, created a European social fund but replaced the investment fund with the European Investment Bank.

The change was more than just semantic. Indeed, the negotiators of the Treaty abandoned the idea of a fund that some felt had been 'too great a concession to state intervention' and 'imposed on the bank management standards inspired [...] by the traditions of business'<sup>5</sup>.

While also considering the long history behind the idea of concerted and coordinated State intervention in the field of investment, this section is designed to put into perspective the change that took place in the mid-fifties, when the fund became a bank. In changing its name, the institution, which still had to forge an identity as an EEC body, endowed with its own legal personality and with a structure capable of guaranteeing its administrative and financial independence, 'changed in spirit'<sup>6</sup>.

## 1. Europe as an economy and a regional reality

The idea of Europe as a political utopia is old. The 19th century saw it gain prominence in two ways: on the one hand, the notion of a United States of Europe represented a generous, though unrealistic, vision of the organisation of the continent; on the

<sup>1</sup> Perroux, F., *Les comptes de la Nation*, 'Pragma' collection, PUF, Paris, 1949, pp. 40 et seq.

<sup>2</sup> Clark, C., *Conditions of Economic Progress*, Macmillan, London, 1940.

<sup>3</sup> Byé, M., 'Unions douanières et données nationales', *Économie appliquée*, t. III, No 3, July-September 1950, p. 166.

<sup>4</sup> Weiler, J., 'Les objectifs économiques d'une coopération durable', *Économie appliquée*, t. VI, No 4, October-December, 1953, p. 589.

<sup>5</sup> Barre, P., 'La Banque européenne d'investissement (des origines aux perspectives de développement)', *Banque*, new series, 37th year, No 190, April 1962, p. 229.

<sup>6</sup> Sermon, L.-L., 'La Banque européenne d'investissement', *L'Écho de la Bourse*, supplement to the issue of 30 April 1958, p. 37.

*The setting-up of the Committee of Inquiry for European Union was approved by the General Assembly of the League of Nations on 17 September 1930. Chaired until his death by Aristide Briand (1932), then by Édouard Herriot, the CIEU, whose secretariat was overseen by Eric Drummond, Secretary General of the Geneva-based institution, comprised representatives of the 26 European Member States of the institution, with the addition of Iceland, Turkey and the USSR as guests. Distributing the work among several sub-committees, including the appropriations sub-committee that was responsible, in particular, for organising major public works aimed at combating the job shortage and for examining 'practical methods enabling government loans to be issued more easily [...] in conjunction with the governing bodies of the principal markets', the Committee, after a promising start, became bogged down from 1933. Indeed, it would meet only once more before the start of the Second World War, in 1937.*

other, the idea of an economic way forward gained ground. Inspired by the principle of free trade, and paying heed to the thinking of Friedrich List, the father of Zollverein, many people spoke in favour of customs unions and other technical organisations of that nature. Furthermore, while some argued for worldwide solutions, others emphasised the urgent need for a political solution designed to organise Europe in the face of the very real presence on the international scene of economic blocs such as the United States of America, Russia and Japan.

At the same time the recognition of Europe as a regional entity in economic terms forced its way into people's consciousness. The inter-regional disparities observed in terms of the degree of industrialisation and the flow of internal financial transfers were the subject of research and publications that bolstered the claims made by regionalist political movements denouncing the sad fate in store for the least advantaged regions and demanding State intervention in their favour as

a result. However, while the phenomenon may have been detected in several European countries, its trans-European nature was far from being recognised for the simple reason that the nation States themselves were unfamiliar with the concept of regional policy.

### 1.1. The inter-war period

The unrest caused by the First World War paved the way for the start of discussions on the regional dimension, which formed the subject of numerous works dedicated either to a specific national area or to multinational areas, as testified to by the international economic conference of 1927<sup>7</sup>. In this context, an author, Francis Delaisi, had a considerable influence. While, in September 1929, Aristide Briand proposed to the members of the League of Nations the creation of 'a kind of federal link' between the countries of Europe, Delaisi popularised the idea of there being two Europes, a 'locomotive'



*Francis Delaisi (1873-1947), French economist and publicist, had been close to the trade unions before the First World War. An author who became known in 1911 for his book *La guerre qui vient*, warning of what was to come, Delaisi gained a certain reputation in the 1920s by defending the idea that free trade and the separation of economics from politics were prerequisites for peace on the European continent (*Les contradictions du monde moderne*, 1925). In *Les deux Europes* (1929), the author endeavoured to show that only solidarity between Western Europe and Central and South-Eastern Europe would guarantee peace. In his preface, Dannie Heineman, promoter of a 'Europe of electricity' defended the idea that the development of the capacity of the weakest European economies hinged on the creation of solidarity mechanisms, something for which he had already campaigned strongly in a small work published in Brussels in 1919: *Un clearing House international*.*

<sup>7</sup> Bussière, É., 'L'organisation économique de la SDN et la naissance du régionalisme économique en Europe', *Relations internationales*, No 75, autumn 1993, pp. 301-313.



Europe and a 'draught horse' Europe, and drew attention to two points<sup>8</sup>.

On the one hand, it was crucial to create better links between the areas making up the two Europes, since exports of agricultural goods arriving from Central and South-Eastern Europe suffered from the weakness, indeed non-existence, of trans-European road, rail and river infrastructure (air transport not yet being available at that time).

On the other hand, these same countries were seriously lagging behind in the energy sector. They therefore needed to be encouraged to develop this sector, which was a crucial factor in their industrial future, and to participate in trans-European electricity distribution networks, as advocated by Dannie Heineman, an outstanding figure in financing electricity at the same time, who was close to Delaisi and to Coudenhove-Kalergi's pan-European movement.

The ideas and projects characteristic of the pro-European enthusiasm of the time<sup>9</sup> found political expression in the memorandum submitted by the

French Government to the governments of the European Member States of the League of Nations in May 1930 'on the organisation of a regime of European federal union'. The creation of a Committee of Inquiry for European Union followed in September of the same year.

Another institution showed sustained interest in ideas relating to the economic and social aspects of European cooperation. The International Labour Office (ILO), through its French Director-General, Albert Thomas, a person responsive to Francis Delaisi's ideas, heralded the major infrastructure works in the period of economic depression that was beginning. The ILO advocated a concerted policy and put particular emphasis on the motorway sector, while also questioning the governments about their own programmes in order to find out which sectors could be included in common construction projects<sup>10</sup>. However, the staunch defenders of strictly national positions gained the upper hand over the supporters of international cooperation. Already full of pitfalls as it was, integration of the European scope both of the problems faced and of the solutions to tackle them was put on the back burner as the economic crisis developed<sup>11</sup>.

<sup>8</sup> Delaisi, F., *Les deux Europes*, Payot, Paris, 1929.

<sup>9</sup> Dumoulin, M., 'La réflexion sur les espaces régionaux en Europe à l'aube des années trente', Schirmann, S. (ed.), *Organisations internationales et architectures européennes, 1930-1939. Actes du colloque de Metz, 31 mai – 1<sup>er</sup> juin 2001, en hommage à Raymond Poidevin*, Centre for historical research and civilisation of the University of Metz, Metz, 2003, pp. 17-33.

<sup>10</sup> Van Der Vleuten, E., Anastasiadou, I., Lagendijk, V., Schipper, F., 'Europe's System Builders: The Contested Shaping of Transnational Road, Electricity and Rail Networks', *Contemporary European History*, Vol. 16, No 3, 2007, pp. 321-347.

<sup>11</sup> See, in particular, Schirmann, S., *Crise, coopération économique et financière entre États européens, 1929-1933*, CHEFF, Paris, 2000.

The same observation applies to the search for mechanisms designed to facilitate trade. National instincts prevailed, including the practice of falling back on colonial empires. However, there was no shortage of proposals aimed at creating an institution intended to play the role of a credit bank in the medium and long term. The 'memorandum of the French Government on the means capable of solving the current crisis in Europe' presented to the Committee of Inquiry for European Union by Aristide Briand in May 1931, and the Francqui

Plan the month after<sup>12</sup>, testified to a new economic culture requiring the creation of institutions that fully embraced 'the increasing interdependence of European states'<sup>13</sup>.

Despite the bitter failure of the London Economic Conference in 1933, the intense debate concerning Europe's economic organisation left its mark. Contrary to a long-held belief, the Second World War was not an interruption. Indeed, the youngest of those who had been active in Geneva and elsewhere

## Prescient remarks by Émile Francqui

'For the purposes of reviving international trade, an international financial institution should be created that will support, develop, coordinate and guide this long-term capital export movement practised by private banks [...]. It should have a substantial amount of capital [...] because that capital will act as a guarantee [...] for the bonds issued [...]. This capital would be subscribed in full, but only 10% would be used. Banks and industrial companies [...] will be asked to underwrite the capital [...]. In order to facilitate the investment of bonds under less costly conditions, it would be desirable if governments [...] were to act as paying agents [...]. It would also be useful if these bonds became genuinely international securities, if they could move freely and easily among the large financial markets and if governments did not hinder their movement with any fiscal or other obstacles. Lastly, constant, sustained relations should be established between the new body and [...] the Bank for International Settlements [...].

*Extracts from the presentation made by Émile Francqui as part of the work of the Committee of Economic Experts of the Committee of Inquiry for European Union convened in Geneva from 24 to 29 June 1931; Archives of the Federal Public Service Foreign Affairs (AMAEB), file 11440-I: United States of Europe (1930-1940).*

<sup>12</sup> Bussière, É., *La France, la Belgique et l'organisation économique de l'Europe, 1918-1935*, CHEFF, Paris, 1992, pp. 397-403.

<sup>13</sup> Pipkin, Ch. W., 'Relations with the League of Nations', *Annals of the American Academy of Political and Social Sciences*, Vol. 166, *The International Labor Organization*, March 1933, p. 133.

before 1940 were still active in the Europe of reconstruction after 1945. Furthermore, it should be emphasised that the wartime plans for post-war Europe flourished in occupied Europe, within governments in exile in London and in UK and US government circles. These plans were often vestiges of projects developed ten years previously.

## 1.2. Preparing for the post-war period

In this connection, the manner in which the problems of Central and South-Eastern Europe were tackled is enlightening. In London, the economic group of the Reconstruction Committee put in place by the Royal Institute of International Affairs began with the observation that, since private investors had experienced so many financial disappointments over the previous twenty years, only the States were still able to act. However they too were reticent, not least because they regarded the underdeveloped economies as bottomless pits and so did not take into account the fact that investment is profitable in terms of 'social marginal net product'<sup>14</sup>. In other words, investment needed to be organised in sectors other than basic industries or community facilities. To this end, the creation of a large investment facility – the Eastern European Industrial Trust – was crucial.

In Washington, the Advisory Committee of the Department of State and the three sub-committees (political, economic, research) that it headed began from summer 1942 to study the economic

organisation of an Eastern European federation. In addition to providing for the creation of a central bank and a single currency, the plan established the principle of the creation of a development corporation, a transport authority and an energy authority. The development projects had the potential to be national or transnational. The list of projects<sup>15</sup>, which is of interest when compared to the 'European corridors' marked out in the 1990s<sup>16</sup>, was largely inspired by the work of the League of Nations and the International Labour Office. The investment required for this development had to be found in the countries themselves – which showed a very poor assessment of the situation – but that did not mean that external aid was ruled out: from the great powers, in the absence of aid from the United Nations bank, or from the United Nations Relief and Rehabilitation Administration (UNRRA), once it was created in October 1943.

These examples, in addition to illustrating the sustainability of previous plans, show that the culture of reconstruction was imbued with both this intellectual knowledge and the desire to go beyond the stage of ideas in a new, Cold War, environment.

## 1.3. Post-1945: from dreams to action

In a context that saw the States adopt national reconstruction measures although having ascertained that they would be unable to carry them out alone – the role played by the United States

<sup>14</sup> Rosenstein-Rodan, P. N., 'Problems of Industrialization of Eastern and South-Eastern Europe', *The Economic Journal*, Vol. LIII, June-September 1943, p. 206.

<sup>15</sup> Laptos J., Misztal, M. dir., *American Debates on Central European Union, 1942-1944. Documents of the American State Department*, 'Euroclio' collection, P.I.E. – Peter Lang, Brussels – Vienna, 2002, pp. 140-141.

<sup>16</sup> For more on this subject, see the maps 6, 7, 8 in Part Four of this book, pp. 234 and 235.

was crucial. By resolutely turning its back on the policy conducted in the wake of the First World War, Washington intended to support Europe's recovery. However, as Churchill declared in Fulton, Missouri, on 5 March 1946: 'From Stettin in the Baltic to Trieste in the Adriatic, an iron curtain has descended across the Continent'<sup>17</sup>. It was therefore Western Europe that benefited from the aid of a United States concerned to see economic and monetary stability, the modernisation of production apparatus, a resurgence of trade and an improvement in consumers' living standards. These objectives, which were shared by the governments of the countries of Western Europe, were part of the desire to build a better society, imbued with the spirit of the Welfare State, to create the conditions for shared growth and to mobilise societies aspiring to peace and happiness around what was presented as a vital objective: 'containing' the Red Menace.

A myriad of European cooperation, indeed integration, projects came into being. With the help of the United States in some cases, or under its supervision, in others, Western Europe embarked on the road towards economic cooperation through the Marshall Plan (1947), implemented in 1948, and towards military cooperation as expressed in the North Atlantic Treaty in 1949. However, the fact that the United States gave the crucial push in these two areas underlined the difficulty faced by Europeans in embarking on the road towards political cooperation, a point illustrated by the Council of Europe which, created in 1949, would be above all a brilliant think tank. It was therefore through the use of specific levers – coal

and steel – that a small number of countries subscribing to the Schuman Plan created the European Coal and Steel Community (ECSC) in 1951. France, Germany, Italy, the Netherlands, Belgium and the Grand Duchy of Luxembourg took the dream of a European project and turned it into action.

## 2. European reconstruction and construction

Six years separated the end of the war from the creation of the ECSC. Europe's reconstruction required a huge amount of financial resources. Demand concerned three sectors: the first was that of the development or creation of industries in the broad sense of the term, and of production equipment; the second was that of the development of collective infrastructure assets and major agricultural projects; and the third related to anything not falling within the income-earning rationale, from health services to education, via housing<sup>18</sup>.

While private business was deemed capable of meeting demand in the first sector, it was equally clear that the public sector – in a context in which the role of the State was considered crucial in terms both of planning and of taking in hand entire sections of economic life, as illustrated by the post-war nationalisations that took place in several countries – had gained huge importance.

Because of this, the organisation of demand and the coordination of supply assumed a crucial role. Institutions grew in number. The International Bank for Reconstruction and Development (IBRD), which

<sup>17</sup> *The Times*, 6 March 1946.

<sup>18</sup> OEEC, *Report on International Investment*, OEEC, Paris, 1950, p. 59.



*The headquarters of the International Bank for Reconstruction and Development, in Washington. Opposed to the projects drawn up within the framework of the OEEC and considering those of the Six with a certain condescension, from 1956 it developed a scheme to promote credit in the private sector while noting that the ambition of the Six was being realised.*

originated in the Bretton Woods agreements of 1944, opened up the way. Next came the Marshall Plan. The European Recovery Program (ERP), whose task was to implement the instrument designed to facilitate the shift towards the normal operation of monetary transactions which the European Payments Union (EPU) would become in 1950, provided the opportunity, via the coordination, research and forecasting body constituting the Organisation for European Economic Cooperation (OEEC), to look for a European way of organising investment. The issue at stake was vital. Indeed, as the United Nations Economic Commission for Europe emphasised, the rate of capital formation was considerably higher in the more developed countries of Europe than in the less industrialised ones. The disparities between the various regions of Europe kept increasing instead

of decreasing. Furthermore, investments in fixed capital were distributed as though each national economy were regarded as a separate entity. Hence why 'more coordinated investment plans drafted in the various countries would enable a considerable increase in the real return on investment, by means of a more far-reaching, specialised role for industrial development'<sup>19</sup>.

While the insistence on coordinated investments reflected the acknowledgement of interdependence, it also conveyed the fact that considerable problems – including that of migrations from the poor regions of Europe to the richest ones – loomed on the horizon. Though some authors believed that joining in a cooperation process in the absence of an integration process had been a factor

<sup>19</sup> United Nations Department of Economic Affairs, *Étude sur la situation économique de l'Europe depuis la guerre. État des problèmes et nouvel examen des perspectives, préparé par la division des études et des programmes de la Commission Économique pour l'Europe*, Geneva, 1953, p. 62.



in the preservation of the nation State<sup>20</sup>, the OEEC established itself as a preferred place for cooperation, indeed initiative, in economic matters. It was therefore quite natural that it was to the OEEC that in 1949 the French Minister for Finance, Maurice Petsche, presented a plan that had been developed and adopted by the French Government the previous year, aimed at the creation of a European investment bank<sup>21</sup>.

The plan presented by Petsche to the advisory group of the OEEC ministers on 29 October 1949 was neo-

liberal-inspired. It moderated this approach, however, by seeking a social and economic balance through the contractual harmonisation of production. Emphasising the need for coordination of the member countries' economic and financial policies it focused at length on the coordination of investments. In this regard, the French minister declared 'that a European investment bank is perhaps the most reliable way of achieving industrial coordination'<sup>22</sup>.

The planned institution had a dual role: on the one hand, the bank would be the instrument by which the

<sup>20</sup> Milward, A. S., *The European Rescue of the Nation-State*, Routledge, London, 1992.

<sup>21</sup> Leduc, G., 'La Banque européenne d'investissement', *Banque*, April 1958, p. 202.

<sup>22</sup> See the full text of the document in Bossuat, G., *Faire l'Europe sans défaire la France. 60 ans de politique d'unité européenne des gouvernements et des présidents de la République française (1943-2003)*, 'Euroclio' collection No 30, P.I.E. – Peter Lang, Brussels... Vienna, 2005, pp. 271-276.



*Built on the site of a hunting lodge erected under François Ist, the Château de la Muette has housed the OEEC's headquarters since 1949. Completed in 1922 to serve as the Paris residence of Baron Henri de Rothschild, it replaced the royal buildings built successively under Charles IX in 1572, then under Louis XV between 1741 and 1745.*

governments would exercise control over industrial agreements (oil, iron and steel) with a view to 'letting companies survive where they are more capable of manufacturing a specific commodity in optimum conditions for consumption by an enlarged European market'; on the other, 'the disappearance of certain industries due to freedom of trade and specialisation of production' in presenting 'an industrial and economic adaptation problem that may have profound social repercussions' meant that 'a European bank would be the most suitable body for resolving these difficulties'.

Although the original idea of a European investment bank was attributed to Petsche<sup>23</sup>, it should be emphasised that he was not the only one to have formulated proposals for organising investment.

However, while the crux of the problem had been identified, opinions differed as to how to fulfil the ambitions. On 7 July 1950, the advisory council of the OEEC ministers, the negotiations on the Schuman proposal having started on 20 June, heard a number of statements.

The Dutch minister Stikker proposed the setting up of a European integration fund to help finance modernisation and investment programmes designed to offset the negative effects that unfettered free trade might have had on the economy and jobs of an OEEC member country<sup>24</sup>.

The Italian minister Pella supported the Dutch proposal. He went further, however, by emphasising, because

of the Mezzogiorno, the problem of underdeveloped regions and that of migrations occurring as a result of such underdevelopment<sup>25</sup>. This concern would not leave Ireland indifferent. It, in turn, put forward a plan aimed at creating a European fund<sup>26</sup>.

The third plan submitted was the French plan. It was a reworking of the 1949 version, and an attempt

*'The Stikker Plan' - In 1950, the Dutchman, Stikker, the butterflies 'Luxembourg' and 'Belgium' stuck on top of his top hat, tries to catch John Bull in his net with Uncle Sam looking on doubtfully, while butterflies representing other members of the OEEC flutter around in all directions. As the Dutch newspaper Het Vrije Volk wrote on 13 June 1950, the Stikker plan was intended among other things, a few weeks after the Schuman declaration, 'to dispel the United Kingdom's prejudices against cooperating with the continent' given that 'it would never surrender the tiniest bit of its sovereignty'.*



<sup>23</sup> Kipping, M., 'La Banque Européenne d'Investissement, de l'idée à la réalité (1949 - 1968)', op. cit., pp. 525-542.

<sup>24</sup> Asbeek Brusse, W., 'The Stikker Plan', in Griffiths, R. T., (ed.), *The Netherlands and the Integration of Europe, 1945-1957*, NEHA, Amsterdam, 1990, pp. 69-91.

<sup>25</sup> Nationaal Archief (NL), Stikker archives, file 49, OEEC, Council, Proposals and remarks submitted by Mr Pella on behalf of the Italian Government concerning methods to be adopted in the Organisation of the European Market, Paris, 28 June 1950, C(50)183.

<sup>26</sup> OEEC, *Report*, op. cit., p. 95.

to thwart the Schuman plan, which was deemed to be too authoritarian. Petsche thus reacquainted the OEEC with the idea of regional economic unions and developed that of a European investment bank designed to 'steer' these unions, but did so while also harbouring the hope of seeing the Schuman plan linked to the OEEC<sup>27</sup>.

Using the aviation industry as an example, the French proposal stressed the fact that without pooling research, funding methods and industrial sites, the countries of Europe would soon depend entirely on the United States. There was no institution in Europe, however, that was capable of rising to that kind of challenge. The fact is, a hypothetical European federal or supranational government would not have solved the problem since its action would have applied only to public investment. Therefore only a bank arising out of cooperation between the States and the private sector appeared to offer a solution.

Dismissing the argument that the proposed body would overlap with the IBRD, the French memorandum pointed out that the IBRD, whose remit was world-wide, only lent to States or under State guarantee, whereas a European bank should be able to act more flexibly by behaving in part as a commercial establishment acquiring capital shares in the companies to be assisted or created. Finally, reviewing the questions of the origin and amount of the bank's capital, and of connections with private capital, the memorandum paid particular attention to the bank's anticipated institutional aspects and statutory objectives<sup>28</sup>.



The French proposal and the Dutch one concerning the integration fund, which was seen by the Dutch as being complementary to the bank<sup>29</sup>, gave rise to very lengthy negotiations revealing admittedly strong resistance from the United Kingdom but also particularly fierce opposition from the IBRD.

London, which did not wish to be dragged into anything beyond the coordination of national

<sup>27</sup> Nationaal Archief (NL), Stikker archives, file 49, OEEC, Council, Statement by the Delegate for France at the 102nd meeting of the Council on 7th July 1950, Paris, 7 July 1950, C(50)199.

<sup>28</sup> Ibid., Council, Suggested creation of a European Investment Bank. Proposal by the French Delegation tabled at the 102nd Council meeting on 7th July 1950, Paris, 8 July 1950, C(50)198.

<sup>29</sup> Ibid., file 49, De behandeling der plannen Stikker, Petsche en Pella door werkgroep No 6 van het Executive Committee, 28 juli – 12 augustus 1950, p. 2.

*In July 1950, the representatives of France (Maurice Petsche (1895-1951) seated next to Robert Schuman [photo on the left]), Italy (Giuseppe Pella, (1902-1981) with Paul van Zeeland [photo in the middle]) and the Netherlands (Dirk Stikker, (1897-1979) [photo on the right]) each presented a plan to their colleagues in the OEEC. Focusing at once on credit, production and inter-State cooperation, they also testified, whether explicitly or implicitly, to concerns linked to the employment of workers in Western Europe and to migration. The French plan upheld the idea of a European investment bank, whereas the Italian and Dutch projects concerned the creation of a fund.*



policies, was afraid of being dragged along 'further and quicker' than anticipated by 'unduly functional' plans<sup>30</sup>, and, more prosaically, of seeing French industry favoured by a European investment instrument<sup>31</sup>. Finally, although it believed that the incorporation of private capital into the European banking project paved the way for a wider scope of activities than that of the IBRD, which was trapped in the rigid framework of its regulations, the United Kingdom Government declared its opposition to

a European bank that would have duplicated the Washington institution, when the latter 'could be a substitute for the Petsche Bank'<sup>32</sup>, with the result that the risk of competition on the capital market would be avoided.

Investment coordination, linked to a bank on the one hand and a fund on the other, began to be investigated from autumn 1950. In London, where every government department had declared its

<sup>30</sup> National Archives (UK), FO 371/87163, note by T. J. Hughes, Economic Intelligence Department, 14 August 1950.

<sup>31</sup> Ibid., FO 371/87162, note by F. G. Burrett, 21 July 1950.

<sup>32</sup> Ibid., FO 371/87166, note by Dudley, 8 September 1950, UR 3250/30.

opposition to the Stikker plan from the outset, the list of issues to be examined seemed so complex that it gave rise to the following remark, which exemplified the United Kingdom's attitude: 'The points about the Petsche bank which are listed for examination seem well suited to disclose the usefulness [...] of a promising suggestion'<sup>33</sup>.

In fact, the banking project became that of a 'Regional Advisory Board to the IBRD', then an 'Advisory Investment Board' of the OEEC. Since it was not the European arm of the IBRD<sup>34</sup>, the new institution's remit was simply to advise on the quality of the public and private projects submitted to it with the authorisation of the national governments, and to advise on the search for finance.

While stressing that Germany, due to its 'loathing of the international powers of the Schuman Authority'<sup>35</sup> succeeded in burying the idea of investment projects being assessed on the basis of their European character, it must be remembered above all that the IBRD's opposition got the better of the Advisory Investment Board since the OEEC council abandoned it on 25 March 1955<sup>36</sup>, that is, at a time when the European revival among the six ECSC countries was taking shape.

The IBRD felt that, in the light of 'its long and eventful history, it would be surprising if the idea of a

European investment bank', once thought up, 'would resurface', not least because 'the majority of European countries are [...] involved in creating the International Finance Corporation (IFC)<sup>37</sup>. The IBRD was mistaken. While, in fact, the IFC was founded on 24 July 1956 as an IBRD institution responsible for operations with the private sector, neither Italy nor the Benelux countries were among its founding members. Their absence highlighted the World Bank's misjudgement of the European project of the Six and, by extension, their ambition to forge ahead.

This being the case, the debate at the OEEC concerning investment needs and investment coordination affected not only Europe but also the overseas territories, especially those located in sub-Saharan Africa<sup>38</sup>. In March 1949, the OEEC ministers, establishing the principle that 'investment and modernisation projects must be developed [...] with particular importance attached to investments in the overseas territories'<sup>39</sup>, added considerably to a dossier that would also be subject to further developments within the Council of Europe, initially within the framework of the so-called Strasbourg plan, then as part of the negotiation of the Treaties of Rome<sup>40</sup>.

The projects mentioned at times had contradictory aims. On the one hand they emphasised Europe's

<sup>33</sup> National Archives (UK), FO 371/87163, note of 29 September 1950.

<sup>34</sup> Ibid., T 232/424, Confidential draft BF (53) 25, Treasury, IMF/IBRD, 8th annual meeting, p. 4.

<sup>35</sup> Ibid., T 232/424, Brayne to Radice, 17 October 1953.

<sup>36</sup> Ibid., T 232/424, H. Ellis-Rees, 26 March 1955.

<sup>37</sup> World Bank Archives, 1580817 (Europe – Intra-european investments VI), Office memorandum from Badri Rao to Mr. V. Umbricht, 'European Investment Fund', December 15, 1955.

<sup>38</sup> *Investments in Overseas Territories in Africa, South of the Sahara*, OEEC, Paris, 1951.

<sup>39</sup> Archives de la Fondation Jean Monnet pour l'Europe (FJME), Archives de Robert Marjolin (ARM), OEEC, Consultative Group of Ministers, Proposal's on the Organisation's Plan of Action for 1949-1950, 8 March 1949, p. 9, CGM(49) 8 (final).

<sup>40</sup> See Chapter 3 of Part Two of this book.

shortage of capital, and on the other they argued in favour of the allocation of what were considered available European resources, in particular to overseas territories<sup>41</sup>. Moreover, they remained vague as to the origin of the funds and the methods of managing and practical conditions for using them. Notwithstanding these contradictions and these shortcomings it should be noted, in line with François Perroux's observation, that the discussion of economic matters increasingly underlined the need to acknowledge the fact that centres of growth existed that were replacing the nations themselves<sup>42</sup>, and that these ideas were finding intermediaries in the political sphere who were determined to turn them into reality. Without even considering Article 85 of the 1953 draft Treaty establishing the European Community, which was drafted at the same time as the Treaty on the European Defence Community (EDC), it should be pointed out that the ECSC had access to a financing facility from its inauguration in 1952. The very existence of this precedent would soon play a part.

### 3. Looking ahead to the Treaties of Rome

#### 3.1. The Messina revival

The collapse of the EDC in 1954, bringing about as it did the de facto collapse of the political Community, had led the six countries of the ECSC to embark on the so-called Messina revival in June 1955.

Aware that, in the words of Walter Hallstein<sup>43</sup>, their 'only choice was integration or disintegration', the ministers meeting in Sicily examined several memorandums. Based on the 1952 Beyen plan, which was along the same lines as the Stikker plan, the plan submitted by the three Benelux countries contained, as predicted, an explicit reference to a European investment fund. At the end of the conference the final declaration consisting of a programme of projects to be explored on the basis of a compromise reached between the Benelux position and that resulting from the rapprochement between France and Germany, included the decision to 'look into [...] the creation of an investment fund aimed at the joint development of European economic potentialities and, in particular, the development of the least advantaged regions' (paragraph C). Furthermore, the resolution pointed to a similar ambition with regard to a readaptation fund 'designed to address the temporary difficulties stemming from the gradual development of the common market'.

As already mentioned, the explicit mention of a fund was in response to the Italian concerns regarding the development of the south of the peninsula, including the islands, and was aimed at curbing a migratory movement to the other member countries, which were somewhat concerned about this. However, with an intensity varying from one country to another it also echoed the concern of each of the Six to develop a regional policy at national level<sup>44</sup>.

<sup>41</sup> Leduc, G., 'Une banque européenne d'investissement', *Banque*, September 1953, p. 549.

<sup>42</sup> Perroux, F., *L'Europe sans rivage*, Presses Universitaires de France, Paris, 1954, pp. 524-525.

<sup>43</sup> Archives du Conseil de l'Union européenne, CM 3/1/3, transcription de la bobine No 84, 2 June 1955, p. 2.

<sup>44</sup> On the increase in importance of these concerns, see Romus, P., *Expansion économique régionale et communauté européenne*, A.W. Sythoff, Leyden, 1958.

### 3.2. The work of the Spaak Committee

The plan for the creation of a European investment fund was examined in several stages as part of the work of the intergovernmental committee created by the Messina Conference, better known as the Spaak Committee, after the name of the Belgian Minister for Foreign Affairs chosen to lead the operation.

At the first meeting of the heads of delegation, held in Brussels on 9 July 1955, several committees and sub-committees were set up, comprising national officials and observers appointed as delegates by three institutions and by the United Kingdom.

The plan for a fund was included in the programme of the investment sub-committee of the committee on the common market, investment and social problems. The sub-committee's report<sup>45</sup>, in line with the procedure for other matters, served as a basis for the drafting of the Spaak report, dated 21 April 1956, which was the starting point for the negotiation of the Treaties of Rome. During the negotiations the Fund was the subject of fierce debate within an ad hoc group in October and November 1956. By dint of compromise on the different positions, a definitive decision was taken in early March 1957 concerning the overall structure of what had changed its name to become the European Investment Bank.

However, what may have seemed definitive was not. Indeed, the plan for a European Free Trade Area (EFTA) that was being negotiated at that time at the OEEC showed that some, starting with the United Kingdom, hoped that the decisions made could be reversed.

#### 3.2.1. Negotiations from July to October 1955

From the outset the members of the sub-committee on investments chaired by the Italian, Giuseppe Di Nardi, who would become an alternate director then director of the EIB between 1958 and 1968, were on different wavelengths. They did indeed subscribe to the idea of a fund, but opinions differed as to its aims and means, and indeed as to whether or not it would be jointly managed with the Fund for readaptation of the workforce.

With regard to aims, Italy believed that investments 'should tend [...] to increase the build-up of fixed capital in the common market', in other words, should 'ensure sufficient liquid assets for long-term investments even if the latter are not immediately profitable'<sup>46</sup>.

Bonn, 'faced with the determined front of the other delegations'<sup>47</sup>, was worried about the financial weight of the plans for a fund<sup>48</sup>, and believed not only that readaptation and investment had to be managed by

<sup>45</sup> Di Nardi, G., Report submitted on behalf of the sub-committee on the common market, investment and social problems, Document No 315 (formerly 272), Brussels, 7 October 1955, pp. 11-16, MAE 432 f/55 mp. Reproduced as is, except for some alterations in wording, in Historical Archives of the European Union (EU), CM/3, NEGO-354, Report by the committee on the common market, investment and social problems, Part 2, Document No 338, Brussels, 17 October 1955, pp. 110-117.

<sup>46</sup> Ibid., CM3/NEGO-43, Note of the Italian delegation, 19 July 1955, MAE 62 f/55 mj.

<sup>47</sup> Archiv für Christlich-Demokratische Politik (Sankt Augustin) (ADCP), Bestand Archiven von der Groeben, I – 659 – 07412, note by Fischer – Menshausen, finance minister, Bonn, 8 March 1956, sent to von der Groeben.

<sup>48</sup> Ibid., Vermerk Brüsseler Vorkonferenz, Bonn, 25 July 1955, p. 2.

a single institution but also that the latter had to take on a commercial profile.

There was major conflict between the opposing ideas. Going against the immediate profitability sought by Germany was the idea that the fund should help to finance infrastructure works, creating conditions that 'make it possible to rely on the normal intervention of private capital'<sup>49</sup>.

A second bone of contention was the issue of resources. Although there was a consensus that the fund, whose capital would be guaranteed by the Member States,

had to be considered complementary, since the credit it would grant had to be subject 'to the prior condition of [the borrower] having recourse to the free capital markets and the States', the Six witnessed new opposition between Bonn and the other capitals regarding the origin of the capital lent by the fund. Unlike its partners, Germany was well aware that the fund's resources would be sought above all on the capital market and that it would thus have 'the character of a bank with international status'<sup>50</sup>.

The use of the word 'bank' is significant. It conveys better than anything else the nature of the difference

## 'Restoring the balance of the liberal part of the Treaty'

'There was a huge concern at the Common Market Commission, in particular within the Italian delegation but also within the French delegation. It was that the freedom of movement of capital, labour and, above all, goods, would cause enormous damage in the economically and structurally weakest countries, in particular in Italy. An attempt therefore had to be made, by means of an investment bank and a social fund, to restore the balance of the automatic, let us say liberal, part of the Treaty. That is why, in Italy, the emphasis has always been on [...] our position of weakness. We were faced with an exercise in opening up customs barriers, capital, and labour with countries much stronger than us. However, the compensatory facilities, in particular the European Investment Bank and the Social Fund, were to mitigate these problems to a certain extent'.

*'Account of Achille Albonetti', Melchionni, M. G. and Ducci, R., La genèse des traités de Rome. Entretiens inédits avec 18 acteurs et témoins de la négociation, FJME, Centre de recherches européennes, Lausanne, Economica, Paris, 2007, p. 460.*

<sup>49</sup> EU Historical Archives, CM3/NEGO-43, Working document relating to the Investment Fund, Brussels, 4 August 1955, MAE 172/f/55 hr.

<sup>50</sup> Ibid.

in approach between Germany, supported by the Netherlands, and its partners. The latter were concerned, to varying degrees, to prevent 'the enrichment of the most developed regions and the impoverishment of the least advantaged regions'<sup>51</sup>.

Or, in the words of the Italian Treasury representative: 'Although we saw the Fund (*mutatis mutandis*) as being something like a *Cassa per il Mezzogiorno*, the Germans could not conceive of the institution as being anything other than a banking institution'<sup>52</sup>.

For the Germans the issue was crucial because it was political. In their view, there was a high risk of seeing States being made to provide resources in excess of their share in the fund's capital – the paid-up part and the non-paid-up part acting as a guarantee fund<sup>53</sup> – and of how much the capital market would raise. Embarking on such a course when the economic situation of some Member States was uncertain would have been tantamount to 'jeopardising Germany's financial stability by the lax policy of some of its future partners'<sup>54</sup>.

At the same time, the Italian position regarding the interest rate on loans to be granted clearly did not reassure the Germans, who were supported on this occasion by the other countries. Indeed, only the ECSC's delegate supported the Italian point of view

that loans for the least advantaged regions had to be issued at preferential rates in order not to further exacerbate the difficulties these regions faced<sup>55</sup>.

The misgivings and shows of opposition of the various parties were all the more understandable given that the fields in which the fund was intended to be used required substantial financial resources.

There were three categories of projects that were eligible for loans<sup>56</sup>:

- development of the least advantaged regions;
- infrastructure;
- investment in private industry focusing on the conversion of undertakings that would not have been assisted by the conversion fund.

The Six agreed that the projects in question had to be productive and profitable in nature. However, the scope of profitability varied according to the partners. For Bonn, as for The Hague, the credits granted had to yield a return. The Italian position, which was shared in part by Paris and Brussels, was different. A distinction had to be made according to whether the credits were granted in the private sector or in the public sector<sup>57</sup>. The return had to be commercial at times, and financial at others, that is to say that the servicing of borrowings had to be guaranteed under prescribed conditions. This approach, which

<sup>51</sup> EU Historical Archives, Sub-committee on investment, working document, Document No 256, 19 September 1955, MAE 337/55 oc.

<sup>52</sup> Archivio Centrale dello Stato (ACS), ministero del bilancio e della programmazione economica, Gabinetto, busta 82, fasc. 434, relazione del dott. Palumbo del ministero del Tesoro sul rapporto conclusivo della sottocommissione investimenti, 27 September 1955, p. 4.

<sup>53</sup> Di Nardi, G., Report..., op. cit. p. 13.

<sup>54</sup> ACDP, Bestand Archiven Hans von der Groeben, I – 659 – 07412, note by Fischer-Menshausen, finance minister, Bonn, 8 March 1956, p. 4. Sent to von der Groeben.

<sup>55</sup> ACS, Relazione del dott. Palumbo..., op. cit., p. 3.

<sup>56</sup> EU Historical Archives, CM3/NEGO – 43, Report on the work of the sub-committee during the period from 21 July to 4 August 1955, Brussels, 3 September 1955, p. 6, MAE 279 f/55 ds.

<sup>57</sup> ACS, ministero del bilancio e della programmazione economica, Gabinetto, busta 82, fasc. 434, telexpresso n° 44/15412, 15 October 1955.



was designed to reconcile two concepts, raised the question of whether it was necessary to introduce a rule of proportionality between investments in the public sector and the private sector<sup>58</sup>. This double distinction having been ruled out, the tendency to clearly want to keep the private sector within bounds remained obvious. Indeed, without resolving the issue, the national representatives tended to think that the private sector should go through the governments or qualified bodies in order to apply for loans<sup>59</sup>.

Despite the often profound differences of opinion that divided the negotiators, several principles emerged from the discussions. Thus, the fund that was to be a constituent body of the common market, endowed with its own credit to enable it to perform transactions on the capital market, had to have considerable room for manoeuvre to grant its loans<sup>60</sup>. Such room for manoeuvre, which did not exclude cooperation with other financial institutions including the IBRD, also presupposed the harmonisation of national laws on the subjects concerned. Finally, a consensus was reached on the currency in which a loan was granted.

Without losing sight of the fact the EPU still existed at the time of the negotiations, since the convertibility of currencies would not be reintroduced until 1 January 1959, this issue was quite rightly considered important. Indeed, there was full agreement that, were a loan to be granted in a currency other

than that of the recipient country, the interest payment and loan repayment had to be in the currency in which the loan was granted. Under no circumstances should the Fund have taken on the exchange risk since 'it is not a question of compensating for the imbalance in balances of payment but of allowing investment to take place'<sup>61</sup>.

All in all, the work of the experts was essential since it meant that the foundations could be laid. However, issues as important as the nature of the Fund's means and resources were far from being resolved. They were among the issues that the governing bodies of the Spaak Committee entrusted to a small group of draftsmen to examine. This group was responsible for summarising all of the committees' and sub-committees' reports, that is, nearly 600 pages, in one operational document.

### 3.2.2.

#### The European investment fund in the Spaak report

The drafting of the Spaak report, which was entrusted to Hupperts, Guazzugli, Uri and von der Groeben, was essentially attributable to the latter two men.

The fund was the subject of chapter one of title III of the report devoted to the development and full use of European resources. From the outset, the stated ambition was to create a fund 'capable of presenting itself as a first-rate borrower on the European and international markets'<sup>62</sup>. Acting in cooperation with

<sup>58</sup> EU Historical Archives, CM3/NEGO – 43, Sub-committee on investment, working document, Document No 198, Brussels, 8 September 1955, MAE 296 f/55 mj.

<sup>59</sup> Di Nardi, G., Report..., op. cit., p. 13.

<sup>60</sup> EU Historical Archives, CM3/NEGO – 43, Sub-committee on investment, working document, Document No 256, 19 September 1955.

<sup>61</sup> Di Nardi, G., Report..., op. cit., p. 15.

<sup>62</sup> Intergovernmental committee set up by the Messina Conference, Report of the heads of delegation to the ministers of foreign affairs, Secretariat, Brussels, 21 April 1956, p. 76, MAE 120 f/56 (amended).

the other international financial institutions, and the IBRD in particular, the fund would take part in work of a European nature and of European interest, more specifically in the sectors of communication networks and of the production and distribution of energy, coal excluded. Next came considerations relating to the Fund's remit to help the underdeveloped regions and to assist in the conversion of undertakings, with the readaptation of the workforce also being provided for.

While emphasising that the fund still had to 'work out its interest rate policy', the report stressed that its credit would depend not only on its organisation and management rules but also on the capital endowment that would be available to it and the resources on which it could rely. With regard to the capital, the authors, pointing out that that of the IBRD amounted to USD 10 billion, judged that 'a billion for Europe would seem to satisfy the proportions to be met', knowing that 'no more than 25% [would be] released'<sup>63</sup>.

On the subject of resources, Germany's fears concerning additional State contributions in case of insufficient recourse to the market were met in part by a five-year limit on the period in which national treasuries could be called on to intervene, and by a rather complicated system of capping the amount of intervention, which was regarded moreover as an increase in subscribed capital.

Finally, in terms of organisation, the authors underlined the concern to reconcile two objectives: responding to financial concerns and pursuing general economic policy objectives. On the one

hand, 'the directorate general and management committee will be of the banking type but will receive their instructions from a board of governors bringing together the representatives of the Member States and of the European Common Market Commission'. On the other, 'the projects submitted to the Fund must either be subject to a preliminary examination by a European institution, or be referred to it for an opinion. The European Commission shall enjoy powers under ordinary law regarding all projects that do not fall within the powers explicitly acknowledged as belonging to another institution'<sup>64</sup>.

### 3.2.3.

#### The Val Duchesse negotiations

Adopted by the foreign affairs ministers meeting in Venice on 29 and 30 May 1956, the Spaak report formed the basis for the negotiation of the treaties. The negotiations on the European investment fund took place within the common market group. However, they stalled despite the submission of several memorandums and draft versions both of articles of the Treaty and of statutes annexed to it. With Germany remaining firm in its opposition to additional State contributions, and with a large number of issues still unresolved, the common market group, under the leadership of von der Groeben, decided to set up an ad hoc group for the investment fund. The group's task, in the case of disagreements, was to present the fewest possible alternatives to the common market group, so that it could resolve controversial issues, or if there was no agreement refer them to the heads of delegation, who would submit them to the council of ministers where necessary.

<sup>63</sup> Intergovernmental committee set up by the Messina Conference, Report of the heads of delegation to the ministers of foreign affairs, Secretariat, Brussels, 21 April 1956, p. 76, MAE 120 f/56 (amended), pp. 80-81.

<sup>64</sup> Ibid., p. 82.

*The priory of Val Duchesse, situated in the Brussels municipality of Auderghem, housed a community of Dominican nuns for more than six hundred years. Transferred into private hands following Belgium's annexation to France, the castle, which was built in around 1780, was restored and extended in the early 20th century. It was presented to the Donation Royale [Royal Collection] in 1930 by its owner, Baron Dietrich. From June 1956 to March 1957, the residence was the setting for the negotiations of the intergovernmental conference responsible for drafting the Treaties of Rome. It would subsequently be regularly used as a venue for negotiations linked to Belgian political life.*



Commenced on 8 October 1956 under the chairmanship of the Frenchman de Clermont-Tonnerre, the work of the ad hoc group was not completed until 14 November, with a report dated 27 November<sup>65</sup>. At that time, the unresolved problems still related to the nature and character of the fund. Germany and the Netherlands stressed that the fund was on the one hand a European public institution linking its action to that of the common market institutions, and on the other a financial institution called upon to act above all using resources from the capital markets, and thereby having to have 'the greatest possible freedom from any political influence'. Then Germany was restrictive in its interpretation of the concept of conversion of undertakings, even though the other delegations realised that it could have also meant the promotion of new activities. Lastly, the distribution of capital, the additional State contributions, the voting procedures within the board of directors and the very name of the Fund constituted a final set of problems submitted to the common market group, which debated them on several occasions in December 1956.

As for the institution's name, the Germans and the Dutch argued in favour of changing it, since the name used up to then 'was unsatisfactory in terms of the institution's reputation'. Their argument was based on the experience of drafting the IBRD's statutes, during which 'the name "International Investment Fund" was initially envisaged' before it was changed 'on the advice of American bankers, who felt that the name "Fund" was bad from a reputation point of view'<sup>66</sup>.

Though the outstanding issues had been resolved in line with the text of the Treaty and of the protocol annexed to it, the future bank still presented two problems, which the ad hoc group was given the task of solving on the basis of the new mandate that it received on 4 January 1957: that of distributing the subscribed capital, including the amount of the paid-up capital, and that of distributing seats on the board of directors.

With regard to the capital – the sum of which, it may be recalled, was USD 1 billion or 1 billion EPU units of account – the proposed distribution in December 1956, compared to that appearing in Article 4 of the protocol annexed to the Treaty, was as follows<sup>67</sup>:

	<i>December 1956</i>	<i>Article 4 of the protocol</i>
Luxembourg	<i>5 million</i>	<i>2 million</i>
Belgium	<i>85 million</i>	<i>86.5 million</i>
Netherlands	<i>85 million</i>	<i>71.5 million</i>
Italy	<i>175 million</i>	<i>240 million</i>
France	<i>325 million</i>	<i>300 million</i>
Germany	<i>325 million</i>	<i>300 million</i>

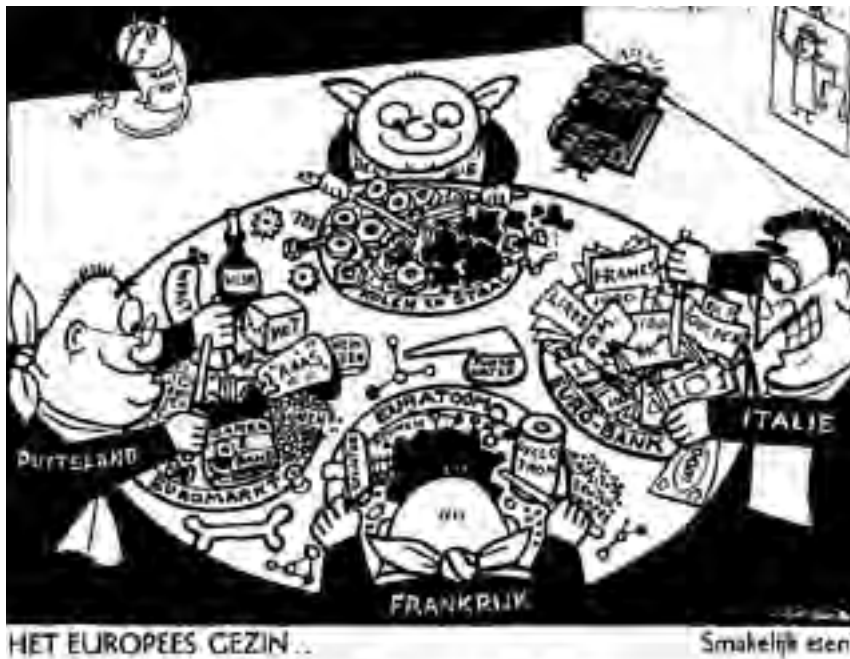
In terms of the amount of paid-up capital, the principle of calling 25% of the subscribed capital met with opposition from the Netherlands, which requested that 'the 20% hypothesis be taken into account'<sup>68</sup>.

<sup>65</sup> FJME, ARM 16/8/53, Report on the work of the ad hoc group responsible for drafting the statute of the Investment Fund, MAE 621 f/56 vr.

<sup>66</sup> Ibid., Explanatory memorandum concerning the draft statute of the Investment Fund, MAE 621 f/56 dvl.

<sup>67</sup> FJME, ARM 16/8/57, Committee of the heads of delegation, Proposals of the chairman concerning points to be settled with regard to the European Investment Bank, Brussels, 27 December 1956, MAE 848 f/56 vr.

<sup>68</sup> FJME, ARM 16/8/61, Committee of the heads of delegation, note of the chairman of the common market group concerning the draft articles of the European Investment Bank, Brussels, 12 January 1957, MAE 93 f/57 gd.



*'The European family...bon appétit'. While the Netherlands (Sicco Mansholt) are left with the smallest portion and Luxembourg is absent, apart from the reference to the Court of Justice on the wall, the other four members of the new Communities enjoy a dish that satisfies their appetites: financial aid for Italy thanks to the EIB ('Euro-Bank'); nuclear power for France (Euratom); measures relating to coal and steel for Belgium; and a victory for Germany on all fronts: from agricultural goods to textiles.*

Furthermore, they wanted the ceiling on loans that could be provided by States in the event of an underperforming market to be fixed at 300 million. The Italians stood their ground, calling for it to be fixed at 500 million, while the other partners wanted it to be fixed at 400 million.

Meeting to discuss this matter on 21 and 22 January 1957, the heads of delegation did not succeed in resolving the issue of the distribution of the capital subscribed by the Member States since Italy, which wanted to have the same number of board members as that proposed for France and Germany, that is to say three each, increased its share from USD 175 million to 225 million, the share of each of the two large countries being reduced by USD 25 million.

This proposal caused Germany and the Netherlands to have reservations. In Germany's case this was because it felt that, as it was paying more, it was entitled to have more board members than Italy had.

The Netherlands which, together with Belgium, had also increased its subscription by USD 1.5 million in order to relieve Luxembourg, which now had to commit only USD 2 million, believed that the Benelux countries were poorly represented as they had only two seats compared to the nine held by the largest countries and the one held by the European Commission<sup>69</sup>.

There being no agreement, the heads of delegation turned to the Council of Ministers. There, an auction took place since Germany and France held steady with a subscription amount of 300 million, while Italy went to 240 million, thus offsetting the reduction in the contribution of the Netherlands, who did not accept the principle of paying 25% of the subscribed capital and the sum of 400 million for special loans without making Italy – whose generosity was not without ulterior motive – pay the price for having to raise it. On the one hand, Italy, through its minister Martino,

<sup>69</sup> ACDP, Bestand Archiven Hans von der Groeben, No I-659-08813, Committee of the heads of delegation, draft minutes (meetings of 21 and 22 January 1957), Brussels, 25 January 1957, pp. 2-3, MAE 295 f/57 vr.



*'Europe united in wanting progress and peace'. Paul-Henri Spaak, his index finger pointing to the poster held by Joseph Luns (on the left) and Gaetano Martino (on the right), comments to Konrad Adenauer and Jean-Charles Snoy et d'Oppuers standing between the Belgian and the Dutchman, on the poster produced to mark the signing of the Treaties of Rome on 25 March 1957. The scene takes place in the gardens of the Belgian embassy near the Quirinal the day after the signing.*

obtained a substantial reduction in its quota share in the Fund for professional training and worker mobility<sup>70</sup>, and on the other it secured three seats on the EIB's board of directors, but not without harbouring the hope of obtaining a post on its management committee when the time came, this committee being made up of a chairman and two vice-chairmen.

When it came to the management bodies, the negotiators put the finishing touches to an institution with interesting characteristics. Indeed, the mark of the Bretton Woods institutions could be seen in the board of governors, which consisted of ministers from the Member States, and in the board of directors. The management committee on the other hand was a novelty, all the more so because, since the vice-chairmen did

<sup>70</sup> Perfetti, F., 'Verso i trattati di Roma. L'europeismo di palazzo Chigi', *La Comunità internazionale*, No 1, 2007, p. 41.

## The task of the EIB (Article 130 of the EEC Treaty)

'The task of the European Investment Bank shall be to contribute, by having recourse to the capital market and utilising its own resources, to the balanced and steady development of the common market in the interest of the Community. For this purpose the Bank shall, operating on a non-profit-making basis, grant loans and give guarantees which facilitate the financing of the following projects in all sectors of the economy:

- a) projects for developing less-developed regions;
- b) projects for modernising or converting undertakings or for developing fresh activities called for by the progressive establishment of the common market, where these projects are of such a size or nature that they cannot be entirely financed by the various means available in the individual Member States;
- c) projects of common interest to several Member States which are of such a size or nature that they cannot be entirely financed by the various means available in the individual Member States.'

*Treaty establishing the European Economic Community (EEC)  
signed in Rome on 25 March 1957, entered into force on 1<sup>st</sup> January 1958.*

not have an executive role and the two boards did not intervene constantly, the role of the chairman promised to be crucial<sup>71</sup>. Finally, it should be emphasised that an audit committee existed, which was intended by the Treaty to be separate from the board of directors since it reported to the governors and to them alone.

However, although the only remaining task at the beginning of March 1957 was to tidy up the texts in anticipation of the introduction of the final version of the Treaty, the United Kingdom launched an offensive aimed at the creation of a European free trade area.

### 3.2.4.

#### The final offensive

Although the British Government was not overly concerned with this issue during the period of the Spaak Committee's work, in which it did not participate, it began to worry after the start of the Val Duchesse negotiations and the work of the Maudling Committee at the OEEC on the creation of a European free trade area.

It is true that the United Kingdom believed that it did not need a fund or a bank to ensure the development

<sup>71</sup> Interview with Rémy Jacob, 14 March 2008.

of domestic projects. On the other hand, it wondered what would happen if capital from the United States were invested heavily in the European Fund, thereby giving rise to the potential risk of the Six being developed to the detriment of the other OEEC members, and more specifically of the United Kingdom<sup>72</sup>.

Though doubtful that the Six could at the same time fulfil their commitments as subscribers to the IBRD and those arising from the creation of a European bank, London, which was delighted that Germany feared having to bear a heavy financial burden<sup>73</sup>, stopped hiding its concern as the project took shape. In view of the hypothetical free trade area there was a genuine need for the Six to create a bank, since '[what was] a simple European challenge

to the IBRD'<sup>74</sup> could have taken the shape of a system of common guarantees to be given to the IBRD in order to obtain loans<sup>75</sup>. In fact, what London, like Switzerland, seemed to fear most was that, as a Bank of England representative remarked following a conversation with his Swiss counterpart, 'the [financial] market would be milked like a cow by the investment bank'<sup>76</sup>. Hence the idea, voiced in London, of creating an 'investment bank of the free trade area'. In the meantime, with EEC Treaty having come into force on 1 January 1958, the EIB began preparing for its official opening in March of the same year, in offices located in the Mont des Arts in Brussels. This would be no small task.

*Michel Dumoulin*

<sup>72</sup> National Archives (UK), T 234/229, note by F. E. Figgures, 30 October 1956.

<sup>73</sup> Ibid., T 236/6044, note by L. Pliatsky, 29 January 1957.

<sup>74</sup> Ibid.

<sup>75</sup> Ibid., 'A European Development Bank', note by R. S. Symons, 27 February 1957.

<sup>76</sup> Ibid., J. Rotham, Bank of England, to D. Rickett (Treasury), 16 April 1957.







# Part Two



The Period  
of 'Little Europe',  
1958-1972

# The activity of the EIB in the Europe of the Six (1958-1972)

On the basis of the developments described above concerning the creation of the European Investment Bank, it may be stated that the bank 'was conceived as a sort of shock absorber, not to impede or delay integration but to facilitate the transformation of neighbouring but differentiated economies into a unified system and to ensure that such transformation benefits if not everyone then at least the largest number of people'<sup>1</sup>. Within the framework of implementing the common market, the tasks assigned to the EIB by Article 130 of the EEC Treaty of March 1957<sup>2</sup> were to limit the growth of regional disparities, promote the free movement of persons and goods through the improvement of infrastructure, encourage cooperation between companies in the Community and, through the modernisation and conversion of old industries, limit the pressures caused by increased competition.

The question arises then of the extent to which, by fulfilling the tasks entrusted to it within the Community, the EIB could contribute to the process of unity and solidarity embarked on by the Member States within the framework of European economic integration. This question can naturally be answered in part through a general examination of the bank's borrowing and lending activities throughout the period. It is particularly instructive, however, to take a longer look at the 1960s and the beginning of the 1970s to see how the EIB responded to the tasks assigned to it by its founders. The bank was then led by its

charismatic president, the Italian Paride Formentini, who succeeded his colleague Pietro Campilli as early as in 1959. The EIB was designed to ensure balanced growth within the Community. In this perspective, what were its objectives and achievements up until 1972 – the eve of the first enlargement of the EEC – given that the favourable economic climate of this period helped iron out a number of disparities between regions?

## 1.1. EIB loans up to 1972

From May 1958 – that is to say very soon after it had been set up – the European Investment Bank was receiving and appraising loan applications relating not only to telecommunications, transport and energy but also to industries undergoing conversion<sup>3</sup> in various regions of the Community. Over and above the opportunity they represented for implementing certain working methods, these initial projects illustrated particularly well the geographical and sectoral diversity of a rapidly developing activity.

### 1.1.1.

#### **An essentially Italian activity, but one for the benefit of all economic sectors**

During the years preceding the first enlargement of the EEC, the EIB's lending operations exceeded

<sup>1</sup> Barre, P., 'La Banque européenne d'investissement', *Revue du marché commun*, No 37, June 1961, p. 252.

<sup>2</sup> For a precise description, see the insert devoted to this matter in Part One of this book, p. 45.

<sup>3</sup> EIB, *Annual report 1958*, [1959], p. 20.

*On 21 April 1959, the EIB's first loan contract was signed by Pietro Campilli, (centre right) probably here with Rocco Gullo (left), vice-president of the Cassa per il Mezzogiorno. The final beneficiaries of this transaction, carried out jointly with the International Bank for Reconstruction and Development (IBRD), were three Italian companies: Sincat and Celene, which intended to build a large petrochemical complex in the region of Augusta in Sicily; and Mercure, which proposed exploiting a seam of lignite in Lucania to produce electricity. The president of the EIB is accompanied by Eugenio Greppi, Jean Frère and Alberto Campolongo (standing, from left to right).*



## Pietro Campilli

First president of the European Investment Bank from 1 January 1958, the Christian Democrat Pietro Campilli was an Italian politician. Having become a Member of Parliament in 1948, this former leader of the Italian Banking Federation, who was also a company director before the Second World War, was a member of several post-war governments. He successively held the posts of foreign trade minister (1946), finance minister (1947), employment minister and transport minister (1950) and minister for industry (1951). He was also responsible for the ministerial committee for the Mezzogiorno. In these various capacities, Pietro Campilli was associated with Italy's early decisions on Europe. In 1948 he was a member of the OED, an ad hoc body responsible for drawing up a European Political Community statute in 1952. In 1958, he was given the task of constructing and developing the brand-new European Investment Bank, which he nonetheless had to leave as early as May 1959, having been assigned to other duties. At a meeting of the board of governors on 25 April 1959, the German minister Franz Etzel expressed on behalf of his colleagues, his 'keen regret concerning this resignation, which will deprive the bank of the managerial skills of someone whose breadth of vision, affability and experience have been particularly valuable to a new body such as the EIB'<sup>4</sup>. It has to be said that, as from the spring of 1958, Mr Campilli took care to maintain good relations with many European financial institutions.

Indeed, he sent letters to the chairmen of the boards of directors of the largest Belgian, French, Dutch, German, Luxembourg and Italian banks in which he pointed out that the EIB was 'complementary to the banking system of the Community countries' and that it needed 'to operate in close and cordial collaboration with the banking and financial institutions of the Member States'<sup>5</sup>. It was also with this aim in mind that he placed a large part of the EIB's available funds with these institutions and that he visited each of the countries of the Community to 'make contact with the governments and main banks of the six Member States'<sup>6</sup>. There were numerous objectives. The first president of the EIB had the task of 'forming personal relationships with the representatives of the economic and financial administrations of the Member States, as well as with the managers of the public and private banks' with which the EIB expected to deal. He also wanted to 'explain to them the broad lines of the policy [that the bank] intended to follow'. Finally, it was the opportunity 'to take very preliminary and unofficial steps to carry out an initial examination of the projects that could be funded'<sup>7</sup> as from 1959. This policy bore fruit since Pietro Campilli signed the bank's first loan contract on 21 April 1959.

*Émilie Willaert*

<sup>4</sup> EIB archives, minutes of the meeting of the board of governors, 25 April 1959, p. 5.

<sup>5</sup> EIB archives, box CL, 26/2/58-21/5/58, Nos 1, 160-183, 233, 420-422.

<sup>6</sup> Idem.

<sup>7</sup> Idem.

2 400 million u.a.<sup>8</sup> for 310 projects situated in the Community. This represented 86% of all the aid granted by the bank during this period. These initial figures show how rapidly loans grew in importance right from the start. They also show how this activity was constantly slanted in favour of the EEC, although, as from 1963, the EIB was led to intervene in those countries that were progressively becoming associated with the common market<sup>9</sup>.

The policy followed by the EIB in these first years when Europe was becoming a practical reality was in accordance with the governors' directive of 4 December 1958<sup>10</sup>, which was intended to reverse the order of priority of the tasks set out in the EEC Treaty. Although it is true that first place was given to projects aimed at helping the less developed regions, endorsing the idea that European economic integration must not accentuate the imbalances between the Community's most industrialised and least advantaged regions, the order of the subsequent two tasks was changed. Indeed, the directive put in second place those projects that were common to several Member States and, more specifically, 'projects such as will help bring markets together and integrate the economies of the Member States'<sup>11</sup>. As for

projects that were aimed at modernising or converting companies or that contributed to creating new activities called for by the progressive establishment of the common market, these were placed last. This change to the order of priority of the EIB's tasks was adopted by the governors, who asked themselves how they could as effectively as possible implement the tasks assigned to the bank by the EEC Treaty, taking account of the fact that 'the repercussions of the development of the common market on the situation of the companies in question cannot yet, in 1958-1959, be anticipated with sufficient precision'<sup>12</sup>.

The geographical distribution of the loans granted by the bank until 1972<sup>13</sup> confirms the ambitions of its original role, as well as endorsing the classification proposed by the governors' directive of December 1958. Indeed, Italy reveals itself to be the main beneficiary of the regional development loans, receiving more than 60% of the funding granted by the EIB to the Member States. Moreover, this focus respects the provisions of the protocol on Italy, which is annexed to the EEC Treaty and which notes the existence of large regional imbalances to Italy's disadvantage<sup>14</sup>. France, some of whose peripheral regions such as Brittany were backward to some degree,

<sup>8</sup> Until the currency upheavals of the 1970s the unit of account (u.a.) used by the bank and referred to in this chapter was equivalent to 0.88867088 grams of fine gold, that is to say to 1 dollar.

<sup>9</sup> This issue is the subject of Chapter 3 of Part Two of this book.

<sup>10</sup> EIB archives, Annex to the board of governors No 2 of 4 December 1958.

<sup>11</sup> *Idem*.

<sup>12</sup> *Idem*.

<sup>13</sup> See appendix 2, table 3, p. 344.

<sup>14</sup> On the southern question in Italy and the issues of European integration, see in particular Joannes, S., 'Les débuts de la politique régionale communautaire. L'influence de l'Italie dans son adoption (1951-1962)', in Rücker, K. and Warlouzet, L., *Quelle(s) Europe(s)? Nouvelles approches en histoire de l'intégration européenne*, 'Euroclio' collection No 36, P.I.E. – Peter Lang, Brussels... Vienna, 2006, pp. 121-127. See also, on the subject of the link between the co-ordination of national policy and the perspectives opened by the European path: Villari, M., 'La cassa per il Mezzogiorno e il problema dell'autonomia regionale', in Mori, G. (dir.), *Autonomismo meridionale: ideologia, politica e istituzioni*, Il Mulino, Bologna, 1981, pp. 149-188.



and, to a lesser extent, Germany had recourse to loans from the bank. As for the three Benelux countries, which benefited from low interest rates during the 1960s, they made very few claims on the EIB in connection with their investment projects. In fact, almost 80% of the sums committed in the EEC until 1972 went on regional development, while less than a fifth of the loans were related to projects of common interest, most of these being concerned with the development of infrastructure. Finally, only 2.5% of funding by the bank related to projects designed to modernise or convert companies, even if the EIB was able to contribute to ambitious industrial conversion projects, for example in the shipyards sector in the Livorno region of Italy as from 1962 or in Saint-Nazaire (France) in 1963. In this connection it has to be said that the coal and steel

industry, which was expected to encounter difficulties in switching to other activities and therefore to be granted loans from the bank, had for its part benefited from the special mechanisms of the European Coal and Steel Community (ECSC) since the beginning of the 1950s. Indeed, while some loans from the ECSC related to investments that did not come within the framework of the EIB's tasks – social housing, for example – others fell directly within the bank's remit as they were designed to modernise coal and steel production and to bring new industries to regions where coal and steel had a high profile. Finally, it was quickly noted in economic circles that the opening up of borders in the 1960s represented something of a growth factor for European companies, making EIB funding of substantial industrial conversions less imperative<sup>15</sup>.

## EIB interventions and national aid mechanisms for regional development up to the end of the 1960s

Although the European Commission tried from the beginning of the 1960s to define the broad lines of a European regional policy by analysing the regional problems encountered and defining the regions concerned, it mainly encouraged the Member States to co-ordinate their own regional policies<sup>16</sup>. Before the implementation of the European Regional Development Fund (ERDF) in 1975 this proved to be impossible, and for good reason: national legislative systems were very diverse and continued developing throughout the 1960s,

<sup>15</sup> On this issue, see in particular the chapter devoted to industrial companies and sectors in Bussière, É. and Dumoulin, M. (dir.), *Milieux économiques et intégration européenne en Europe occidentale au XXe siècle*, Artois Presses Université Arras, 1998 and Bussière, É. Dumoulin, M. and Schirmann, S., *Europe organisée, Europe du libre-échange? Fin du XIXe siècle aux années 1960*, 'Euroclio' collection No 34, P.I.E. – Peter Lang, Brussels...Vienna, 2006.

<sup>16</sup> See Robert Marjolin's communication entitled '*Lignes générales d'une politique régionale européenne*', European Commission, directorate-General for Economic and Financial Affairs, Brussels, 11 November 1960, document II/COM(60)167.

and their classification of regions was not based on the same criteria – some were economic, others demographic. The EIB's interventions, which were essentially focused on regional development, were therefore fitted into the framework of the national aid systems because it was on the basis of these national classifications that the bank directed its activities.

*Regional situations as presented by each Member State*

***The Federal Republic of Germany***

A map of the areas earmarked for federal intervention was drawn up in 1963 on the basis of criteria such as GDP per inhabitant, the unemployment rate and the size of the agricultural population. A distinction was drawn between the areas and towns earmarked for development by the federal authorities ('Bund') (Bundesausbaugebiete, Bundesausbauorte), the areas bordering East Germany (Zonenrandgebiet) and, finally, the areas for the regional action programme decided on by the various provinces ("Länder") in co-ordination with the Bund authorities ('Regionale Aktionsprogramme' areas).

At the end of the 1960s, almost 30% of the territory of the Federal Republic was classed as a Bund development area and almost 20% was classed as a Zonenrandgebiet. The Länder defined huge parts of their respective territories as intervention areas, into which the federal areas were integrated by agreement at federal level.

Maximum aid (25% of the investment cost) was granted in certain main development centres (such as Emden and Lingen) situated in the Zonenrandgebiet. It went down to 20% outside this border area and to 10% or 15% in the ordinary development centres for the regional action programmes.

In the coal-producing regions (the Ruhr, Aix-la-Chapelle and Saar basin), the federal government applied a system of incentives (investment subsidies for the establishment of new activities, in addition to the aid to the coal-producing companies themselves).

***Belgium***

The Belgian system of regional development aid was based on two laws, of 1959 and 1966 respectively. The first designated 322 communes as 'development regions' and the second instituted aid with a view to speeding up the conversion and economic development of the coal-mining regions and certain regions faced with acute and urgent problems. Consequently over 40% of the land area and over 40% of the population were in assisted communes

at the beginning of the 1970s. It is generally acknowledged that the concern to be even-handed between the two linguistic communities helped to extend the areas in which a system of incentives was in place.

There were various criteria for classifying communes in aid areas. The data concerned was demographic (relating to unemployment, emigration and two-way migration) and economic (relating to the actual or imminent decline of important economic activities).

The aid supplied consisted of investment grants, preferential interest rates, State guarantees on preferential loans, tax breaks and the construction or acquisition of buildings by the State for the purpose of reselling them or renting them to companies. The law of 1966 added a capital allowance.

### **France**

The 1960s had been the golden age of town and country planning in France since the creation in 1963 of the Délégation à l'aménagement du territoire et à l'action régionale [Delegation for Town and Country Planning and Regional Action](DATAR)<sup>17</sup>. At the end of the 1960s French legislation specified areas to be supported by positive discrimination measures. They were what were known as "disadvantage compensation areas"<sup>18</sup> these being rural areas, industrial areas to be converted to new activities or conurbations to be given special attention. With the principle of conservation also being applied, the areas earmarked included mountain and coastal areas and national and regional parks in conservation areas.

Thus, five aid-receiving areas could be identified by the end of the 1960s, only the first two of which enjoyed substantial advantages. In area 1, urban areas (Bordeaux, Brive, Brest, Lorient, Toulouse) were to be found, as well as administrative départements (mainly situated in the west of France). It may be noted that the amount of the aid could vary within this area from 12% to 25%. These rates were identical for the conversion areas (area II, such as the Moselle or the Nord).

<sup>17</sup> It will be noted that meetings between the EIB and DATAR were held in 1970 to look more closely at the criteria governing the EIB's operations, using detailed examples from France.

<sup>18</sup> Lacour, C. and Delamarre, A., *40 ans d'aménagement du territoire*, La Documentation française, Paris, 2003, p. 33.

***Italy***

Since the beginning of the 1950s southern Italy, which was very backward economically and socially, had benefited from a range of aid of various kinds: for example, tax exemptions, preferential loans and subsidies<sup>19</sup>.

***Luxembourg***

There were no pre-established incentive areas. The government could decide on a case by case basis if regional aid could be granted in this or that locality. Intervention was mainly in the mining area and in the north of the country, which still had a pronounced rural character.

Aid consisted of an investment subsidy (15%), a preferential interest rate, a State guarantee for loans, tax advantages and the creation of industrial estates. Aid could amount to 20% in total.

***Netherlands***

Within development regions (such as the provinces of Groningen and Friesland), the assistance arrangements for regional development or conversion distinguished between primary and secondary centres (designated by name, such as the towns of Groningen, Drachten or Assen). In these centres new developments on designated industrial sites could benefit from a 25% investment subsidy, whereas the amount in the development regions was only 10% to 15%.

The main criteria used were unemployment, rural depopulation and net emigration from the region.

It seems that Dutch policy was aimed at a concentration of industrial investment aid in development centres where subsidies for creating new enterprises were granted. Once the objectives were achieved, the areas were no longer considered as eligible. This was the case with the province of Zeeland in January 1971.

There were also conversion regions (Southern Limburg and the Tilburg region) where a 25% enterprise creation subsidy could be granted.

<sup>19</sup> Since Italy is the subject of a specific chapter in the book, no detailed analysis is provided here. See pp. 73 et seq.

List of areas or towns identified by the national authorities as deserving to benefit from significant incentives (situation in December 1970)<sup>20</sup>:

Country	For development	For conversion
Federal Republic of Germany	Development centres for regional action programmes (Schwerpunkte der Regionalen Aktionsprogramme), approved by the federal authorities and for which an investment subsidy of 15% to 25% was granted;  Towns to be developed (Bundesausbauorte)	Saar
Belgium	No a priori classification was possible on the basis of the then current Belgian regional aid scheme.	
France	Area I territories (essentially the administrative départements of the west, but also Corsica)	Area II territories (essentially the administrative départements of the north and east of the country)
Italy	Territory in which the Cassa per il Mezzogiorno intervened	
Luxembourg	–	–
Netherlands	Primary and secondary centres of the development regions	Tilburg region and Southern Limburg

*Émilie Willaert*

These figures, which tend to classify the EIB loans according to the three objectives cited in Article 130 of the EEC Treaty, need to be qualified as they were established on the basis of dominant objectives and 'disguise the fact that many projects contribute to achieving several economic policy objectives and that regional development in particular often goes hand

in hand with company modernisation or conversion or, indeed, even industrial cooperation'<sup>21</sup>. That was the case for example with the iconic 'Saarlör' Franco-German project, which involved both cross-border industrial cooperation between European companies and the creation of activities in a region classified by the French authorities as a 'redevelopment area'<sup>22</sup>.

<sup>20</sup> List drawn up by the EIB's research department in December 1970 of the areas identified by the national authorities of the Member States as deserving to benefit from major development or conversion incentives. According to the management committee, this list was intended to represent the areas in which it could be presumed that the EIB was eligible to intervene under Articles 130 a and b; EIB archives, 31.0069, note from the research department dated 11 December 1970, 'Areas identified by the national authorities of the Member States as deserving to benefit from large development or conversion incentives', Annexes I and II.

<sup>21</sup> Becker, M., *La Banque européenne d'investissement*, 'Notes et études documentaires' collection, No 4022-4023, La Documentation française, Paris, 17 September 1973, p. 37.

<sup>22</sup> For fuller details of the EIB's activities in the border regions, see Dupont, C. 'La politique de la Banque européenne d'investissement dans les régions frontalières européennes', *Les régions frontalières à l'heure du marché commun, Minutes of the symposium organised on 27 and 28 November 1969 by the Institute of European Studies*, Presses universitaires de Bruxelles, Brussels, 1970, pp. 323-335.

*The Carling synthetic ammonia factory (Moselle, France). Built by Ammoniac Sarro-Lorrain s.à r.l., this factory was the French part of an industrial project that also involved the construction of a urea factory in Perl, in the Saarland, by Harnstoff und Düngemittelwerke Saar-Lothringen GmbH. These two companies benefited from an EIB loan signed on 19 September 1967 and had a stake in the petrochemical complex known as Saarlör-Chimie, which also included an oil pipeline connected to the South European Pipeline and a refinery close to Saarbrücken.*



Mention might also be made, however, of the financing on both sides of the Alps of the railway line that was to link Chambéry to Milan and that, as well as improving communications between two Member States of the EEC (France and Italy), made it possible to promote the development of the regions concerned.

A sector-by-sector analysis of the EIB's interventions, illustrated by table 1 p. 62, shows the very great diversity of the projects that attracted the bank's attention and benefited from its loans. Those intended for the development of infrastructure – necessitating very

long-term financing and therefore being particularly appropriate to the bank's field of activity – predominated slightly. They were reflected on the map of Europe by new motorways like the one linking Paris to Brussels, by more extensive irrigated areas (in the south-west of France, for example) or by modernised railway lines or waterways. The EIB's financing of infrastructure was also aimed at the deployment of telecommunication networks, essential for economic development. It also related – and had done since the beginning of the 1960s – to improving the energy potential of the Member States and even of territories



*Crossing the Alps by train. The EIB played a part in improving the Genoa-Modane-Chambéry railway line, so developing communications between the Member States of the common market. A loan was signed with French Railways (SNCF) on 8 April 1961 for the work to be carried out in France and with Italian Railways (FS) to modernise Italy's railway infrastructure. Modane railway station, on the Franco-Italian border, was situated only a few kilometres from the Fréjus tunnel which, together with the Mont Blanc tunnel, was also the recipient of an EIB loan. By enabling the Alps to be crossed these tunnels played a part in the economic development of the regions concerned.*

outside the Community, and this in accordance with the opportunities offered by Article 18 of the EIB's Statute. It was in this way that the EIB helped the construction of a power station in West Berlin.

The EIB nevertheless provided considerable assistance to industry as well. It totalled over 1 billion

u.a. in 1972 and illustrated particularly well how wide-ranging the bank's interventions were. The bank, which established no quotas for its financing policy, engaged in projects relating to both the chemical industry and to food processing along the lines of the loan granted to the Fremone brewery (Italy)<sup>23</sup>. It also granted loans both to the



*An EIB loan in the 'Land' of Berlin. Following a long procedure to obtain the agreement of the governors to a loan by the bank in a territory with a unique status, the loan concerned for the construction of a power station was signed with Bewag on 24 October 1960.*

<sup>23</sup> See in this part of the book the following chapter dedicated to Italy.

*In search of water. In October 1961 the EIB granted a loan to the Compagnie des Landes de Gascogne, which developed mixed farming areas in the uncultivated parts of the Landes and set up new farms there. The EIB thus participated in the economic development of rural areas through the modernisation and extension of farming developments.*

Table 1

### Sectoral distribution of EIB loans in the EEC (1958-1972)

Sector	Subsector	Number of projects	Million u.a.	%	
Agriculture, fishing, forestry	Agriculture, hunting, forestry	1	1	0.04	
Energy	Energy generation	23	289	11.78	
	Hydrocarbon extraction	1	3	0.10	
	Electricity transmission & distribution	1	5	0.20	
	Hydrocarbon transmission & distribution	8	126	5.14	
Transport	Rail	8	129	5.26	
	Roads, motorways	26	437	17.80	
	Air	1	25	1.03	
	Sea	1	24	0.98	
Telecommunications	Telephone, transmission & distribution networks	14	266	10.83	
Water, purification	Collection, treatment, distribution & irrigation	9	122	4.95	
Urban infrastructure	Urban infrastructure	2	16	0.66	
Industry	Manufacture of other non-metallic mineral products	27	78	3.19	
	Manufacture of machinery & equipment	13	47	1.91	
	Manufacture of transmission equipment	7	64	2.60	
	Manufacture of electrical & electronic equipment	16	59	2.39	
	Chemical industry	56	280	11.40	
	Rubber & plastics	8	36	1.47	
	Leather & footwear	3	2	0.07	
	Paper & cardboard; publishing & printing	4	16	0.64	
	Agro-industry & food	26	39	1.60	
	Mining industry	3	6	0.25	
	Textiles & clothing	9	12	0.50	
	Metallurgy & metalwork	30	270	11.00	
	Woodworking & manufacture of wooden goods	1	4	0.15	
	Services	Hotels & restaurants	1	7	0.28
		Research & development	1	3	0.11
Global loans; Grouped loans	Global loans	11	90	3.67	
<b>Total</b>		<b>311</b>	<b>2 454</b>	<b>100.00</b>	

Source EIB

textile industry, including the development of a synthetic fabrics factory in Neumünster (Germany), and to companies specialising in wood pulp, as with the finance granted to the Belgian company Cellulose des Ardennes in 1961.

In accordance with Article 18, paragraph 4 of its Statute the EIB was able to engage in another activity, consisting of guaranteeing loans that promoters – companies or public authorities – were able to conclude with a variety of banks or on the capital markets. The guarantee applications had above all to relate to projects that could have been financed by the EIB and that appeared in its balance sheet.

Guarantee transactions, designed to facilitate investments in Europe, proved to be very modest in scope because they only began in 1970 at a time when the long-term capital markets became more difficult to approach and when the EIB was attempting to play in full its role as a 'mobiliser' of savings. What is more, the governors' directive of December 1958 had clearly established that the priority activity of the EIB was the granting of loans. Thus, from 1970 to 1972 the bank was involved in only nine guarantee transactions where Community countries were concerned for an amount of slightly more than 100 million u.a., i.e. approximately 5% of its total activity. These guarantees played a part,





*A wood pulp company intended to contribute to the regional development of the Belgian province of Luxembourg. On 25 July 1962 the EIB concluded a loan with Cellulose des Ardennes for the construction of a wood pulp factory. This was initially to be situated in the Borinage region so as to play a part in the redeployment of redundant miners. However, the company chose in the end to establish itself near Virton in the province of Luxembourg, in the very centre of the forestry resources necessary to its activity. Moreover, a very large proportion of the population of this outlying region of Belgium worked over the border. The EIB's loan was therefore designed to contribute to the development of a region included on the list of 'development regions' specified by Belgian legislation.*

however, in the transfer of mainly German capital to Italy and, to a lesser degree, to France.

### 1.1.2.

#### Loan appraisal and conditions

Without entering here into the details of the procedure for appraising projects and granting loans, it is nonetheless necessary to describe certain basic aspects of this procedure not only in order to understand the operation of this top-ranking banking institution but also because a study of the bank's archives shows the great importance it attached to the projects presented to it.

It is necessary first of all to point out that the EIB did not finance liquidity requirements. It complied with Article 20 of its Statute and selected projects designed to promote the implementation of the common market through 'concrete achievements', to use a phrase beloved of Robert Schuman.

Applications for loans or guarantees were submitted to the bank directly by the companies concerned or through the European Commission or the Member State in which the project was to be carried out. These official applications were often preceded by unofficial contacts designed to obtain the opinion of the bank on the basis of an initial analysis. A project was effectively given the go-ahead if it fell securely within the framework of the bank's remit and if the initial contacts had produced a positive result. Subsequently it involved the collaboration of the various bank departments under the responsibility of the management committee: the member state loans department in the case of projects benefiting an EEC Member State, the research department, the finance department and the legal affairs department. This process permitted an overall approach to projects financed by bringing together the work of economists, financial analysts, engineers and lawyers. Above all, the EIB checked that the project was worthwhile from a

financial point of view and that the companies to which it was to lend were in good financial health and capable of reimbursing and servicing the loans. Moreover, it intervened only to supplement other sources of funding (it rarely contributed more than 50% of the total amount of the estimated investment in the project). The other sources of funding might be the own resources of the company concerned or external credits. Finally, loan contracts between the company concerned and the EIB could only be signed once the board of directors

had given its agreement and were subject to the express approval of the European Commission and the Member States that were to guarantee the loan.

Since the EIB was a non-profit-making financial institution, the rates for its loans reflected as closely as possible the terms on which it obtained resources on the financial markets, but the rates had nonetheless to enable it to meet its own obligations in relation to covering its expenses and setting

## Article 20 of the EIB's Statute

'In its loan and guarantee operations, the Bank shall observe the following principles:

1. It shall ensure that its funds are employed as rationally as possible in the interests of the Community.  
It may grant loans or guarantees only:
  - a) where, in the case of projects carried out by undertakings in the production sector, interest and amortisation payments are covered out of operating profits or, in other cases, either by a commitment entered into by the State in which the project is carried out or by some other means; and
  - b) where the execution of the project contributes to an increase in economic productivity in general and promotes the attainment of the common market.
2. It shall neither acquire any interest in an undertaking nor assume any responsibility in its management unless this is required to safeguard the rights of the Bank in ensuring recovery of funds lent.
3. It may dispose of its claims on the capital market and may, to this end, require its debtors to issue bonds or other securities.
4. Neither the Bank nor the Member States shall impose conditions requiring funds lent by the Bank to be spent within a specified Member State.
5. The Bank may make its loans conditional on international invitations to tender being arranged.
6. The Bank shall not finance, in whole or in part, any project opposed by the Member State in whose territory it is to be carried out.'

*Article 20 of the Statute of the EIB, in Menais, G.-P., La Banque européenne d'investissement, Les éditions de l'épargne, Paris, 1968, pp. 152-153.*

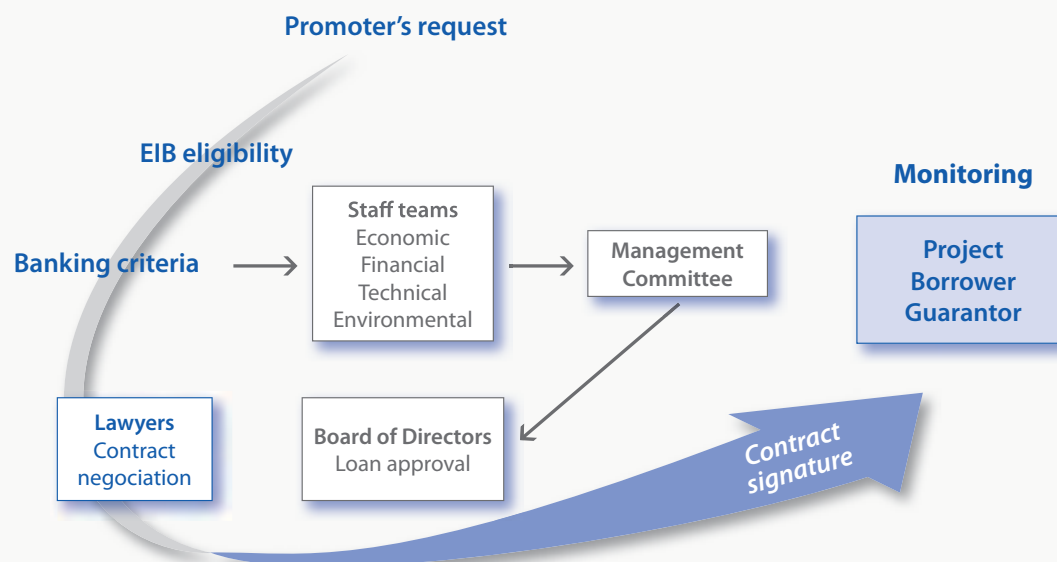
up a reserve fund. 'From its foundation until 1964 the bank charged a single rate of 5.875%'<sup>24</sup>. Subsequently the interest rates varied according to the period of the loans (from 7 to 12 or even 20 years for infrastructure projects) and to the currencies in which they were disbursed and reimbursed. In the mid-1960s they were thus in the region of 5.875% for loans of less than 7 years, 6% for loans of between 7 and 12 years, and finally 6.25% for loans of 12 to 20 years. However, these rates changed in the light of fluctuations in the capital markets. By the end of 1972 they had thus increased to 7.375% for loans of less than 9 years and to 7.75% for loans of longer periods.

This brief description of the ways in which loans were granted ought not to conceal the great variety of types of funding used by the bank. Alongside the loans that it granted directly to a promoter and that represented a little over 50% of its activity at the beginning of the 1970s, the EIB did indeed also practise what were known as indirect loan transactions through national or regional finance institutions. At a time when monetary stability represented a real issue for governments this banking technique had the advantage of transferring the exchange risk to these intermediate financial institutions, which on-lent the sums received from the EIB solely in the national currency. The indirect

Graph 1

## From loan application to contract signature

The EIB project cycle



Source EIB

<sup>24</sup> Menais, G.-P., *La Banque européenne d'investissement*, Les édition de l'épargne, Paris, 1968, p. 77.

loans related very largely to transactions customised at the time the loan was granted. However, the bank found itself gradually faced with requests from small entities and, in particular, from small and medium-sized enterprises (SMEs), with which it was not equipped to have a direct relationship but which in fact played a major part in regional development. The EIB was founded at a time when, in industry, size was synonymous with prestige, and although it never rigorously established a minimum amount for its transactions, it nonetheless remains the case that its main clients were in a position to propose projects of some size. It nevertheless chose to adapt very quickly to the needs expressed by the SMEs, initially granting them a number of loans directly and then developing the principle of 'global' (packaged) loans as from 1968. This new category of indirect loan was a genuine innovation in the bank's policy and helped to strengthen its links with national and regional financial environments. It was an activity that was likely to develop in the future. It involved granting global loans to financial institutions, which onlent the money concerned in the form of credits of a smaller amount, to a variety of clients and in accordance with the standards laid down by the EIB. Examples included global loans by the EIB to French regional development companies or to the Landesbank und Girozentrale Schleswig-Holstein in Germany, which was entrusted with the management of a global loan of 5.7 million u.a. in 1972. The EIB's indirect loans represented approximately 800 million u.a. for the period 1968-1971. Eighty per cent of them related to Italy, one high-profile example being loans to the famous Cassa per il

Mezzogiorno<sup>25</sup> while France and Germany shared the remainder almost equally.

## 1.2. In search of new resources

The EIB's lending activity became possible as soon as it possessed sufficient resources to take on growing commitments, both in the EEC Member States and in the countries that progressively became associated with the EEC.

The bank had resources of various kinds. Firstly there were its own funds, above all its capital together with a reserve fund, and then from 1961 there were its borrowings on the capital markets. Added to these resources were external funds provided under the provisions and protocols concerning financial aid to be granted to the countries associated with the EEC, which is the subject of a separate chapter of this book.

### 1.2.1.

#### Gradual increase in own funds

As was pointed out above, the EIB's capital was fixed right from the start at 1 billion units of account (u.a.). The Member States paid in their share of this capital in five instalments<sup>26</sup> from 1958 to 1960, the total amount concerned being 250 million u.a., i.e. 25% of the subscribed capital. A quarter of this paid-in capital was settled in gold or in currencies convertible into gold – basically the dollar – and the other three quarters were settled in national currencies. This assumed that, in accordance with

<sup>25</sup> The following chapter, devoted to Italy, emphasises the importance of the indirect loans.

<sup>26</sup> On the issue of subscriptions to the capital of the bank, see in particular the archives of the Banque de France, Fonds 1489200205/207, dossier No 3: 'Souscriptions françaises au capital de la BEI'. These contain extensive correspondence between the Treasury directorate of the French Ministry of Finance, the Foreign Services directorate-General of the Banque de France and the EIB concerning the details of the French subscriptions and the instructions given by each protagonist.

Article 7 of the bank's Statute, the Member States were committed to maintaining the value of their capital share in national currency compared with the initial parity, as happened when the French franc was devalued and the German mark revalued in 1969. A distribution key taking account of the economic importance of each Member State within the EEC was introduced to define their share of the subscribed capital. Thus, France and Germany contributed the same capital share, with Italy in third place<sup>27</sup>. The non-paid-in balance of the capital, amounting to 750 million u.a. in 1958, served as guarantee capital.

The EIB's initial loans were granted from paid-in capital, which very quickly proved to be inadequate, and the capital market had to be approached in accordance with the objectives of the EIB's founders. However, in order to cope with the development of its operations and to respect the rule according to which the amount of outstanding loans and guarantees could not exceed 250% of the subscribed capital, the bank was obliged to effect an initial increase in capital in April 1971. In accordance with the Statute of the bank, this increase was decided on unanimously by the board of governors and raised the capital to 1.5 billion u.a. Only an additional 50 million u.a. was actually paid in by the Member States, in two instalments. This sum therefore represented 10% of the capital increase and brought the paid-in share to 20% of the subscribed capital. Whenever a decision was taken to increase the capital, the Member States always negotiated the share of paid-up capital in careful consideration of the bank's needs and did so with an eye to avoiding the imposition of too great a burden on national budgets.

In addition, Article 24 of the bank's Statute provided for the gradual build-up of a reserve fund of up to 10% of the subscribed capital. The board of directors could decide to build up additional reserves if necessary. The annual operating surpluses in particular were allocated to these reserves, intended to guard against risks on loans and guarantees. The reserves also helped establish the bank's credit on the markets. They could also make it easier to respond more quickly to a loan application if its timing did not match the timetable of borrowing operations designed to finance it, thus helping the bank to act more flexibly.

### 1.2.2.

#### The EIB approaches the capital market

The EIB very soon began to raise the majority of its resources by borrowing on the capital markets. Adopting a prudent approach, it gradually made its mark on the European domestic markets and the international market. In the beginning its founders intended to effect a transfer of capital to the EEC from markets outside Europe, in particular that of the United States, because long-term capital on the markets of the Six was in very short supply at the end of the 1950s. However, once the European currencies were made convertible again in 1958 and the US Government had imposed limitations on the export of capital through a series of statutory measures from 1963, the situation of the markets was changed to such an extent that the bank had to concentrate its borrowing activity on Europe.

Thus, from 1961 – the year in which its initial loan of 20 million guilders was floated on the capital market of the Netherlands – to 1972 (the eve of

<sup>27</sup> See appendix 2, tables 6, pp. 348 et seq.

Two instances of borrowing by the EIB in 1967 and 1968. In May 1968, when the bank found most of its resources on the German market (half of the 212.5 million u.a. borrowed that year) and when the French market was rendered inaccessible by the political and social situation caused by the student revolt, the EIB issued a loan in the Netherlands after an interval of two years. The bank received the approval of the Netherlands Ministry of Finance, together with the authorisation of its own board of directors (on 13 March 1968) to float a loan of 40 million guilders (11.1 million u.a.). This was underwritten and offered for public subscription by a syndicate of Dutch banks headed by the Amsterdam-Rotterdam Bank. Bond issues were sometimes the subject of prospectuses on the model of that compiled for the issue of a loan of 200 million French francs on the Paris market (right). Authorised by the EIB's board of directors on 3 May 1967, this loan was underwritten and offered to the public from 25 September by a syndicate of French banks headed by the *Crédit Lyonnais*, the *Banque Nationale de Paris* and the *Banque de Paris et des Pays-Bas*.



the first enlargement of the EEC), the EIB issued 99 loans for an amount of almost 2 000 million u.a. This borrowing, initially modest in scope, expanded at the beginning of the 1970s<sup>28</sup>. It has to be said that when the EIB commenced its activities its access to the capital markets did not seem to be taken for granted. Claude Tixier, then vice-president of the EIB, declared himself 'pessimistic about the volume of borrowing options open to the EIB'. He added: 'The Swiss market is apparently not at present ready to welcome the EIB's issues, any more than the American market is. The EIB has set itself a programme of borrowing the equivalent of USD 30 million in 1961 and is not certain to succeed'<sup>29</sup>. The gradual growth in the bank's borrowing activity is to be explained, however, in terms of its genuine desire to find resources. It alerted the governors to this issue on many occasions and, thanks also to the close cooperation it was able to institute with the monetary authorities, as well as with the main banks of the EEC Member States, the volume of its borrowings was able to rise in proportion to the growth in its lending.

A study of the loans issued by the EIB during the period 1961-1972 shows that almost two thirds of the sums collected were raised on the markets of the Six, mainly in Germany and the Benelux countries, being France and Italy being the main beneficiaries as they then received the majority of the bank's lending. There were a variety of ways of finding resources. The majority came from public issues and others came from private loans (either from a bank or a group of banks or from institutional investors such as insurance companies, savings funds etc.). The EIB's remit, like the projects presented to it, required it to supply the funds that it lent in specific currencies. Sometimes these met the wishes of the projects' promoters but above all they were the ones that offered the best rate. The bank therefore had to adjust its borrowing accordingly. It took up the permanent challenge of matching currencies, rates and periods in the light of capital supply and demand, while at the same time ensuring that its risks were completely covered.

It might be noted that the EIB contributed to a double transfer of resources by its lending: from the

<sup>28</sup> See appendix 2, table 7, p. 352.

<sup>29</sup> Bank of France archives, Fund 1489200205/207, letter from Claude Tixier to Pierre-Paul Schweitzer, deputy governor of the Bank of France, 16 February 1961.

## Speech of Paride Formentini at the conference on regional economies held in Brussels on 6 December 1961

'[My remarks] relate to the complexity of the work to be undertaken and the new possibilities that must turn the regional economy into a living entity that is much more than a simple extension of the location of economic activities.

We note indeed that, at the very moment when national economic frontiers are tending to become less marked within the framework of a gradually unified market, the region is undergoing a renewal, being not only concerned to reduce the threats resulting from the increase in technical and economic progress but being also especially more aware of the new and increased potential offered to it by the economy of this second half of the century.

Perhaps there is also, in this rebirth of the 'region', a sort of instinctive reaction on people's part to the search for a balance between, on the one hand, the demands of unavoidable and moreover beneficial centralisation and, on the other hand, the concern to maintain a certain diversity, not to say individuality.

In order, however, for the regional renewal properly to take place, a number of conditions still have to be fulfilled. It is certainly necessary for the region to participate in general economic progress, but it is also necessary for it to contribute to such progress. There cannot, in the long term, be 'entirely subsidised regions', but there are good reasons for helping a region to help itself.

Like the Commission of the EEC, the EIB is aware of its responsibility for developing the regional economies. [...] I hope [that the conference] might enrich those responsible for it in such a way as to give rise to productive initiatives; and I hope that it will serve to increase everyone's confidence in the great work of the European Community that, at heart, is perhaps itself just a large region on a world scale.

*Revue du marché commun, n° 41, November 1961, p. 409.*

most prosperous to the least advantaged regions of the Community and then, progressively, from outside the Community to within it, and this with no profit motive. What this activity on the part of the EIB reveals, however, is the imbalance between capital supply and demand and the disparities in institutional terms between the national markets

in Europe, and one can understand how very difficult it was to set up a genuinely European financial market during the 1960s. The bank therefore had to investigate the possibilities offered by the national markets and then make the most of rate differentials between domestic markets and the international market, a procedure that it especially seemed

to follow at the turn of the 1970s. Thus the EIB played a significant role in progressively opening certain markets up to foreign transactions, making a start on establishing a European capital market. It was also in this way that it helped to develop the international market (Euromarket) from the mid-1960s, benefiting in particular from the role played by the Luxembourg market in that field.

The 1960s and the early 1970s were thus the years when the EIB implemented the tasks assigned to it by the EEC Treaty as fully as possible following the drawing up of general objectives contained in the governors' directive of December 1958. The few examples cited show how the bank's loans were designed to integrate the European economies, which certainly benefited from a context of favourable growth but which found the support offered by the EIB an additional asset, in particular in the development of infrastructure. Moreover, the EIB's activity supplemented if not Community policies – which were still in their infancy – then at least Community trends of the 1960s, on the model of the industrial policy projects coming out of the Commission around 1965 and exemplified in part by the loans the bank granted to industrial cooperation projects. As long ago as November 1962, vice-president Yves Le Portz, who was drawing up an overall assessment of the first years of the bank's operations, earnestly called for its 'participation [...]

in the funding of the medium- and long-term European development programme, even if this project gives rise to a lot of reservations'<sup>30</sup>.

Nonetheless, the EIB's main activity was definitely in the field of regional development. Indeed, the bank committed three quarters of its funds to investment in less prosperous and less advantaged regions of the Community and helped create more than 90 000 jobs during these early years. As soon as 1961 Paride Formentini expressed extremely well the importance of this activity that, from the mid-1970s, came within the framework of an institutionalised common policy.

Moreover, the 1960s enabled the EIB to acquire an excellent reputation on the financial markets, the conditions offered to it being among the best. It owed this state of affairs to the prudence of its management, the guarantees it obtained from its clients and the support of the countries with a stake in its activities. The concern felt by the bank's managers to present the public with impeccable balance sheets in accordance with the standards in force in the other major international financial institutions, in particular the International Bank for Reconstruction and Development (IBRD), also helped establish confidence in it<sup>31</sup>.

*Émilie Willaert*

<sup>30</sup> Bank of France archives, 1489200205/207, memorandum from Yves Le Portz to Pierre-Paul Schweitzer, deputy governor of the Banque de France, concerning 'a few current problems of the EIB', 10 November 1962.

<sup>31</sup> EIB archives, memorandum of December 1970 presented at the 84th meeting of the board of directors.





The Period  
of 'Little Europe',  
1958-1972



# The EIB and the economic and social development of Italy from 1958 to the beginning of the 1970s

Between the end of the 1950s and the beginning of the 1970s the European Investment Bank is considered to have played a major part in the process of Italy's economic development, particularly that of the Mezzogiorno.

The funding accorded to Italy was closely linked to the development policies that the Italian government authorities prepared on the basis of domestic factors while also consulting with the EIB, given the latter's role as a lender.

Given the size of the funds allocated to the Italian projects, a check ought to be made on whether the objectives set were achieved and an assessment then carried out of the bank's role in the development of the Mezzogiorno which, it should be noted, included the islands of Sicily and Sardinia.

## 2.1. The factors governing Italy's privileged position where EIB loans were concerned

The years between the founding of the EIB and the beginning of the 1970s were important in the history of both the EIB and the Italian economy.

Firstly, we have seen how the founding of a European bank responsible for financing projects to develop less advantaged regions owed a lot to

Italy's urging that such a bank be set up. Once it had been successfully created, the bank was immediately placed among the institutions managing Italy's most important economic plans of the 1950s and 1960s. A system was put in place in which the intermediaries for all the funding allocated by the EIB to Italy were the Cassa per il Mezzogiorno and institutions specialising in long-term finance such as the Istituto per lo sviluppo economico dell'Italia meridionale (Isveimer), the Istituto Regionale per il Finanziamento delle Industrie in Sicilia (IRFIS) and the Credito Industriale Sardo (CIS), as well as, to a lesser degree, the Istituto Mobiliare Italiano (IMI), the Consorzio di Credito per le Opere Pubbliche (Crediop) and the Istituto di Credito per le Imprese di Pubblica Utilità (ICIPU), that is to say the largest Italian public financial institutions<sup>32</sup>.

Secondly, from 1958 to 1970 the presidents of the EIB were Pietro Campilli (from February 1958 to May 1959), then Paride Formentini (up to September 1970), both of them Italians. They supported the idea that Europe could only exist if each of its regions enjoyed economic growth and at the same time they emphasised that this new institution was not a fund but a proper bank that could 'only grant its loans or its guarantee to economically profitable projects'<sup>33</sup>, while at the same time being an instrument of European policy and, to that extent, having to make sure it coordinated its actions with the economic policies of the Member States of the common market<sup>34</sup>.

<sup>32</sup> The Cassa per il Mezzogiorno played the role of intermediary in all of the EIB's operations in the south of Italy and gave the EIB its own public institution guarantee (supplementing that of the Italian State). The purpose of Isveimer was to promote the economic and industrial development of southern Italy (excluding the islands), while the IRFIS financed that of Sicily and the CIS that of Sardinia. Crediop and ICIPU both aimed to finance public works by means of long-term loans. Finally, IMI was the main Italian financial institution devoted to providing long-term loans and it had already played a fundamental role in making use of counterpart funds linked to the Marshall Plan.

<sup>33</sup> *The European Investment Bank. Lecture given by Mr Paride Formentini, president of the EIB, to the Belgian Institute of Public Finance. Brussels, 26 November 1959, Brussels, 1959.*

<sup>34</sup> For president Formentini's ideas on this subject, see also 'Le développement régional et la Banque européenne d'investissement'. Speech by Paride Formentini, president of the EIB at the conference on regional economies', Brussels, 6 December 1961, *Revue du marché commun*, 1961, No 41, pp. 402-409 of which an extract is reproduced on page 69 of this book.



Finally, not only were more than half of the loans granted by the EIB directed towards financing Italian projects during the period concerned, but it was these same loans, as well as the results obtained, that for a long time were a model for the bank's operational strategies and financial structures.

It was therefore under 'Italian management' and having been made aware of the socio-economic realities of the Mezzogiorno that the EIB learned to fulfil the double role devised for it: that of a large financial institution and that of a Community institution dedicated to regional development. Moreover, it was in its early days that it achieved the difficult balance recommended by Campilli, who emphasised at the first working meeting of the board of directors that 'in financing investment projects in which it was set up to participate, the bank does not intend to replace

either the banks of the Member States or the international banking institutions, which are entrusted with the same task. It is by cooperating very closely with both sets of institutions that it wishes, by becoming a new and supplementary bank, to make its contribution to the work of European integration<sup>35</sup>. Finally, it has to be pointed out that the choice of Formentini as president after Mr Campilli's brief stint was due to his experience with institutions such as the Bank of Italy, the IMI and a number of companies linked to the Istituto per la Ricostruzione Industriale (IRI) – the institution controlling public sector industry. Because of his previous jobs, he was used to running State-controlled financial and industrial companies while at the same time having to conclude profitable loans in order to improve production and productivity and to increase employment – responsibilities that made him the most suitable candidate to manage an

<sup>35</sup> EIB archives, box CL, 26/2/58-21/5/58, Nos 1, 160-183, 233, 420-422.

*The Siace paper mill, founded in 1964, is a typical example of poorly allocated EIB funding. Originally using outdated machinery, it only succeeded in becoming fully operational in the middle of the 1970s, but it would never be as competitive as the other Italian paper mills. In 1979 it was taken over by the Region of Sicily, which ran it down until its closure in 1987.*

## Paride Formentini

Succeeding his Italian colleague Pietro Campilli, Paride Formentini was appointed president of the EIB as from 1 June 1959, and this following the board of directors' proposal of 25 May 1959. He occupied this position until September 1970.

With his Doctor of Economic Sciences qualification, Paride Formentini attracted the attention of the EIB's governors because of his long experience of financial and banking issues, his knowledge of industrial environments and his commitment to Europe (having been one of the first members of the EEC's Monetary committee). As well as playing a part in settling his country's war debts in the 1920s, he also had high-level responsibilities in companies such as the Società Torinese Esercizi Telefonici (STET) between 1934 and 1936, the Società Finanziaria Marittima (Finmare) from 1937 to 1947 and the Società Larderello from 1947 to 1957. But it was above all his activities in the medium- and long-term finance sector in Italy – he was managing director of the Istituto Mobiliare Italiano (IMI) at the beginning of the 1930s – and his involvement at the head of the Banca d'Italia that were mentioned by the directors who proposed his candidature to the governors. Paride Formentini was familiar with all the financial institutions of his country, with which he had to establish close collaboration so that the EIB might take action to promote the development of the Mezzogiorno, which was one of the bank's major objectives during his presidency.

*Émilie Willaert*



*Paride Formentini (second from the left) and Henri Lenaert visit the Siace full-cycle paper mill in Fiumefreddo (Sicily), which benefited from an EIB loan in October 1962 to produce brown wrapping paper and promote the reforestation of the region with eucalyptus trees.*

institution given the task of reducing the differences between European regions in terms of development.

## 2.2. EIB financing in Italy

The resources allocated by the EIB to Italy until the beginning of the 1970s represented a very large part of those made available to projects of Community benefit. Most of the funds were allocated to the Mezzogiorno. However, some infrastructure was financed in the other Italian regions (whose level of economic development was no different to that of the transalpine regions) in order to link the Mezzogiorno to the markets in the other countries of the Community<sup>36</sup>.

From 1959 to 1972 more than 60% of EIB lending 'to the Member States' was granted 'in favour of directly productive initiatives and general infrastructure' implemented in Italy and, in particular, in the Mezzogiorno<sup>37</sup>. Thus, 43% went to infrastructure projects, mainly in order to improve communications (29%); the remainder was intended, in order of importance, for energy production and distribution (57 million u.a., or 6%), agricultural or irrigation investment in the plains of Metaponto and Ogliastro (24 million u.a. each, or 5%, in the Basilicate and Sardinia), the installation of systems distributing water from the Agri River to Pertusillo in Basilicate (2%) and tourist infrastructure in Calabria (1%).

Although the objectives of the above projects (of which the amount was 82 million u.a.) were confined to improving standards of living in specific localities and sectors (agriculture and tourism), renovation of the transport network was the essential pre-condition for developing the whole of the Mezzogiorno – a region that is very mountainous (it includes the Apennines) and is characterised by irregular demographic distribution (with a heavy concentration of population in Campania, while Basilicate and Sardinia are sparsely populated). This need to strengthen links between the markets of the Mezzogiorno and between the latter markets and those of the north of Italy and the transalpine markets led the EIB to allocate several loans (amounting to 178 million u.a.) to the construction of 475 kilometres of motorway. These included the 'Adriatic' motorway, running from the north of Italy to Puglia, the motorway crossing the Apennines to link the Tyrrhenian and Adriatic coasts and the two roads linking Messina to Patti and Catana. The renovation of the Tyrrhenian railway line linking Battipaglia (in Campania) to Villa San Giovanni close to Reggio di Calabria (port of departure for the boats crossing the Messina Straits to Sicily) was a response to these same objectives. A second track was laid and a large part of it was electrified. This infrastructure made it possible significantly to reduce the time required for transporting people and goods while increasing the competitiveness of the production plant established

<sup>36</sup> The sources for all the data provided in the following paragraphs consist of the minutes of meetings of the board of directors, the board of governors and the management committee, which met in the period 1958-1972, and also come from documents (memorandums and confidential reports) prepared by these bodies or submitted for their attention by those responsible for carrying out analyses. In this connection, see EIB archives, minutes of the board of directors (from No 1 of 6 February 1958 to No 97 of 12 December 1972); minutes of the management committee (from No 1 of February 1958 to No 96 of 14 December 1972); minutes of the board of governors (from No 1 of 25 February 1958 to No 32 of 26 June 1972).

<sup>37</sup> The financing granted to Italy within the framework of the EIB's activities in Europe in the period 1958-1972 may be seen by referring to appendix 2, table 3, p. 344, and this analysis may be placed in the more general context of these years preceding the first enlargement by reading Chapter 1 of Part Two of this book. The sources of the figures in the tables in this chapter are indicated in footnote 36. There may be some differences from information given in the text, which covers the period from 1958 to 1972 whereas the tables only show the situation until 1970 or 1971.

Table 2  
**EIB finance by type of operation  
(1 January 1959 - 30 June 1972)**

*in million u.a.*

	Italy				Mezzogiorno					
	Number of projects	%	Amount	%	Number of projects	%	%*	Amount	%	%*
Direct financing	23	12.30	449.79	36.18	12	6.98	52.17	249.99	24.93	55.58
Indirect financing	152	81.28	664.80	53.47	151	87.80	99.34	660.80	65.90	99.40
Global loans	5	2.67	38.60	3.10	5	2.90	100.00	38.60	3.85	100.00
Guarantees	7	3.75	90.17	7.25	4	2.32	57.14	53.29	5.32	59.10
<b>Total</b>	<b>187</b>	<b>100.00</b>	<b>1 243.36</b>	<b>100.00</b>	<b>172</b>	<b>100.00</b>	<b>91.98</b>	<b>1 002.68</b>	<b>100.00</b>	<b>80.64</b>

\*% finance in Mezzogiorno as percentage of total amount for Italy

Source EIB

in the Mezzogiorno and, in particular, of the new industrial centres of Campania, Puglia and Eastern Sicily. It also guaranteed employment to many workers who, lacking professional qualifications, could not find work outside the construction sector.

Still at the infrastructure level, the EIB also funded the SIP<sup>38</sup> (telephone company) programme with a view to extending and modernising the telecommunications network in order to promote the establishment of new industrial companies and services: the 106.4 million u.a. granted by the EIB represented almost 29% of the anticipated total investment. In order to optimise the investments made in the Mezzogiorno the EIB also participated in increasing the energy available for industrial plant: it lent 57 million u.a. for the establishment of new electricity power stations, representing 30% of the amount needed for the construction of five power stations (at Mercure, Taloro, Gallo, Brindisi and Salerno) having a capacity of 985 megawatts and capable of covering more than 10% of the Mezzogiorno's energy needs. Finally, in 1971 the EIB provided finance of 5 million

u.a. to the SNAM gas pipeline linking the networks of the transalpine regions and of the north of Italy to the network in the south.

Table 3  
**EIB loans and guarantees in the  
Mezzogiorno (1959-1971)**

*in million u.a.*

Year	Number	%	Amount	%
1959	3	1.77	20.00	2.04
1960	2	1.18	17.00	1.72
1961	1	0.59	24.00	2.43
1962	7	4.12	40.30	4.09
1963	17	10.00	50.50	5.12
1964	23	13.53	86.30	8.75
1965	9	5.29	27.40	2.78
1966	18	10.59	93.30	9.47
1967	12	7.06	61.20	6.21
1968	20	11.76	72.00	7.30
1969	10	5.88	90.60	9.19
1970	22	12.94	135.20	13.71
1971	26	15.29	268.10	27.19
<b>Total</b>	<b>170</b>	<b>100.00</b>	<b>985.90</b>	<b>100.00</b>

Source EIB

<sup>38</sup> The Società Idroelettrica Piemontese (SIP) became the Società Italiana per l'Esercizio Telefonico in 1964.

Table 4

### Sectoral distribution of EIB finance in the Mezzogiorno (1959-1970)

in million u.a.

Sector	Number of projects	%	Amount	%
<b>Infrastructure</b>	<b>20</b>	<b>14.18</b>	<b>330.2</b>	<b>47.24</b>
Agricultural development	2	1.42	48.0	6.87
Installation of water supply systems	1	0.71	24.0	3.43
Electricity generation	5	3.54	57.0	8.15
Transport	6	4.26	108.0	15.45
(Rail)	(2)	(1.42)	(36)	(5.15)
(Road)	(4)	(2.84)	(72)	(10.30)
Telecommunications	5	3.54	86.4	12.36
Tourism infrastructure	1	0.71	6.8	0.98
<b>Industry</b>	<b>121</b>	<b>85.82</b>	<b>368.8</b>	<b>52.76</b>
Mining industry	2	1.42	0.6	0.09
Metallurgy & steel	8	5.67	106.8	15.27
Cement works	13	9.22	27.4	3.92
Glass & ceramics	6	4.26	7.0	1.00
Chemicals	30	21.28	112.8	16.13
Machinery	16	11.35	48.2	6.90
Electric & electronic construction	5	3.54	12.5	1.79
Food	22	15.60	25.1	3.59
Textiles & leather	12	8.51	14.1	2.02
Paper	3	2.13	10.9	1.56
Rubber & plastics	1	0.71	0.4	0.06
Other industries	3	2.13	3.0	0.43
<b>Total</b>	<b>141</b>	<b>100.00</b>	<b>699.00</b>	<b>215.00</b>

\* Allocations not included in the funding amounts = 13.2 million u.a.

Source EIB

Almost 57% of the amount of the EIB's loans to the Mezzogiorno went to some two hundred industrial initiatives (including allocations on global loans) through the creation of many small and medium-sized enterprises linked to the main industrial centres formed by modern steel manufacturing and chemical installations: indeed, these two sectors together accounted for more than half of the amount allocated to industrial projects (24% in the case of steel manufacturing and 30% in the case of the chemicals industry); while a quarter of the money was reserved for the metallurgical industry, mechanical engineering and construction materi-

als such as cement. By the middle of 1972 the EIB had concluded 141 individual loans as well as five global loans (with a total of 60 allocations), and the amount of 567 million u.a. represented just over 30% of planned fixed investment of almost 1 860 million u.a.

In the chemicals sector the EIB granted 120 million u.a. (in 37 individual loans and 3 global loan allocation) to finance a number of large basic and primary chemical plants at Priolo in Sicily (Sincat and Celene), Porto Torres in Sardinia (SIR), Cagliari (Rumianca), in Sicily (ISAF) and in Puglia (Chimica Dauna), as well



*The petrochemical complex of the Sincat and Celene companies in Priolo (Sicily) The first EIB loan was signed by Pietro Campilli in 1959<sup>39</sup>. The construction of this industrial centre created employment for the people of eastern Sicily and helped reduce the amount of emigration from there to the north of Italy and the transalpine countries. Nonetheless, this project gave rise to many health problems linked to an industrial policy that took no account of the environment and pollution risks.*



as financing SNIA Viscosa units for producing chemical textile fibres (in Naples and Salerno and in Paliano in the south of Latium). In the metallurgical sector, it allocated 98 million u.a. (in 4 loans) to Italsider steel-producing plants in Taranto and Bagnoli (near Naples) to increase steel and cold laminates production, as well as to the Eurallumina aluminium factory at Portovesme in Sardinia. Other sectors benefited from the aid given to 28 projects in the mechanical engineering field to the tune of 93 million u.a. However, the biggest loans (those to Olivetti in Marcianise and to FIAT in Bari, Lecce and Cassino totalling 62.6 million u.a.) were only put together at the beginning of the 1970s. Before that there were only two cases, the 5 million u.a. for Alfa Romeo's production of diesel engines in Pomigliano d'Arco and the 2.9 million u.a. for gearboxes and engines of Isotta and Breda in Bari. As for cement works, they benefited from nine loans amounting to 38.7 million u.a. intended to increase productive capacity and to reduce the cost of supplying raw materials to a sector considered fundamental to the development of infrastructure and housing. Finally, smaller amounts were allocated to the development of the food sector, with lending to the Dreher brewery in Massafra in Puglia, the ready-to-wear, wood, brown paper wrapping, glass, pottery, textiles, leather and rubber sectors and electrical and electronic factories closely linked to the development of the automobile industry.

With regard to the industrial groups, 30% of the total loans granted by the EIB went to companies linked to the Istituto per la Ricostruzione Industriale (IRI). These were companies whose capital belonged to the State, such as Italsider (Finsider Group), STET-SIP, the Autostrade group, Finmeccanica, SME<sup>40</sup>, Fincantieri and Italstat. Several loans were also granted to projects of other public enterprises working in the energy sector (ENEL) and the transport sector (the State railways, FS). Among private companies, the projects receiving the largest amount of funding were those presented not only by the FIAT group but also by Montedison, Olivetti, Pirelli, Italcementi, SNIA Viscosa and Rumianca-SIR, that is to say the main Italian companies.

In 1972 the EIB estimated that the new plants would create approximately 53 000 jobs, but all the projects financed promoted economic and social development based on the creation of large-scale industry situated at a distance from the large European markets. Because it was impossible to survive in such a small market – that of the Mezzogiorno – and because they had to face higher transport costs than those of their competitors, the new plants were forced either to manufacture niche products (whose high quality justified the higher price) or to achieve very high productiv-

<sup>39</sup> See the notice of Pietro Campilli and the signing ceremony for this first loan by the EIB on pp. 52 and 53 of this book.

<sup>40</sup> SME was the Società Meridionale di Elettricità. After the nationalisation of the electricity sector in 1962 it turned to the food processing sector while keeping its name.

ity in conjunction with lower labour costs (to offset the increased expense linked to obtaining supplies of raw materials and distributing the finished products). It was clear that if the industrial project did not fulfil all these conditions the loan, profitable though it might be for the EIB, did not comply with the Community objective of sustainable regional development. Moreover, the production projects financed and carried out were based on sectors such as steel manufacturing (the market for which – mature as it was – could no longer grow), mechanical engineering (dependent on the sales figures for one company – FIAT and its ability to manage the new factories, as well as to

establish good sub-contracting networks) and the chemicals sector (mainly petrochemicals, heavily exposed to fluctuations in the prices of raw materials). As the monetary and energy crises of the 1970s were to demonstrate, the system concerned was insufficiently robust and could only operate within the framework of favourable economic conditions with relatively little to pay for labour, raw materials and funding together. It is not therefore surprising that as early as the beginning of 1972 the EIB pointed out that 'the operation of eight projects [had] quite recently faced serious problems of various kinds: technical, financial or commercial' while 'two other small-scale

Table 5

### Sectoral distribution of EIB individual operations in Italy (1959-1971)

in million u.a.

Sector	Number of projects	%	Amount	%
<b>Infrastructure</b>	<b>37</b>	<b>20.67</b>	<b>627.1</b>	<b>54.17</b>
Agricultural development	2	1.12	48.0	4.15
Installation of water supply systems	1	0.56	24.0	2.07
Electricity generation	5	2.79	57.0	4.92
Transport	20	11.17	349.9	30.23
(Rail)	(4)	(2.23)	(62)	(5.36)
(Road)	(15)	(8.38)	(282.9)	(24.44)
(Gas pipeline)	(1)	(0.56)	(5)	(0.43)
Telecommunications	7	3.91	131.4	11.35
Tourism infrastructure	2	1.12	16.8	1.45
<b>Industry</b>	<b>142</b>	<b>79.33</b>	<b>530.6</b>	<b>45.83</b>
Mining industry	2	1.12	0.6	0.05
Metallurgy & steel	11	6.15	129.3	11.17
Cement works	14	7.82	32.2	2.78
Glass & ceramics	6	3.35	7.0	0.60
Chemicals	37	20.67	162.2	14.01
Machinery	21	11.73	103.4	8.93
Electric & electronic construction	8	4.46	24.8	2.14
Food	22	12.29	29.1	2.51
Textiles & leather	12	6.70	14.1	1.22
Paper	3	1.68	10.9	0.94
Rubber & plastics	3	1.68	14.0	1.21
Other	3	1.68	3.0	0.27
<b>Total</b>	<b>179</b>	<b>100.00</b>	<b>1 157.7</b>	<b>100.00</b>

Source EIB



*The chemical complex of the Rumianca company (Cagliari – Sardinia) This complex, based on sea salt electrolysis and the cracking of light oil distillates, received an EIB loan of 24 million u.a. in 1962. It also benefited from subsidies from the Sardinian region. Sea salt, composed of soda and chloride, was involved here in the production of polyvinyl chloride (or PVC) and of polyethylene (the most widely used form of plastic, for bags or bottles). This Sardinian enterprise planned to create 700 new jobs. The intention was that it should consume the low-priced electricity produced on the spot by the new Cardosarda power station designed to burn Sulcis coal, so the project helped to preserve jobs in the Sulcis mines and to create jobs indirectly, particularly in the saltworks of the Conti-Vecchi company. This example of an 'integrated project' illustrates the role of the EIB in regional development particularly well.*



*Italy: former textile workshop of Europe. In 1964, the EIB granted a loan of 275 million Italian lira (0.44 million u.a.) to the Cassa per il Mezzogiorno for the benefit of Marvin Gelber Spa in order to part-finance the enlargement of a factory manufacturing men's shirts in Chieti. This company, 80% of whose capital was held by the German company Schulte & Dieckhoff, used material of which 75% was German: synthetic fabric imported from Germany, with a temporary exemption from customs duties. What it produced was designed exclusively for the German market where Schulte & Dieckhoff had created a huge sales organisation. The project was to create many jobs in a region that had large labour reserves.*



*The mosaic in the brewing hall of the Dreher brewery in Massafra in the province of Taranto. It is the work of Walter Resentera (1907-1995) who, between 1939 and 1942, created the fresco in the winter gardens of the brewery in Pedavena (Feltre), which had controlled the Dreher brewery in Trieste since 1928. Completed at the beginning of 1965 – the year when the brewery, which had benefited from an EIB loan in 1963, was brought into operation – the mosaic represented St Juste and St Michael protecting the fruits of the workers' labour. In contrast to this mosaic from another age, the Massafra brewery was one of the most modern industrial establishments in its field, employing approximately 190 people plus about a hundred seasonal workers. On a shop floor of 200 000 m<sup>2</sup> it produced between 300 000 and 400 000 hectolitres of beer per year. The plant was doubled in size at the beginning of the 1980s and now produces the beers of the Heineken group.*



companies [had] found themselves unable to operate normally once the work had been completed<sup>41</sup>.

It should be noted that a small portion of the financing allocated by the EIB to Italian projects was used for the building of infrastructure in the north and centre of the country. This included, in particular, renovation of the railways linking Genoa to Modane (21 million u.a., improving the links between Liguria and France) and Bolzano to Brenner (5 million u.a., facilitating communication between the Po Valley and Venetia and between Austria and Bavaria) and the construction of the following motorways: the Brenner (24 million u.a. for almost 85 kilometres of the northern section, the most complicated leading to the Brenner Pass); the Valle d'Aosta (24 million u.a. for more than 48 kilometres

linking Piedmont to the valley and, therefore, to the road via the Mont Blanc tunnel) and the 'flower route' (16 million u.a. to begin linking the south of France to Liguria and Tuscany). This infrastructure was aimed at promoting trade links between the transalpine countries and the Mezzogiorno, but, naturally enough, it also improved the network of communications in the north and centre of Italy.

Moreover, it has to be pointed out that the EIB also funded special interventions such as the rebuilding of plant that had sustained flood damage (for example, the Montedison premises in Châtillon) and, in collaboration with the High Authority of the European Coal and Steel Community (which supplied most of the funding) the rebuilding of the shipyards in the ports of Livorno (in Tuscany) and Monfalcone (in the Friuli). In the

<sup>41</sup> For the projects financed by the EIB in the Mezzogiorno and the problems encountered during their implementation, see, in addition to the sources referred to in note 36, the EIB archives, 'La banque et les problèmes du Mezzogiorno et de l'industrie italienne', *Études économiques*, No 158, 14 September 1972, pp. 44-87.

*The FIAT assembly plant in Campania (Naples region). The members of the board of directors, meeting in Italy from 6 to 10 July 1960, visited this bus-manufacturing plant. In the same region, the EIB also financed the plant of the Alfa Romeo company, which produced diesel motors in conjunction with the French company, Renault. The project was an example of European industrial cooperation.*



last two cases the EIB granted 4.8 and 10 million u.a., respectively, supplementing the 7 million u.a. allocated to another industrial conversion operation, namely the development of sulphur mines and the production of phosphoric acid in Sicily.

### 2.3. What was the impact on the social and economic development of Italy?

It is impossible to measure precisely the impact of the projects carried out with the aid of EIB finance. Indeed, the impact of new infrastructure on an industrial centre is shown by an increase in revenue which is not confined to the value of newly produced goods and the salaries paid to new employees. Rather, account has also to be taken of the introduction of other production and service activities closely linked to the project funded. Indeed, many projects carried out in the Mezzogiorno related to plant managed from the north of Italy, meaning that a portion of the income generated in the new industrial centres was 'accounted for' in the net product of the North. Moreover, the EIB always acted in cooperation with other financial institutions such as the Cassa per il Mezzogiorno, so only a portion of the investments depended on the resources provided by the bank.

In order to know what this portion was, the impact obtained would have to be allocated in accordance with the percentages of participation in the project, something that cannot be done in the absence of information relating to the effective role of the loan granted. (It would be necessary to know whether the project could have been carried out without the EIB's contribution and how much it would have cost to have replaced this contribution with that of another financial institution). What is more, a number of projects provided for technical cooperation between European companies (for example, Alfa Romeo and Renault), which enabled the two firms concerned to increase their know-how and the quality of their products. These were real advantages, but not quantifiable ones. Finally, although the failure of a project and its promoter's difficulties in reimbursing the loan did not involve any risks for the EIB (given the guarantee provided by the Italian State), the fact that resources had been allocated to an unreliable project signified a faulty use of the EIB's resources and damaged other, non-financed, projects and more generally the whole of the European economic system.

It may in any case be pointed out that the production structure of the Mezzogiorno had undergone significant changes by the beginning of the 1970s.



*The motorway linking the Valle d'Aosta to the Piedmont and the Po Valley. The opening of the Mont Blanc Tunnel made this axis into one of the most important routes between France and Italy.*

Table 6

### Breakdown by intermediary of individual indirect (I) and global loans (G) in Italy (1959-1971)

in million u.a.

Intermediary	Individual indirect loans (I)					Global loans (G)			
	Number of projects	%	Amount	%	% I+G*	Number of projects	Amount	%	% I+G*
Cassa	12	8.00	200.0	30.87	29.14				
IMI	15	10.00	127.0	19.60	18.50				
Cassa + Isveimer	94	62.67	200.7	30.98	29.24	2	25.0	64.77	3.64
Cassa + CIS	14	9.33	69.9	10.79	10.18	2	8.6	22.28	1.25
Cassa + IRFIS	15	10.00	50.2	7.76	7.31	1	5.0	12.95	0.73
<b>Total</b>	<b>150</b>	<b>100.00</b>	<b>647.8</b>	<b>100.00</b>	<b>94.38</b>	<b>5</b>	<b>38.6</b>	<b>100.00</b>	<b>5.62</b>

\* Amount as percentage of Total I+G (686.4 million u.a.)

N.B. Cassa = Cassa per il Mezzogiorno

Source EIB

Table 7

### EIB finance by recipient institution (1 January 1959 - 30 June 1972)

in million u.a.

	Italy				Mezzogiorno					
	Number of projects	%	Amount	%	Number of projects	%	%*	Amount	%	%*
<b>Financial institutions</b>	<b>166</b>	<b>88.77</b>	<b>845.51</b>	<b>68.00</b>	<b>163</b>	<b>94.77</b>	<b>98.19</b>	<b>818.29</b>	<b>81.61</b>	<b>96.78</b>
Cassa per il Mezzogiorno	148	79.14	681.62	54.82	148	86.05	100.00	681.62	67.98	100.00
Isveimer	98	52.40	242.72	19.53	98	56.98	100.00	242.72	24.22	100.00
CIS	16	8.56	78.48	6.31	16	9.30	100.00	78.48	7.83	100.00
IRFIS	16	8.56	55.20	4.44	16	9.30	100.00	55.20	5.51	100.00
Direct beneficiaries	13	6.95	216.39	17.40	13	7.56	100.00	216.39	21.58	100.00
Cassa (promoter)	5	2.67	88.83	7.14	5	2.91	100.00	88.83	8.86	100.00
IMI	15	8.03	127.00	10.21	14	8.14	93.33	123.00	12.27	96.85
Crediop and Icipu	3	1.60	36.89	2.97	1	0.58	33.33	13.67	1.36	37.06
<b>Companies</b>	<b>21</b>	<b>11.23</b>	<b>397.85</b>	<b>32.00</b>	<b>9</b>	<b>5.23</b>	<b>42.86</b>	<b>184.39</b>	<b>18.39</b>	<b>46.35</b>
Società Autostrade Concessioni e Costruzione Spa	13	6.95	276.05	22.20	6	3.49	46.15	128.39	12.81	46.51
Railways FS	4	2.14	62.00	4.99	2	1.16	50.00	36.00	3.59	58.06
STET-SIP	2	1.07	45.00	3.62	1	0.58	50.00	20.00	1.99	44.44
Italcantieri-CMF	2	1.07	14.80	1.19	-	-	-	-	-	-
<b>Total</b>	<b>187</b>	<b>100.00</b>	<b>1 243.36</b>	<b>100.00</b>	<b>172</b>	<b>100.00</b>	<b>91.98</b>	<b>1 002.68</b>	<b>100.00</b>	<b>80.64</b>

\* finance in Mezzogiorno as percentage of total amount for Italy

Source EIB



Thus, there were more jobs in industry than in agriculture (with 32% of workers being employed in the former and 31.5% in the latter), and there were almost 8% fewer employees than there had been at the beginning of the 1960s (-36% in agriculture, +9.5% in industry, +18.5% in the service sector). 'Per capita' income had increased by 62.5%, bordering on the 51% recorded in the regions of the north and centre of Italy. Gross product increased by 71% (+44% in agriculture, +109% in industry, +65% in the service sector), but general productivity and industrial productivity still represented 71% of those of central and northern Italy. This means that, although EIB lending in support of the plans of the Italian Government had been used to create new industrial centres and improve infrastructure, it had not made it possible to reduce the differential that existed in relation to the rest of Italy, which, in the same period, had benefited from a level of economic growth that was among the best in the common market. By referring to the objectives laid down when it was founded, the EIB was particularly active in financing all projects whose specific aim was regional economic development, but the overall results were not those anticipated by the founding fathers of the institution. With regard to the period analysed in this book then, the economic growth of the Mezzogiorno did not attain the levels enjoyed by other European regions. A principal reason for this was that, although large enterprises were created, there was no socio-economic fabric capable of supporting them. Few bosses and entrepreneurs had come from the region. Moreover, bad planning in terms of time scales meant that the new industrial centres were unable to benefit from new road infrastructure straight away. (The cost

of putting such infrastructure in place was then increased, and it was difficult in due course to create an effective network of clients). Furthermore, the growth in 'per capita' income was also linked to emigration, which continued during the 1960s, removing from the Mezzogiorno not only lower-qualified people but also the best technicians and graduates, who were attracted by the higher income offered by firms in the north.

Naturally enough, the results obtained in the Mezzogiorno depended mainly on the specific limits of the development projects devised by the Italian Government. The EIB simply made its financial contribution and therefore had only limited responsibility. In many cases it even refused to allocate money to operations of a kind that did not help develop the regional economy or in connection with which no documents were available to enable a judgement to be made on whether the project concerned could be carried out effectively. Among the situations in question were those in which either there were already firms in existence producing similar goods or in which the planned extra capacity was on too large a scale for the market available, or again, the company concerned might be a commercially run steel-manufacturing operation that did not therefore offer adequate technological guarantees. The EIB also indicated to the Italian authorities that a number of projects, 'while not in major difficulty [were] quite badly delayed' and that 'in the majority of cases a considerable increase in costs [was to be] noted and, often, delays in completing the work'<sup>42</sup>. These remarks concerning the higher costs resulting from the delays brought about by Italian bureaucracy and from underestimating the technical difficulties connected with certain items of infrastructure (for example the bridges and tunnels

<sup>42</sup> With regard to the delays in carrying out projects and the increase in their costs, see EIB archives, 'La banque et les problèmes du Mezzogiorno et de l'industrie italienne', op. cit., pp. 80-81.

for the motorways in the Apennines) did not make much impact, however. There were a number of cases in which the EIB allocated resources to industrial projects of doubtful benefit (particularly in the eyes of the research department economists and member states lending department staff who were responsible for appraising the projects). This leads one to suspect that pressure from Italian economic and political circles led to overestimates of the profitability of a number of projects, causing EIB managers to 'forget' the bank's remit, which was to use its resources to best effect in pursuit of effective and sustainable economic development. The EIB was in fact alert to the 'realpolitik' characteristic of all the Community organisations in the international (and mainly Italian) political context of the 1960s and early 1970s. In calculating the profitability of certain investments, account was also taken of the 'electoral' advantages guaranteed to an Italian Government having to come to terms with the largest Communist party of the Western world. In this connection, it has to be noted that the EIB bore no responsibility for the development of industrial plant that did not take account of the problems associated with pollution and with safeguarding the environment. In the 1960s there was indeed still no research into sustainable development (especially in Italy).

Doubts concerning whether optimum use was made of a few large loans ought not however to disguise the real impact of the EIB's interventions on improving living and working conditions in the Mezzogiorno. Thus, between 1963 and 1970, the regions that had received most funding doubled their productivity (in the cases of Sardinia and the departments of Southern Latium) or increased it significantly (Campania, Puglia and Sicily), while regions such as Calabria, Molise and Basilicate, having benefited from less finance, recorded lower economic growth during the same period. It is true that these regions were ideally located, but it must

be stressed that no industrial project was financed in the last two cases, which demonstrates an undeniable link in terms of cause and effect between EIB finance and improvement in living conditions. With regard to the amounts allocated between 1959 and the beginning of the 1970s, the EIB financed 30% of the planned investment for the projects it approved. Most of the projects were large; indeed, 20 factories received a total amount of 321 million u.a., that is to say more than 57% of the industrial loans granted in the Mezzogiorno. In addition, the EIB granted 34 500 u.a. per job created (more than 85 000 in steel works, almost 62 000 in cement works and more than 50 000 in chemical works), compared with the 25 000 u.a. granted by the other Italian financial institutions which concentrated on initiatives characterised by a limited amount of capital, within the framework of projects aimed at the economic development of the Mezzogiorno. The positive impact on employment and on net regional product of such an input of funds for investment in infrastructure and industrial plant could hardly be slight (and this in spite of decisions that sometimes were risky). It is not therefore surprising to note at the beginning of the 1970s an increase in private consumption in the Mezzogiorno that was up by 78% on that of the 1960s (with, in particular, +56.5% recorded for food products, +99% for clothing, +129% for consumer durables and +214% for forms of transport).

Bearing in mind as well the fact that from 1968 the EIB extended its intervention to include small and medium-sized enterprises by implementing global loans, it is possible to appreciate how important its activities were. By supporting large-scale projects, it on the one hand enabled other Italian financial institutions (that did not benefit from State guarantees) to spread the risks over

several projects; hence, a reduction in interest rates that in conjunction with the tax facilities granted by the State made investments in the Mezzogiorno more profitable. On the other hand, in allocating almost a third of the funding to new infrastructure and industrial centres, it charged lower interest rates than those current on the global capital markets. Indeed, even though the EIB applied rates linked to those at which it acquired its resources on the markets, its presence covered such a large portion of the total investment that it reduced the effective demand for money from the Italian financial institutions. It remains the case that, given the volume of loans concluded, even if the overall results were not always the best in terms of projects actually carried out, especially with regard to the development model followed, the EIB's contribution was crucial as it permitted lower-cost investment, freeing resources for the development of the Mezzogiorno.

The impact of EIB finance in the other regions of Italy must also be added to these initial spin-off effects. The money used to modernise the railways and build infrastructure such as the motorways of northern and central Italy – referred to above – promoted exchanges between the transalpine countries and the Mezzogiorno, but the main benefits were concentrated in the north and centre of Italy, which reduced transport costs connected with introducing products to European markets. Industrial enterprises, as well as agriculture in the Po Valley and tourism, came into contact with the transalpine countries, improving their competitiveness and attracting investment. Paradoxically, what a number of EIB loans could not achieve in the Mezzogiorno was fully achieved in already developed regions using smaller amounts representing only a small portion of the total fixed investment. In this way, the clientele not only of the big

industries of the north-west but also of the small and medium-sized enterprises of the north-east and the centre was extended to include clients from the transalpine markets, so contributing to the great success of Italian products within the common market. In the same way, improvements to transport encouraged the arrival of German tourists and therefore the development of seaside resorts situated on the northern coasts of the Tyrrhenian Sea and the Adriatic and on the Alpine coasts of Venetia, Trentino and Lombardy.

Finally, it is necessary to emphasise what the measures taken to benefit the Mezzogiorno represented for the EIB itself. During the early years of its activity the EIB allocated most of its financial resources to the Mezzogiorno, in that way closely linking its own success to the success of the projects financed. Moreover, analysis of the problems and needs of the Mezzogiorno (the very poorest region of the Community and the one with the most complex socio-economic environment) taught the EIB's managers to coordinate their activity with the other national financial institutions and to evaluate the effectiveness of the projects submitted to them while taking account of all the factors linked to the bank's 'institutional' role. It was indeed in the Mezzogiorno that the bank experienced for the first time the difficulty of choosing projects designed to promote sustainable development in the least advanced regions, while as far as possible resisting pressure from the Italian State. The latter, which had contributed to the EIB's capital, wanted to obtain short-term results and, for obvious electoral reasons, to bring about above all a reduction in unemployment.

The EIB's activity, right from its founding until the early 1970s, proved to be integrally linked to the funding of projects in Italy and in particular in the Mezzogiorno, which was the least advanced region

of the Community. The bank allocated most of its resources to the Mezzogiorno and learned to manage loans granted in partnership with the main Italian financial institutions, in particular the Cassa per il Mezzogiorno. It contributed almost a third of the overall financing intended for the social and economic development of this region, obtaining positive results in terms of improved living conditions and reduced unemployment, while the model of industrialisation chosen by the Italian Government (based on the creation of large-scale basic industry) proved to be too exposed to fluctuations in the prices

of raw materials, as well as being heavily weighed down by transport costs, increased in the light of the competition existing within the common market. Finally, the loans intended to modernise or create infrastructure in central and northern Italy, enabling the Mezzogiorno to be linked to the transalpine markets, undeniably proved to be successful. However, it was mainly the companies situated in the Po Valley and in the coastal areas to the north of the Adriatic and Tyrrhenian Seas that benefited most.

*Paolo Tedeschi*



The Period  
of 'Little Europe',  
1958-1972

## New activities outside the Community

While the EEC Treaty gave birth to a banking institution specialising in financing investments in the six Member States, it is no less true that the European Investment Bank saw the geographic scope of its competences broaden very quickly.

It is a fact that Article 18 of the EIB Statute foresaw the possibility of exceptions from the very start since, 'by way of derogation authorised by the board of governors, acting unanimously on a proposal from the board of directors, the Bank may grant loans for investment projects to be carried out, in whole or in part, outside the European territories of Member States'<sup>43</sup>.

However it was mainly the applications by Greece and Turkey in 1959 to become associated countries of the EEC and the conclusion of association agreements – or renewal in the case of the overseas territories of Belgium and France – that formed the background to the extension of the bank's activities outside the Community. Indeed, it was quickly learned that association agreements needed to be backed up with financial provisions designed to facilitate their implementation. The questions therefore arose of which body would manage this financial aid and how the aid would be applied.

On being approached either by the European Commission or by certain Member States and at other times by the future associated countries themselves

to grant financial assistance in support of these facilities, the EIB at once welcomed the possible geographic extension of its activities. Having taken a full part in the association negotiations of Greece and Turkey<sup>44</sup>, and then of the Associated African and Madagascan States (AAMS) and the overseas countries and territories (OCT), it then contributed to the establishment of one of the main common European policies, that of development aid, by granting financial assistance to what were then considered to be developing countries<sup>45</sup>.

### 3.1. Associations to 'preserve and strengthen peace and liberty'<sup>46</sup>

Both the applications by Greece and Turkey in 1959 to become associated countries and the renewal of the 1957 association agreement between the AAMS and the OCT and the EEC that was due to expire in 1962, represented a particularly important development when placed in the geopolitical context of the age, that of the Cold War and of decolonisation.

The 1959 Greek and Turkish applications to become associated countries presented difficulties of an economic nature that the Six and the European Commission led by its president, Walter Hallstein, were unanimous in emphasising. These two countries were not very industrialised and their mainly agricultural exports were in competition with the products

<sup>43</sup> Extract from Article 18 of the Statute of the EIB in Menais, G.-P., *La Banque européenne d'investissement*, op. cit., p. 151.

<sup>44</sup> This is evident from the records of the French Ministry of Foreign Affairs [French abbreviation: AMFAE], the Fund for the management of Economic and Financial Affairs [French abbreviation: DAEF] and the department for Economic Co-operation [French abbreviation: CE], particularly in dossiers 691 to 696 concerned with the negotiation of the EEC's association agreements with Greece and Turkey.

<sup>45</sup> On this question, see Dumoulin, M. 'Des "pays et territoires d'outre-mer" à l'aide au développement' in Dumoulin, M. (dir.), *The European Commission, 1958-1972. History and Memories*, Office for Official Publications of the European Communities, Luxembourg, 2007, pp. 391-404.

<sup>46</sup> Treaty establishing the European Economic Community, available at <http://eur-lex.europa.eu>

of several Member States, a situation that was not without its problems. Finally, what Greece and Turkey were looking for in their association with the EEC was capital with which to develop their economies. However, the Community as a whole wanted to react favourably to these two requests which, according to the French Minister of Foreign Affairs, Maurice Couve de Murville, presented 'fairly large political advantages'<sup>47</sup>. On 25 January 1960 he explained to his colleagues in Rome that it was in the EEC's interests 'not to reject these two countries, because of their position in the East, their proximity to Russia and the solidarity that we have a duty to show'<sup>48</sup>. His German opposite number, Heinrich von Brentano, added right away that the 'task [of the Six] is primarily political, even if it has to involve economic sacrifices. [...] Let us attract Greece and Turkey to the common market in order to consolidate their commitment within the framework of the West'<sup>49</sup>. Greece and Turkey were, moreover, founder members of the Council of Europe in 1949 and had belonged to the North Atlantic Treaty Organisation (NATO) since 1952. How was it possible to reject requests for association when there were already certain forms of cooperation in other contexts?

Moreover, the overseas possessions of a number of European States had been associated with the EEC for a period of five years in accordance with Part Four of the EEC Treaty and more specifically with Articles

131 to 136 of the treaty. Such association was at the insistence of Belgium and France, which at the time of the Val-Duchesse negotiations had to confront the dismantling of their colonial empires. The common market then appeared to be a means of preserving privileged links with these territories for home countries engaged not only in expensive policies of economic modernisation but also in painful conflicts<sup>50</sup>. The EEC was therefore to establish an innovative policy of cooperation with the developing countries, creating in particular a European Development Fund for Overseas Countries and Territories (EDF), funded by the contributions of the Member States and supplied initially with almost 600 million u.a. for the purpose of grant aid to fund infrastructure such as transport, schools or hospitals.

The progressive decolonisation of French and Belgian sub-Saharan Africa at the beginning of the 1960s did not halt the implementation of the brand-new European policy of aid to developing countries. On the contrary, the negotiations on renewing these territories' association agreements presented an opportunity to refine methods and objectives, particularly those concerning the financial assistance in which the EIB was then to be involved. They also gave an opportunity to question the notion that associating the overseas countries was just a political manoeuvre designed to replace the old national forms of imperialism with a collective neo-colonialism. Indeed, a lot

<sup>47</sup> 'Consultation des ministres des affaires étrangères des six pays membres des communautés européennes, les 25 et 26 janvier 1960 à Rome', *Documents diplomatiques français 1960*, volume I, Imprimerie nationale, Paris, 1995, p. 88.

<sup>48</sup> Ibid.

<sup>49</sup> Ibid.

<sup>50</sup> On this issue, see in particular Turpin, F., 'L'association Europe-Afrique: une "bonne affaire" pour la France dans ses relations avec l'Afrique (1957-1975)?', in Bitsch, M.-Th. and Bossuat, G. (dir.), *L'Europe unie et l'Afrique. De l'idée d'Eurafrrique à la convention de Lomé I, Actes du colloque international de Paris, 1er et 2 avril 2004*, Bruylant, Bruxelles, 2005, pp. 345-359; Migani, G., *La France et l'Afrique sub-saharienne, 1957-1963. Histoire d'une décolonisation entre idéaux eurafricains et politique de puissance*, 'Euroclio' collection No 41, P.I.E. - Peter Lang, Brussels... Vienna, 2008 and Deschamps, É., 'La Belgique et l'association des PTOM au marché commun (1955-1957)', in Dumoulin, M., Duchenne, G. and Van Laer, A. (dir.), *La Belgique, les petits États et la construction européenne*, P.I.E.- Peter Lang, Brussels, 2003.



## Articles 237 and 238 of the EEC Treaty

**Article 237:** 'Any European State may apply to become a member of the Community. It shall address its application to the Council which, after obtaining the opinion of the Commission, shall act by means of a unanimous vote. The conditions of admission and the amendments to this Treaty necessitated thereby shall be the subject of an agreement between the Member States and the applicant State. Such agreement shall be submitted to all the contracting States for ratification in accordance with their respective constitutional rules.'

**Article 238:** 'The Community may conclude with a third country, a union of States or an international organisation agreements creating an association embodying reciprocal rights and obligations, joint actions and special procedures. Such agreements shall be concluded by the Council acting by means of a unanimous vote and after consulting the Assembly. Where such agreements involve amendments to this Treaty, such amendments shall be subject to prior adoption in accordance with the procedure laid down in Article 236'.

*Treaty establishing the European Economic Community, signed in Rome on 25 March 1957  
and coming into effect on January 1958.*

of misunderstandings proceeded from ideas of this kind at the beginning of the 1960s. The EEC in fact intended above all to coordinate the Member States' action in respect of the developing countries while, with that aim in mind, acting in collaboration with other international organisations such as the World Bank. It thus helped to establish the internal cohesion of the common market and to make a contribution to resolving the problems experienced by Third World countries.

Finally, this brief reminder of the historical context in which it was decided to extend the geographical

scope of the EIB's activities would be incomplete if one neglected to point out that those involved were very concerned to respect one of the fundamental aspects of the EEC Treaty, which was not to turn the common market into a closed body. On many occasions the Six declared themselves willing to collaborate with third countries that in some cases had standards of living very much lower than their own and to this end had devised Articles 237 and 238 of the Treaty establishing the European Community. The association applications provided the opportunity to give practical effect to this desire on their part and to respect the spirit of the Preamble to the EEC

## The European Development Fund

The first European Development Fund (EDF) or European Development Fund for Overseas Countries and Territories, established in 1958, illustrated to the way in which the EEC Treaty had taken account of the need to come to the aid of developing countries. It enabled cooperation to be instituted between Europe and the overseas territories of a number of Member States with a view to their economic and social development. It was only from 1963, however, with the first Yaoundé Convention, that the EDF's approach was precisely defined. It could not be considered a Community instrument in the strict sense of the word as it was a fund supplied from the voluntary contributions of the Member States. Therefore, the rationale according to which it operated was, rather, intergovernmental.

Each EDF was designed for a period of approximately five years, coinciding with the signing of association agreements:

- first EDF or FEDOM: 1959-1964;
- second EDF: 1964-1970 (Yaoundé I Convention);
- third EDF: 1970-1975 (Yaoundé II Convention);
- fourth EDF: 1975-1980 (Lomé I Convention);
- fifth EDF: 1980-1985 (Lomé II Convention);
- sixth EDF: 1985-1990 (Lomé III Convention);
- seventh EDF: 1990-1995 (Lomé IV Convention);
- eighth EDF: 1995-2000 (Lomé IV Convention and its IV b revision);
- ninth EDF: 2000-2007 (Cotonou Partnership Agreement);
- tenth EDF: 2008-2013 (revised Cotonou Partnership Agreement).

European Commission, <http://europa.eu/scadplus/leg/en/lvb/r12102.htm>

The EIB and the EDF were led to work closely together for two reasons. On the one hand, the EIB managed the special loans granted to the associated States from EDF resources or, later, the interest subsidies granted on these loans. On the other hand, there were projects for which funds came from both institutions at the same time (with each funding a different part of the same programme). The meetings between the services of the EIB and the EDF reflected this collaboration and the willingness for tasks to be divided between the EIB and the Commission. The considerable development of the EIB's activities outside the EEC was a result of this very close coordination of activities in favour of the developing countries and from which a third partner – the IBRD – was not to be excluded.

*Émilie Willaert*



*In March 1965, the EDF participated in the funding of a dam at Yaramoko in Upper Volta (now Burkina Faso). This structure formed part of a large network of dams constructed on the plains to collect rain water and enable agriculture to be developed in a region that regularly suffered drought and famine. It also helped get the fisheries sector under way. The EIB also intervened in Upper Volta under the Yaoundé I and II Conventions in connection with food-processing projects. In 1969, the bank thus became involved in constructing a flour mill, and in 1973 in developing an agro-industrial park complex producing sugar, both at Banfora in the south-west.*

## Overseas countries and territories to which Part Four of the EEC Treaty applies

- French West Africa, comprising: Senegal, Sudan, Guinea, Ivory Coast, Dahomey, Mauritania, Niger and Upper Volta;
- French Equatorial Africa, comprising: Middle Congo, Oubangui-Chari, Chad and Gabon;
- Saint Pierre and Miquelon, the Comoro Archipelago, Madagascar and dependencies, the French Coast of the Somalis, New Caledonia and dependencies, the French Establishments of Oceania, the Southern and Antarctic Lands;
- Autonomous Republic of Togo;
- the Trust Territory of Cameroon, administered by France;
- Belgian Congo and Rwanda-Urundi;
- the Italian Trust Territory of Somalia;
- Dutch New Guinea.

[http://eur-lex.europa.eu/en/treaties/dat/11957E/tif/TRAITES\\_1957\\_CEE\\_1\\_XM\\_0818\\_x1212x.pdf](http://eur-lex.europa.eu/en/treaties/dat/11957E/tif/TRAITES_1957_CEE_1_XM_0818_x1212x.pdf)

Treaty in which, in order to 'preserve and strengthen peace and liberty'<sup>51</sup>, the signatory States appeal to 'the other peoples of Europe who share their ideal to join in their efforts'<sup>52</sup>.

### 3.2. The EIB's working methods in the associated States

It was during the association negotiations that the EIB's means of intervention, defined by its services and the management committee and validated following several meetings of the board of directors and board of governors, were made known to the various protagonists and received their final backing. There was active participation in this process of reflection not only by the services of the Commission, in particular the directorate-general for external relations, the committee of permanent representatives (COREPER), the Council of Ministers of the Communities and its specialised bodies (committees set up to examine specific points of the associations), but also by the national authorities (ministries of foreign affairs and finance ministries). Indeed, ought the choice of the EIB as lender to the associated countries to have entailed changes to its then banking policy? To what extent ought the bank to intervene in associated countries while simultaneously respecting its initial remit, which was to serve the Six? Finally, was it necessary, in order to take account of the economic situations of these countries and of their balance of payment problems, to devise a more flexible form of aid than that of the EIB's ordinary loans and if so under what conditions?

These were the EIB's main concerns. However, the bank also had to concern itself with finding additional resources in order to meet the financial demands brought about by its new activity and to work out how to adapt its administrative structure by creating a new department to implement this activity – the department for loans in associated countries.

#### 3.2.1. Greece, the first EEC Associated State

After two long years of negotiations, explained by the unprecedented situation in which both parties sought to defend their economic interests and consider the implications of a step that seemed likely to be repeated as other states like Tunisia moved closer to the EEC, an association agreement was signed between the Community and Greece in Athens on 9 July 1961.

Entering into force on 1 November 1962, it consisted of a customs union between the two parties and held Greece's accession to the common market as its ultimate goal. Protocol 19 of the Athens agreement provided for Community financial assistance in the form of loans intended to promote accelerated development in the Greek economy. The programme was to fund investment projects totalling 125 million dollars over five years, from 1963 to 1967. Consideration was given to creating a special fund to grant and manage the financial aid, but the decision was taken to entrust this work to the EIB in view of its expertise.

The bank had to advise the Member States, however, that to get involved in Greece at that time

<sup>51</sup> Preamble to the EEC Treaty.

<sup>52</sup> Ibid.

## The birth of the directorate for loans in associated countries

'When I joined the EIB, the bank's staff, management committee and even the board of directors were almost completely unfamiliar with the issues involved in financing development projects in Africa. As required by our Member States, our first task had been to learn to work in the 'associated countries'. A directorate comprising two sub-directorates had been created to cover Greece and Turkey, who had just entered into association agreements with the EEC, and then Africa (i.e. the former French and Belgian colonies) within the framework of the First Yaoundé Convention.

I arrived in early 1964, at the time of the conclusion of the First Yaoundé Convention, which would represent a modest commitment for the bank but would need to be implemented quickly. At the time, the bank was still very loosely organised. The associate countries directorate was made up of the director, Guy Trancart, who came from the World Bank and the United Nations Commission for Latin America, and Karl Hans Drechsler, the deputy director who came from the EDF at the Commission, our 'cousins' who had already been working on financial assistance for Africa for two or three years. We had a small team – there was my friend Cornez, who came from the Central Bank of the Belgian Congo, Lacaille, who came across from a French private bank, the son of Louis Armand (the great European), one or two other colleagues, three or four secretaries and ... me (I had a few years' experience working as a banker in Africa).

I had the advantage of already knowing several people at the EDF, including Ferrandi, who was the boss there, but also Auclert, his assistant, with whom I had worked in Guinea and had maintained a close friendship.

The fact that I knew the leaders and understood African issues helped our relationship. These links did not prevent my having a marked independence, because I insisted on the bank's specific role. At the time, many people at the Commission felt that the EIB should be a simple extension to the EDF and act in accordance with EDF directives. For years, the sparring matches at the Council of Ministers and the warring correspondence I kept up with Ferrandi, in which I would defend a banker's point of view while he defended a political one, were famous amongst our small and specialist Community circle.'

*Extract from an interview with Jacques Silvain on 12 December 2007.*

posed a serious problem. In the early 1960s there was contention between Greece and its foreign creditors over the non-payment of pre-war debts. The management committee stated that it was 'the only non-Communist country in western Europe that, since 1945, has not managed to reach an agreement with its creditors'<sup>53</sup>. As a result of this situation, Greece found itself cut off from possible sources of funding offered by international financial institutions such as the IBRD. Wishing to abide by the code of good conduct agreed between international banking institutions and concerned about the value of its signature as a borrower on the markets, the EIB looked for an appropriate solution. It therefore obtained a 'credit mandate' from the Six, initially for a two-year period (July 1963-July 1965) to grant loans up to 50 million dollars from its own resources, but with a guarantee from the Member States covering all its commitments in Greece. This credit mandate was later extended to the 125 million dollars laid down in the association agreement.

The loans granted by the EIB had to be in line with the newly drawn up Greek five-year plan, and were of the same kind as those it granted to Member States. They shared a number of common characteristics: they covered only part of the cost of any project, enjoyed the same interest rates and were disbursed using the bank's available resources. The maximum loan period could extend to 25 years, however, and projects with diffuse or remote profitability were able to benefit from interest rate subsidies payable by the Member States, for up to two

thirds of the total financial aid provided for by Protocol 19.

While negotiations on the renewal of this financial protocol began in 1967 and there remained a significant outstanding balance in the initial allocation of 125 million dollars laid down in 1961, there was a military coup on 21 April 1967. It marked a break in the EIB's activities in Greece, as the Community decided to limit the association agreement to routine management<sup>54</sup>.

### 3.2.2.

#### 1963: Turkey's association...

Negotiations between the EEC and Turkey were also very long, in particular because of the country's particular political situation following the military coup in 1960. But a concern not to be outdone by Greece and the desire to establish closer links with the countries of free Europe led Turkey to pursue an association agreement, which was signed in Ankara on 12 December 1963. Entering into force on 1 December 1964, it was to culminate in the creation of a customs union after a preparatory phase (1964-1969) and a transitional phase (of 12 to 22 years). The ultimate and declared aim of the agreement was the country's accession to the common market. In order to make it easier to achieve the objectives pursued during the preparatory and transitional periods, the association agreement provided for financial aid of 175 million u.a. over a period of five years, or an annual sum of 35 million u.a., in the form of loans granted by the EIB.

<sup>53</sup> EIB archives, 2.107, management committee, note No 411 of 26 March 1960, 'Memorandum to the board of directors on possible EIB intervention in Greece'.

<sup>54</sup> See in particular Pasmazoglou, I., 'Étapes historiques et bilan du processus de rapprochement de la Grèce vers la CEE', *La Grèce et la Communauté: problèmes posés par l'adhésion. Actes du colloque organisé les 5 et 6 mai 1977 par l'Institut d'études européennes de l'Université libre de Bruxelles*, Éditions de l'université de Bruxelles, Bruxelles, 1978, pp. 25-35.

The bank therefore had to respond to the demands of this new activity in a country with a serious balance of payments problem and restricted borrowing capacity. It was thus agreed that the loans would have favourable terms, that is to say attractive interest rates (3% for projects with diffuse or remote profitability and 4.5% for projects with normal profitability) and a repayment period of up to 30 years. However, to avoid weakening its credit and to manage the resources provided by the Member States for the Turkish loans, the EIB board of governors decided to create a special section in May 1963. This unit allowed the bank to use off-balance sheet accounting for operations that had more favourable terms than its ordinary operations and did not come from its own resources. As in the case of Greece the EIB acted on behalf and at the risk of the Member States, but also using budgetary resources provided by these states. Yves Le Portz, then vice-president of the bank, saw this way of operating as an advantage for the bank, which remained 'in control of its interventions in terms of selecting projects' and he therefore believed that 'the creation of a special section is a good thing'<sup>55</sup>.

### 3.2.3. ... and the signing of the Yaoundé Convention

While the majority of the Member States' overseas possessions, associated with the EEC under the Treaty of Rome, were gradually becoming independent, 18 African and Madagascan states<sup>56</sup> decided to remain associated to the common market and signed the First Yaoundé Convention on 20 July 1963.

As had been the case in 1957, this convention provided for 800 million dollars u.a. in financial support, 85% in the form of grants managed by the European Commission using the resources of a second EDF. But it also represented a response to calls from the German government and the Commission in particular to widen the range of financial aid available. A flexible formula was thus introduced for issuing loans aimed at encouraging a sense of responsibility by obliging associate states to submit a certain number of investment projects meeting strict profitability criteria. For the first time in the history of the European Community's aid to developing countries the First Yaoundé Convention provided for 15% repayable aid, of two kinds:

- 6.25% (or approximately 50 million u.a.) as loans on special conditions, allocated by the EIB using EDF resources and accounted for in the 'special section' as in the case of Turkey; the loan period was up to 40 years and the interest rate varied between 1% and 3% depending on the nature of the project and the economic conditions in the associated state;
- 8.75% as ordinary loans from the bank's own resources, for a maximum sum of 70 million u.a., in accordance with the directive of the board of governors of 27 May 1963. These loans were identical to those the bank issued to Member States, but some had a 3% interest subsidy, as in the case of certain Greek projects.

The First Yaoundé Convention, which entered into force on 1 June 1964, gave the EIB the opportunity

<sup>55</sup> BDF Archives, 1489200205/207, note from Yves Le Portz sent to Pierre-Paul Schweitzer, vice-governor of the Banque de France on 'current issues at the EIB', 10 November 1962.

<sup>56</sup> See map 1, p. 103.

to work closely in partnership with the EDF and to expand its activities to cover a considerable number of states, in particular the OCT that benefited from the terms of this convention by decision of the EEC Council of Ministers on 25 February 1964.

But what role did the EIB have to play in the process of granting and managing aid allocated from EDF resources? In fact, the European Commission and the EIB simultaneously appraised projects proposed by the Commission, but it was the bank that proposed the methods of financing and was responsible for managing the loans. The procedures for this activity were altered slightly when the agreement was renewed in 1969.

On 20 July 1969 a Second Yaoundé Convention was signed, renewing or modifying certain provisions of the previous agreement. The new convention entered into force on 1 January 1971 for an additional five-year period. It applied to the AAMS but also to the OCT, following a decision taken by the Council of Ministers on 29 November 1970. It offered increased financial aid totalling 1 billion u.a. (918 million for the AAMS and 82 million for the OCT). EDF grants made up 81% of the financial aid, while the proportion of ordinary loans that the EIB could allocate from its own resources rose to 10%, or 100 million u.a., in accordance with the decision of the board of directors of 17 July 1969. The governors had accepted this increase of more than 40% compared to the limit set by the First Yaoundé Convention on condition that the Member States would extend their guarantee beyond the sum of 70 million u.a. invested by the EIB in the form of ordinary loans. Lastly, the

bank continued to manage special loans allocated from EDF resources, which under a new arrangement could be used to form company risk capital with a 3% interest subsidy, a facility which had proved difficult to apply under the first convention. Furthermore, in the interests of efficiency, the partnership established between the EIB and the Commission for the management of special loans was extended. The EIB appraised all aspects relating to industrial projects, interest subsidies and the formation of risk capital. It also managed loans from all other sectors, but for which the European Commission was responsible for implementation and the financing plan.

EIB financial aid outside the Community appeared to represent significant sums, judging by the provisions of the various agreements. Nonetheless, in the eyes of the management committee it remained relatively 'small, as long as it is limited by the association agreements'<sup>57</sup>. Thus, strengthened by an experience that, all things considered, had been beneficial and presented few risks, at the beginning of the 1970s the president of the bank, 'to the extent that the Bank can develop its recourse to the international market', announced his intention to 'increase its activities outside the Community'<sup>58</sup>.

### 3.3. Many and varied operations

In reality, it was only from 1963 that the EIB extended its operations to the associated countries. In 1972, on the eve of the first enlargement, they had received together almost 385 million u.a., including 155 million from own

<sup>57</sup> BDF Archives, 1489200205/207, note from Yves Le Portz sent to Pierre-Paul Schweitzer, vice-governor of the Banque de France on 'some current issues at the EIB', 10 November 1962.

<sup>58</sup> EIB archives, Outlook for activity from 1973 to 1978, note from Yves Le Portz to the board of directors, 'development of the bank's activity during 1973', 9 February 1973.



Map 1

# The EEC and the Associated States

The activity of the EIB from 1963 to 1972 (in million u.a.)

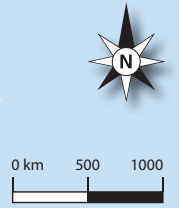
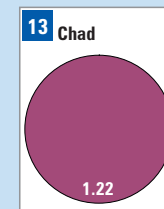
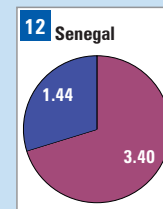
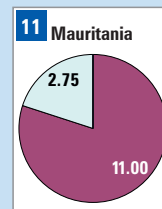
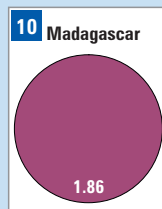
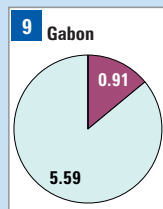
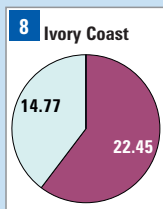
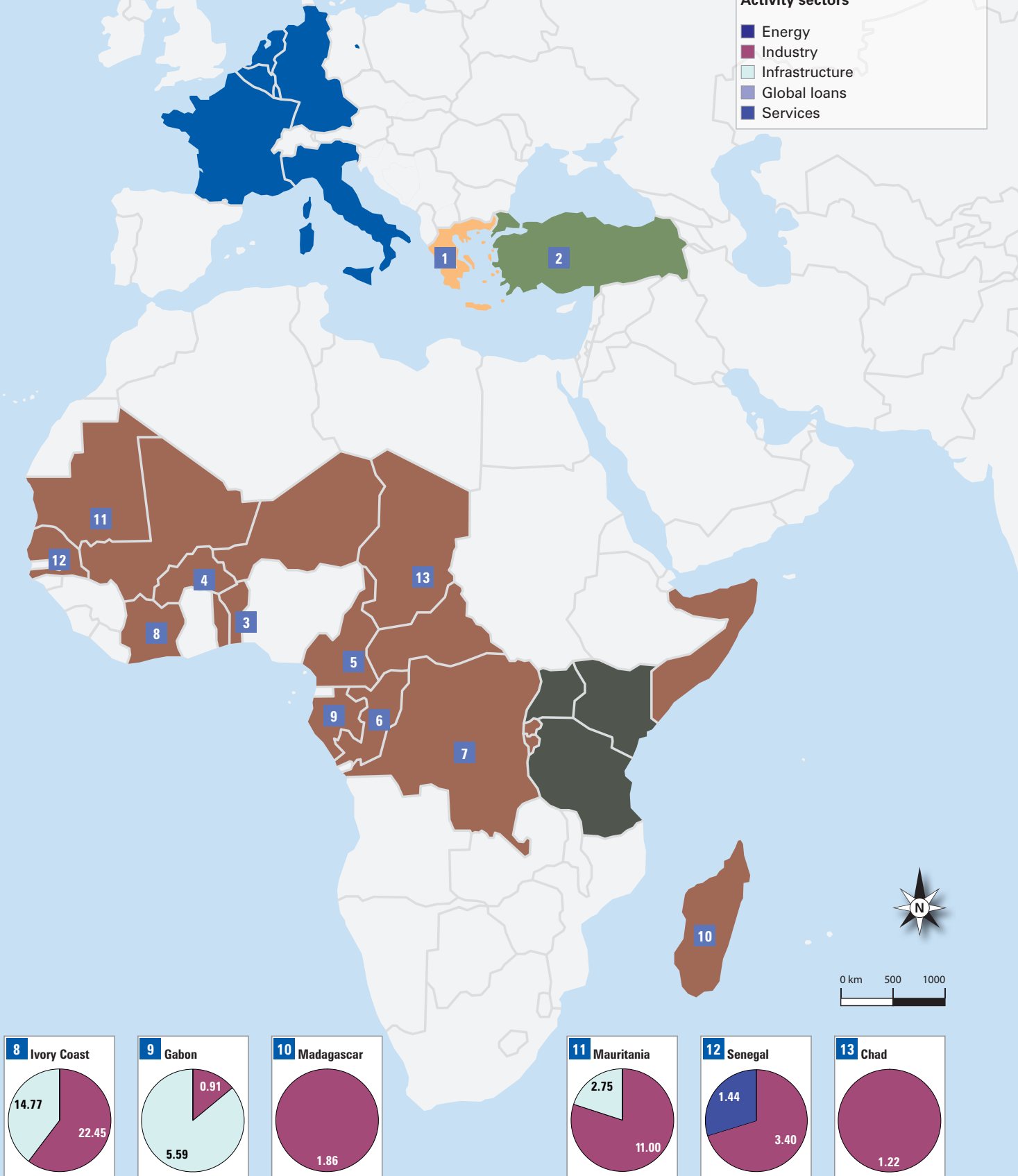
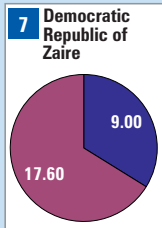
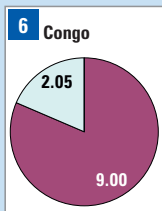
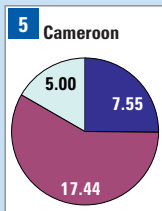
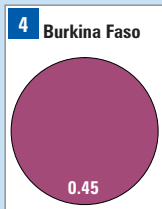
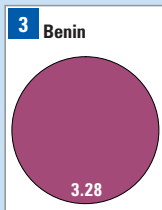
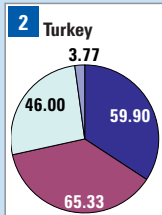
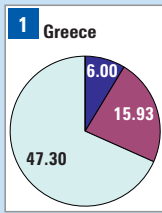
Source EIB

**Associated States**  
(*signing of the agreement*)

- Greece (9 July 1961)
- Turkey (12 December 1963)
- Yaoundé 1 (20 July 1963)
- Yaoundé 2 (29 July 1969)

**Activity sectors**

- Energy
- Industry
- Infrastructure
- Global loans
- Services





*Gécamines, an example of co-financing by the IBRD and the EIB in the mining sector. The Mining Union of Haut Katanga (French acronym UMHK), founded in 1906, was the world's third largest copper producer and largest cobalt producer when independence was granted to the Belgian Congo in 1960. In 1967, the Congolese government nationalised its assets and concessions and created the state-owned company Gécamines. The EIB contributed towards extending and modernising the installations, as shown in the following photographs taken in 1952 (above) and in the 1980s (right). In 1976 it partnered the IBRD on a joint mission studying the company's product distribution networks<sup>59</sup>. After the setbacks suffered by Gécamines up to 1992, the George Forrest International group, which had its historic roots in that region of the Congo, launched various partnerships in 1997 including the treatment of the Lumbumbashi slag heap, a mountain of waste accumulated over time. The exploitation of a section of the 'Big Hill' began in 2000. It yielded copper, cobalt and, above all, high content (70%) zinc oxide.*



<sup>59</sup> World Bank archives, serial numbers 1383093, 1382003, 1382004, 1382005, loan 1090 (Gécamines).

resources and 230 million from Member State or EDF resources, despite the fact that the sums set out within the framework of the Second Yaoundé Convention had not yet been committed in full. This represented almost 100 contracts signed and yet less than 15% of the bank's total activity.

### 3.3.1.

#### **A strong geographical concentration of loans**

The map provided in this chapter shows that the majority of loans granted by the EIB in the associated countries went to Turkey (45%), then to the AAMS (37%) and then to Greece (18%). It should be noted that, by contrast with Turkey or the AAMS or OCT, for whom all or almost all of the sums foreseen could be granted, during the period 1963-1972 Greece signed only 15 loans for a total of 69 million u.a. The first associated country, Greece experienced the inevitable teething problems of the new activity assigned to the EIB, but also had to find projects meeting the bank's criteria, a process that proved to be fairly slow in the industrial sector. The freezing of the financial protocol after the 1967 coup provides another aspect to the explanation.

On the other hand the map shows a concentration of loans to states that experienced improved economic development, such as Ivory Coast and Cameroon, or Mauritania and Zaire. This stemmed from the need for the EIB to find projects that were economically, financially and technically viable, and also to assure itself of their impact on the balance of payments. In addition, it should be remembered that the loans, like those granted in the Member States, financed only part of the cost of any project. This meant that the bank had to work with other development aid bodies, primarily bilateral bodies such as the French Caisse

Centrale de Coopération Economique (CCCE), which was very active in the aforementioned countries. This undoubtedly made it easier for the bank to support them. But the EIB also acted with international financial institutions, most importantly the IBRD. At first this partnership consisted of exchanging information with bodies that had many years of experience in these territories, with the aim of identifying possible projects for funding, but it also led to co-financing. Co-financing enabled the different institutions concerned to draw up a more structured financing plan, but also to divide up a large project so that each party's involvement could vary according to its remit.

### 3.3.2.

#### **Specific areas of intervention**

The distribution by sector of EIB loans to Associated States, shown again on the above map illustrates how the bank adapted its interventions to the specific needs expressed by the borrowers. In Greece and Turkey the bank was primarily involved in financing infrastructure, whereas in the AAMS and the OCT it was mainly industrial projects that benefited from its loans.

Under the First and Second Yaoundé Conventions the EIB contributed in the main towards the financing of the industrial sector; by the end of the two conventions 36 industrial projects totalling almost 130 million u.a. had received funding from the bank, as opposed to 27 infrastructure projects totalling 100 million u.a., bearing in mind that there was a notable shift in favour of these infrastructure projects during the implementation of the Second Yaoundé Convention. In 1969 87% of the bank's financing concerned the industrial sector. The majority of the industrial projects involved mining industries (roughly 45%), for example the potash

## The EIB and the World Bank



The World Bank, which is in fact a group made up of the IBRD, created in December 1945 following the Bretton Woods agreements, primarily to help reconstruction in Europe and Japan, the IDA (International Development Association), founded in 1960 to assist the least developed countries, and the IFC (International Finance Corporation), established in 1956 to finance private enterprise, has maintained close relations with the EIB since its origins. The WB's statutes and organisation served as a model for those of the EIB, and it paid close attention to the plans for the creation of a European investment bank that had existed since the late 1940s, its president, Mr Black, listening carefully to the proposals made within the OEEC. The IBRD supported European countries during this period and gave its backing to development in Italy in particular. Three of the first EIB loans, in Italy in 1959, and also the hydroelectric power station project in the Grand Duchy of Luxembourg in the same year, were granted at the same time as the projects were receiving financial support from the IBRD.

It was outside Europe, however, in areas where the IBRD became involved following decolonisation, that collaboration between the two institutions was most significant. Here they shared a common mission: to contribute towards economic and social development in poor countries on behalf of groups of industrialised countries. The archives of the EIB and the World Bank provide a clear picture of the close links that were established. There is evidence of frequent contact in addition to the meetings that gradually became institutionalised and in which the EDF took part, to report on action taken on either side, to learn about possible projects to be funded or resolve technical or financial issues relating to a particular project. This contact was established at staff level, to share detailed information on economic data on specific countries and on the terms of loans and to exchange statistics regularly. It is also interesting to note the similarity, including in format, of the documents presenting investment projects to be carried out in developing countries. More personal relationships were also formed between specialists who often already knew one another from previous work, and this contributed towards an atmosphere of healthy collaboration.

*Émilie Willaert*

*Textile printing in Libreville (Gabon). The EIB was heavily involved in financing textile industries in the AAMS. The bank granted an ordinary loan of 400 000 u.a. to the Société industrielle textile du Gabon (Sotega) (1968). It also regularly financed the company Cotonnière industrielle du Cameroun (CICAM) (1965, 1969 and 1970) and was involved in the development of cotton production in Ivory Coast (1969) and the creation of a textile plant at Fort-Archambault in Chad (1967). In 1971 it granted a loan to the Société financière de développement (Sofide) to fund an extension to a synthetic textiles factory in Kinshasa. Lastly, in 1972, the EIB contributed towards the financing of a spinning and weaving factory in Dimbakro by the Union industrielle de Côte-d'Ivoire (UTEXI) and a cotton ginning factory and gins for the Kahone factory in the Sine-Saloum region of Senegal.*



mines in Congo-Brazzaville (now the Republic of the Congo). Other sectors, such as agri-foods, phytosanitary products and the textile industry also received support from the bank, however. These companies, often located in states whose economic situation gave the least grounds for concern, acted as currency generators because their produce was intended for export, and were sometimes African subsidiaries of European companies. The exploitation of agricultural resources also generated currency and received loans from the bank, which financed plantations of rubber, palm oil and cacao trees. Lastly, the EIB's involvement in infrastructure projects increased in the late 1960s and concerned in particular the development of road and rail links following the example of the trans-Cameroon railway. The bank's loans could also aim to develop

ports and port infrastructure, as in Paramaribo, or airports. The aim of the interventions was to improve trade, to promote exports and to unlock particular regions.

By contrast, the EIB's loans to Greece and Turkey under their respective first financial protocols were primarily focused on infrastructure projects and demonstrate the low level of the bank's interventions in the industrial sector. Through the roads, electricity installations and irrigation, the landscape in these states bears witness to the financial commitment of the European Community under the association agreements. Examples of this include the bank's involvement in the Pinios or Karditsa plain irrigation project in Greece and the building of the Keban dam in Turkey.



*San Pedro – Issia road (Ivory Coast): an example of EIB-EDF co-financing. Roughly 210 kilometres link the town of Issia, located in the ‘cocoa belt’ at the heart of Ivory Coast, to the port town of San Pedro in the Gulf of Guinea. To improve communications between the two, the EIB helped to finance the modernisation of the road, and its asphaltting in particular. This project, costing 16.9 million u.a., received a budgetary contribution covering 12.8% from the Ivorian State, an EIB loan making up 46.8% and a special loan granted by the bank using EDF resources for the remainder of the sum.*

*The EIB financed infrastructure projects in the AAMS (see right, train at Édéa station, United Republic of Cameroon, 1963). Using EDF resources, the EIB granted a special loan of 4 million u.a. over 40 years to the Cameroon state railway (Regifercam) to build the infrastructure for the second section of the trans-Cameroon railway between Bélabo and Ngaoundéré, over more than 330 kilometres. In addition to the bank’s support, this project also received a long-term loan from USAID and the Caisse Centrale de Coopération Economique. This loan was to be instrumental in the economic development of the country.*



*The Keban dam. Situated on the Euphrates, the dam received several EIB loans. It is of particular interest as it was one of the largest projects undertaken to exploit hydraulic energy in Turkey. In addition to constructing a dam, the scheme also included building a power station and laying transmission links to connect the power station to Ankara and Istanbul. Work began in 1966 and cost over 450 million u.a., the EIB contributing 10%. The project is also of note owing to the creation of a financing syndicate organised by the World Bank and including Member States such as Germany, France and Italy.*



With regard to infrastructure projects, the bank of course had to ensure that they were of economic value to the development of the regions in question, but above all it had to find partners in those regions that would be capable of managing their implementation. It was for this reason that the EIB principally worked with public bodies such as the state electricity company and national road fund in Greece. Often, the Greek and Turkish states were themselves the borrowers and made the funds available to their operational units.

Furthermore, to overcome the difficulties the EIB faced when working in the industrial sector due to the lack of investment the sector had received – one must remember the low level of industrial development in these two associated states – and also the limited area of projects submitted in comparison to those the bank was accustomed to examining in the course of its activities in the Member States, the EIB adopted a number of specific policies. Thus, in Greece and Turkey, it worked with financial institutes such as the Hellenic bank for industrial



*The Karditsa plain in Thessaly. This plain was to be developed to increase its production of cotton, sugar beet, fruit and vegetables; the produce could be exported and the work employed almost 10 000 people. The EIB was involved in funding the irrigation of an area of 16 000 hectares, using the hydroelectric facilities on the river Acheloos built in 1960, also with support from the bank. This project, aimed at increasing the income of local people, was the recipient of a 5 million u.a. loan representing nearly 30% of the total cost of the work.*

development (ETBA) and the Turkish bank for industrial development (TSKB) who became regular intermediaries in granting and managing indirect loans. It also actively contributed to the study carried out by the European Commission on developing industrial centres in Greece; from the very beginning of its work in the associated states the EIB was keen to emphasise the role it had to play in providing technical assistance.

What conclusions can be drawn from these first years of working outside the EEC?

With respect to Turkey and the AAMS/OCT, the bank fulfilled the contract set by the association agreements, having used the maximum sum of financial aid within its mandate. With Greece it was a different story. There remained an outstanding balance when the first financial protocol ended and it could not be renewed owing to the Commission's decision to limit the functioning of the association in order to condemn the coup d'état. The fact that Greece was the first associated state undeniably contributed to this situation. Much work was required in searching out projects, making contacts and finding partners. Both sides also had to make an effort to understand and adapt to one another. This last point, for Greece but also for the other associated countries, represents without a doubt one of the most fundamental benefits given to these states by the EIB and, by extension, by the European Community.

The support given by the bank helped to establish healthy working methods and management

and to make the beneficiary states aware of current economic and financial standards within EEC countries, which was necessary to their becoming closely integrated into the unique economic group that was evolving. There were of course tangible results on the ground (hectares irrigated, electricity transmitted, jobs created, etc.), but in countries with immense needs and where other financing bodies were active, including the World Bank or the States themselves under bilateral agreements, it would be pointless to calculate and quantify the impact of the EIB's activity.

The expansion of the bank's operations outside the Community demonstrates that these operations were not intended to compete with its activities within the Member States, but rather to complement them, since one of the EIB's principal roles in the 1960s was collectively to connect the Member States to the economic fortunes of developing countries through practical action and to foster the continuation of the economic and cultural links resulting in some cases from a shared past. Working in close connection with the Commission and its EDF, through the positions it took and the issues that inevitably arose in the course of its activities, it shared in the implementation of a common European development aid policy. Alongside the IBRD, the EIB even made this European policy form part of an international project.

*Émilie Willaert*







# Part Three



The EIB from  
1973 to the  
mid-1980s:  
change in scale  
and development  
of activities

## The EIB and the EEC's first enlargements (1973-1985)



*It was at The Hague, the seat of the Government of the Netherlands, that the heads of State and of Government of the Six initial Members chose to meet on 1 and 2 December 1969. As well as deciding to create an economic and monetary union, they gave the go-ahead for the launch of negotiations on the enlargement of the Communities<sup>1</sup>. In the front row, from left to right: Mariano Rumor, Willy Brandt, Georges Pompidou, Piet de Jong, Gaston Eyskens, Jacques Chaban-Delmas and Pierre Werner. Second row, from left to right: Aldo Moro, Gaston Thorn, Maurice Schumann, Pierre Harmel, Joseph Luns, Walter Scheel.*

Although there were applications from the UK to join the EEC during the 1960s, these were vetoed by General de Gaulle, and there was a wait until the Hague Summit in December 1969<sup>2</sup>, when the heads of State and Government decided to enlarge the territory of the Community. The accessions of Denmark, Ireland, Norway and the United Kingdom of Great Britain and Northern Ireland were within reach<sup>3</sup>, but the negotiations were long and difficult. Nonetheless, on 22 January 1972 they concluded in a treaty of accession which Norway did not ratify.

Similarly, after the fall of the Colonels, on 12 June 1975 the Greek Government submitted an official

application to join the common market countries. Greece saw the EEC as a promise of economic development and a consolidation of democracy. Negotiations began a year later and were concluded in Athens on 28 May 1979 by the signing of a treaty of accession setting a date of 1 January 1981 for Greece's entry into the EEC.

Thus, between 1973 and 1985, the Community grew from six to ten members which on accession became shareholders in the EIB. This necessitated lengthy thought and much preparatory work in order to welcome the new Member States in the best way possible to what was still just a small institution. However, it was not to remain small for long.

<sup>1</sup> See Georges Pompidou's speech, quoted on p. 141 of this book.

<sup>2</sup> For the decisions taken during the Hague Summit, see the next chapter.

<sup>3</sup> On 1 January 1973, Denmark, Ireland and the United Kingdom became members of the EEC. In autumn 1972 the Norwegian people rejected this option by referendum. For the new members' reasons for joining, see: Kaiser, W., et Elvert, J., (dir.), *European Union Enlargement. A comparative history*, Routledge, London-New York, 2004.

## 1.1. The EIB 'has arrived at a turning point in its history'<sup>4</sup>

Dieter Hartwich still remembers very well his early days at the bank; he was its secretary general from 1985 to 1993 and at that time was one of the 'inner circle' of management.

In 1974, he left his job at the World Bank to head the department for operations in the associated countries at the EIB, which seemed to him "small fry" compared to the global institution in Washington DC<sup>5</sup>. However, he took up his post at a time when the bank's growth was about to transform it into a group, the EIB group, with a brief to operate globally and at the same level as the World Bank group.

This growth has been due in part to the increase in the number of shareholders, from the original six to twenty-seven today. The EIB's capital rose from 1 billion units of account in 1957 to nearly EUR 164 billion in 2007<sup>6</sup>, and the scope of its activities has expanded significantly. Whereas before the 1973 enlargement it covered the territory of the six members of the common market, and then of the countries that became associated later, such as Greece, Turkey, the Associated

African and Madagascan States and the Overseas Countries and Territories<sup>7</sup>, it expanded in line with enlargements and new association agreements<sup>8</sup>.

Thus, each enlargement<sup>9</sup> meant a change in the structure of the bank's shareholder body and an increase in its capital, as well as an expansion in the area of its financial influence. Also affected, however, were the size and the composition of the board of governors and the board of directors, which grew; this gave rise to a change in the way in which matters were debated and decisions taken within the bodies that discussed the bank's general policy and more specifically its lending policy. In addition, it was necessary to integrate the new shareholders into the various bodies within the bank in the best possible way, including within the management committee, so that their desires and visions could be represented there. When seen in this way, the enlargements to the Community's territory in many ways represented a very difficult task for the EIB. On the one hand, the bank had to continue to operate as smoothly as possible. On the other hand, its structures and the make-up of its staff<sup>10</sup> had to be adjusted to a new environment and new challenges.

<sup>4</sup> Terms used in the final communiqué of the Hague Summit (2 December 1969), point 3, Bulletin of the European Communities, January 1970, No 1, which can also be found on the European Navigator, <http://www.ena.lu/>.

<sup>5</sup> Interview with Dieter Hartwich, 21 November 2007. At the World Bank, Dieter Hartwich was in charge of the Mediterranean, the Middle East and central Europe.

<sup>6</sup> The development of EIB capital is given in appendix 2, tables 6, pp. 348 et seq.

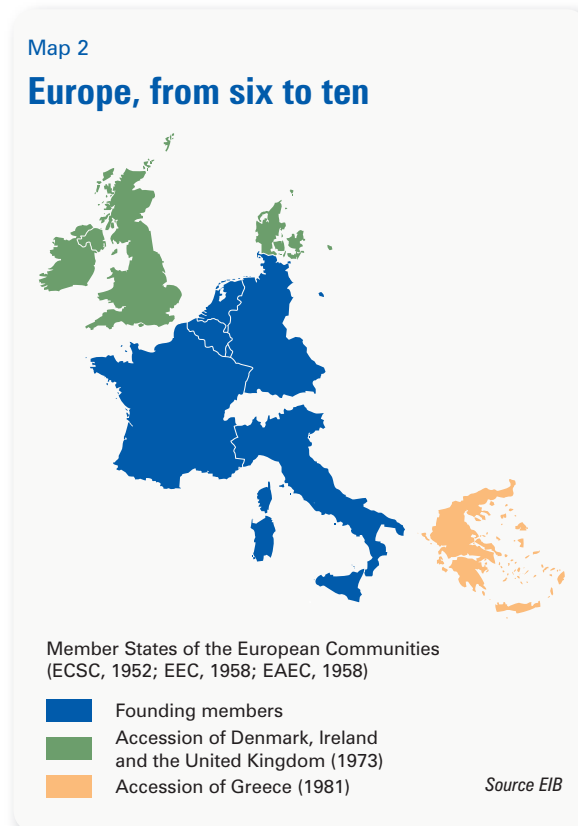
<sup>7</sup> The EIB's activity in EEC and associated countries from 1958 to 1972 is the subject of Chapters 2 and 3 of Part Two of this book.

<sup>8</sup> The EIB's activity outside the EEC from 1973 to 1985 is described in Chapter 3 of Part Three of this book and, for the period after 1985, in Chapter 3 of Part Four.

<sup>9</sup> 1973 (Denmark, Ireland, United Kingdom) and 1981 (Greece) for this study; then 1986 (Portugal and Spain), 1995 (Austria, Finland, Sweden), 2004 (Cyprus, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia, Slovenia) and 2007 (Bulgaria and Romania) are the subject of a separate chapter in Part Four of this book.

<sup>10</sup> Issues related to staff composition are dealt with in chapter 1 of Part Five part of this book.

The enlargements of the EEC, however, also increased the geographical area of the EIB's responsibilities, particularly since the new Member States, whether in the case of the United Kingdom, Ireland or, again, Greece in 1981, experienced significant imbalances in regional development<sup>11</sup> which it was the bank's remit to redress. This situation enabled it to contribute to the growing importance of the Community's regional policy and to the structural balance of an increasingly integrated Europe. In fact, approximately 75% of the bank's loans went directly to the development of underdeveloped regions, also serving as a guideline for the objectives of the Structural Funds and the other financial instruments in the fields of regional, structural and cohesion policy. Having said that, the EIB remained a relatively independent Community institution, which enabled it to have a significant amount of flexibility in its activities<sup>12</sup>. As a result its lending policy did not necessarily have to reflect the aspirations of the Commission, among others. It could also follow up on the political choices of its decision-making bodies, especially the board of governors or the board of directors<sup>13</sup>. This contrasts with the declared principle of the EIB whereby its administrative and financial autonomy enables it to consider each project to be financed exclusively on the basis of objective criteria and to take decisions purely in terms of the quality of projects without having to take



account of quotas for specific countries or economic areas. The day-to-day management of the bank seems to fully back up this last approach, although a suspicion is sometimes expressed in the literature that the board of governors only considers the bank's independence important

<sup>11</sup> The new Member States' loan needs were certainly dependent on their level of development. It was limited for five of the new members from 1973 to 1995, because of their relatively well-developed economic structure. Only Ireland, Greece, Portugal and Spain needed large loans, as did the countries which joined the European Union at the beginning of the 2000s.

<sup>12</sup> Weidenfeld, W., and Wessels, W., (Dir.), *Europa von A bis Z. Taschenbuch der europäischen Integration*, Institut für Europäische Politik, Europa Union, Bonn, 8<sup>th</sup> edition, 2002, p. 140.

<sup>13</sup> For example, Jürgen Föcking states that the distribution of EIB loans to the various Member States depends on the power relationships in the Bank's decision-making bodies. Thus, countries which have fairly strong a priori voting powers in the board of governors and board of directors obtain larger loans for projects on their territory. Similar successes can also be won through the formation of coalitions within these bodies. For more on this subject, see: Föcking, J., *Die Darlehenspolitik der Europäischen Investitionsbank*, Peter Lang, Frankfurt/Main e.a., 2001, p. 189.

## The EIB and the quest for its institutional independence

The EIB's institutional independence was not something taken for granted in the years following its establishment, since at that time various visions of its mode of operating existed side by side. In fact, there was a tension between the EIB's wish to be institutionally independent and its obligation under the rules to devote the major part of its loans to Community territory and to the areas and policies beyond its borders defined by the Community. During its first ten years the extent of the use of the EIB as an instrument of policy was particularly fluid, mainly with regard to its deployment outside the Community. The debates which were held during the first half of 1962 in the working group set up by the board of governors to resolve the procedures for granting loans to projects outside the Community bear witness to this. Whereas a majority of the members of this working group wanted to see a dual guarantee for loans to the partner countries (i.e. a guarantee from the state in which the loan was made and a guarantee from the Member States of the common market), a minority were in favour of deducting the required amounts from the bank's reserves in the event of non-repayment, or having recourse to capital markets in order to avoid affecting the Member States' budgets. This attitude was taken by the future partner countries as an expression of lack of confidence on the part of the Community regarding their desire to fulfil the obligations of the association agreements in a proper manner<sup>14</sup>.

The wish for a dual guarantee for loans outside the EEC had been expressed back in the early 1960s by the EIB's management committee, for which the issue of the possibility of influence by the Member States on the bank's lending policy was clearly less relevant than their guarantees. The board of governors, however, rejected this call on 10 June 1962. It turned down a compromise proposal put forward by the bank under which, during the first three years following the granting of a loan, no guarantee from the Member States would have been applied. Nonetheless, the majority of governors voted in favour of a guarantee designed to cover the political risks for these loans outside the EEC<sup>15</sup>. The presentation of these debates on the dual guarantee for external loans by the bank provides a particularly good illustration of its position within the spectrum of EEC institutions; in the early 1960s this position was not yet completely clear.

<sup>14</sup> On this point, the German delegates in particular argued for greater institutional independence. On the discussions regarding the granting of EIB loans in the associate states, see: Politisches Archiv des Auswärtigen Amtes Berlin (below: PA-AA), record B20-200, volume 1003 (European Investment Bank). Report to the board of governors dated 29 June 1962. A note was attached to the report, entitled "Note der deutschen Delegation zur Frage der Besicherung der Darlehen der EIB an die assoziierten afrikanischen Staaten und Madagaskar".

<sup>15</sup> On this subject: PA-AAB 20-200, volume 1003 (European Investment Bank), Note on an unofficial meeting of the EIB's board of government held in Echternach on 10 July 1962, Subject: Report by the working group dated 29 June 1962.





Ulrich Meyer-Cording (left), vice-president of the bank from May 1964 to April 1972, had previously been Ministerialdirektor at the German Ministry of the Economy where he was a colleague of Hans von der Groeben (right) before the latter became a European Commissioner in 1958. The two men remained closely connected professionally because, while one, in Brussels, was explaining the viewpoint of the Bonn government to the “Europeans”, the other, in the German capital, was setting out the viewpoint of the Europeans to the “Nationals”<sup>16</sup>. Having left office in 1970, Hans von der Groeben was nominated for the post of vice-president of the bank when the make-up of the bank’s management committee was enlarged<sup>17</sup>.



In fact, the divergent opinions of the members of the working group reflected different conceptions of the relationship of the bank with the governments of the Member States, on the one hand, and with the EEC Commission on the other, as well as the extent of influence that the bank was willing to allow the Member States and the Commission in its decisions.

While there was from the outset a majority within the board of governors that was more or less in favour of freedom of action for the EIB, the documents reveal throughout the 1960s an increasing autonomy for the bank and a more and more confident attitude towards the attempts by some Member States to influence its decisions, particularly when significant loans were being granted. On this subject, the bank’s management committee adopted the practices of other national and international banks, such as the World Bank or the Caisse Centrale de Coopération Economique (CCCE). Thus, vice-president Meyer-Cording informed Mr von der Groeben, the European Commissioner, on 5 July 1968<sup>18</sup>, of a decision by the EIB’s management committee to act like them, by granting global loans to development banks. He also made an express reference to the desire only to decide on this new lending policy in agreement with the Commission. It is clear that the bank’s executive was aware of its special position as an instrument of the EEC’s structural and cohesion policy. A comparison with the hesitant attitude displayed just six years earlier, however, shows how far the bank’s executive had in the meantime learnt to conduct itself in an assertive manner.

Finally, one might say that the fact that the EIB managed by the end of the 1960s to become independent and respected by member countries and the Commission alike as an institution of regional policy, was due to the skilful positions taken by its management committee. But that is also a reflection of the Bank’s successful use of its own room for manoeuvre. On this subject, experience gained outside the Member States enabled the Bank to develop in this way, which was especially useful during discussions on the first enlargement of the EEC at the beginning of the 1970s.

*Jürgen Elvert*

<sup>16</sup> Groeben, H. von der, *Deutschland und Europa in einem unruhigen Jahrhundert. Erlebnisse und Betrachtungen*, Nomos Verlag, Baden-Baden, 1995, p. 316,

<sup>17</sup> EIB archives, minutes of the meeting of the board of governors held on 20 July 1970, CG/27/70, p. 1.

<sup>18</sup> Note by Ulrich Meyer-Cording to Hans von der Groeben dated 5 July 1968 in: PA-AA B 20-200, volume 1961 (European Investment Bank).

if the most influential Member States have the impression of being well treated<sup>19</sup>. This suspicion dies hard. Every enlargement of the Community territory and therefore every enlargement of the board of governors raises the issue of the principle of the bank's independence, which is a principle that has to be affirmed in relation to the interests of the Member States<sup>20</sup>.

## 1.2. The first enlargements: a legal, administrative and logistical challenge

For the EIB the first enlargements of the EEC, and more especially that of 1973, were a large-scale logistical and administrative challenge. Like the other institutions, the Bank did not at that time have the experience to enable it to cope with this development. Its preparatory work can be compared to that of the Council of Heads of State and Government: its structures had to be modified so that following the enlargement negotiations it would in the best-case scenario emerge stronger, or in any case unscathed. Thus it was that the political objective of the Council and the Commission was to use the dynamic created by the accession negotiations to deepen the existing Community structures. What was the challenge for the EIB? How did it prepare for the arrival of the new countries? What choices did it make with regard to its financial structures and decision-making bodies?

### 1.2.1.

#### On what basis should the Bank's capital be modified?

In December 1970, one year after the Hague Summit, the Bank's first work on the legal and financial problems posed by the EEC's enlargement was presented in a memorandum<sup>21</sup>. What did enlargement mean for the institution? What changes was it going to lead to? But firstly what positions should the Bank adopt? The authors of this study started from the principle that the rule adopted at the Community level – that every new Member State had to accept the whole Community acquis on joining – also had to apply to the EIB and that, on becoming a member of the EEC, a new Member State automatically became a shareholder of the EIB in accordance with Article 129, paragraph 2 of the EEC Treaty.

The first important set of problems raised in the memorandum regarded the new countries' contribution to the bank's capital. Indeed, to calculate their contribution, the entire capital and own resources of the bank had to be adjusted to the level of its balance sheet at the time when the accession agreements were to come into effect. Moreover, the authors of the memorandum knew that the calculation of the new member countries' contributions was a mainly political issue. But they offered several possible solutions based on historical and practical experience and the technical issues involved. Firstly they referred to

<sup>19</sup> On this subject, see in particular Gloystein, P., *Finanzierung der industriellen Strukturwandels durch die EG*, Weltarchiv, Hamburg, 1978, p. 215.

<sup>20</sup> Föcking even supports the theory that we should not have expected an increased concentration of the EIB's financing on underdeveloped regions, given the decision-making organisational structures at the time. In effect, the board of governors and board of directors, two largely political bodies made up of representatives of the Member States, make decisions on the policy of managing and granting loans. For more on this subject: Föcking, J., op. cit., p. 193.

<sup>21</sup> EIB archives, box XXXI.11, memorandum on the subject of the accession of Great Britain, Ireland, Denmark and Norway to the EIB, dated 18 December 1970.

the initial model of 1958, in which the capital contribution to be paid by Member States was to be calculated based on gross domestic product (GDP) and also on the results of political agreements. Thus it was that Italy's contribution was proportionately higher than planned because Italy was expected to benefit more from loans from the Bank<sup>22</sup>. The EIB's memorandum of December 1970 proposed a mixed calculation method to determine the new initial capital and the respective contributions of the new Member States. This foresaw a capital increase from 1 to 1.38 billion u.a. and that the British contribution would be 21.74%, which would be the same as that of the Federal Republic of Germany and France. For Denmark the contribution would be 2.90%, for Norway 2.17% and for Ireland 0.73%<sup>23</sup>.

The EIB also proposed that new members should contribute to its reserves, which were the result of management surpluses and the shareholders' refusal from the beginning to accept the payment of dividends. Indeed, the Bank clearly emphasised that its credit capacity was based on the relationship between its reserves and its capital. The level of accumulated financial reserves was also to guide the Bank's activities in associated and overseas countries. If this work, which the Community and the Member States desired and appreciated, was to be continued as successfully the reserves would have to be increased from new members' contributions<sup>24</sup>. As a result it

was proposed that new members' contributions to the Bank's reserves would be set in proportion to their respective contributions to the capital. According to the memorandum, it would also be necessary, in order to set the total amount to be contributed by the new members, to reach an agreement between them and the older members and to have this decision approved by the board of governors, preferably by qualified majority<sup>25</sup>. In contrast to what occurred at the creation of the EIB, the payments would have to be made upon accession, especially by means of full contribution to the reserves. The Bank possessed a well-established organisational structure and would immediately be able to begin its activities in an enlarged Community, while taking into account some regulatory exceptions for the lowest-performing members<sup>26</sup>.

### 1.2.2.

#### The first enlargement of the decision-making bodies

With regard to the make-up of the organs of decision the memorandum of December 1970 considered it advisable to enlarge the board of governors from six to ten members. Voting by simple or qualified majority and by unanimous vote would be retained, as well as the rule stating that a simple majority can only be attained when 40% of the capital issued is represented. While this provision would be maintained, a coalition of six countries (Belgium, Denmark, Ireland, Luxembourg, the Netherlands and Norway) could

<sup>22</sup> This issue is dealt with in Part One of this book, dealing with the bank's creation.

<sup>23</sup> EIB archives, box XXXI.11, memorandum on the subject of the accession of Great Britain to the EIB, etc., *ibid.*, table p. 5.

<sup>24</sup> *Ibid.* table p. 6.

<sup>25</sup> *Ibid.*

<sup>26</sup> *Ibid.*, p. 7. Thus, a payment in the form of treasury bonds had been envisaged.

form a simple majority with 17% of the capital. It was also proposed, in order to avoid a veto by a single State, that decisions on increases in subscribed capital and on granting loans to borrowers outside the European territory of Member States could be taken by qualified majority instead of unanimously. The two other issues for which unanimous vote had been required until then (interruption of the Bank's activities and the definition of activities incompatible with membership of the board of directors) were considered less significant by the memorandum's authors. Again, they advised a decision by qualified majority. The EIB would thus become a European institution which would take decisions at the highest level solely by simple or qualified majority<sup>27</sup>. The subsequent process of accession negotiations would determine if it was possible to apply this form of democratisation of decision-making procedures at the European level at the beginning of the 1970s.

In contrast to their proposals regarding the board of governors, the authors of the memorandum recommended a significant change in the process of appointment to the board of directors, so that the latter would not be allowed to become inordinately large. Several possibilities were discussed. It was proposed that the board of directors be enlarged from twelve to seventeen members, each with an alternate. The four largest states (Germany, France, Italy and the United Kingdom) would each have three members and three alternates,

Belgium and the Netherlands would have one member and one alternate, while Denmark, Ireland, Luxembourg and Norway would nominate one member or one alternate. As before, the Commission would have one member and one alternate<sup>28</sup>. The decision-making process within the board of directors, which, with two exceptions was based on decisions by simple majority, was considered practical. Only the case where unanimity was required – the rejection or adoption of a negative decision on a loan or guarantee by the management committee or the Commission – would need to be revised, due to the relative heterogeneity of the new board of directors. Instead, they recommended decision by qualified majority<sup>29</sup>.

Finally, for the management committee, the memorandum specified an additional vice-president. The enlargement of the audit committee was conceivable, although a rotation of its members would be sufficient to guarantee each Member State's interests<sup>30</sup>.

### 1.2.3.

#### Progressive implementation of decisions

During 1971 the EIB's planning took shape in parallel with the progress of the candidate countries' accession negotiations. Although the ideas set out in December 1970 were of a rather theoretical nature, they became increasingly concrete over the autumn of 1971. In November 1971 it was already possible to draw up a work plan for

<sup>27</sup> EIB archives, box XXXI.11, memorandum on the subject of the accession of Great Britain to the EIB, etc., *ibid.*, pp. 8-10.

<sup>28</sup> *Ibid.*, p. 11.

<sup>29</sup> *Ibid.*, p. 12.

<sup>30</sup> *Ibid.*

*A reshuffled board of directors. Upon the first enlargement, the bank's entire organisational structure was changed to take in the new Member States. The board of governors now included three new ministers. When complex negotiations had been completed, the political issue of the representation of the "small States" had been so delicate that the structure of the management committee and the board of directors was altered. The problem was both to take into account the participation in the bank's capital by the Member States in deciding on the number of their representatives, and to enable all of them to carry out functions within the bank's bodies, without too marked an increase in the number, particularly of directors. On completion of the first enlargement, 18 directors and 10 alternates made up the bank's board of directors. The photo shows this enlarged board meeting in 1979, temporarily in the premises of the European Court of Justice in Luxembourg. In the foreground, from left to right, are Chris Sibson and Eugenio Greppi. At the back of the photo are the bank's management committee and the secretary general (from left to right, Mr Esselens, Mr Steffe, Mr Le Portz, Mr Lenaert, Mr Bombassei and Mr Ross).*



various fields. It specified that the preparations for the introduction of English as a new working language at the bank alongside French should be finished by the end of the year. In addition, the general secretariat had to be increased by one person from the United Kingdom. It was also necessary to find a building plot, since the Bank's old headquarters would not be sufficient after enlargement and the corresponding increase in staff numbers. The documentation service and the library would have to be enlarged, especially to accommodate studies on the new Member States' economic and financial systems<sup>31</sup>. In parallel with these measures it was necessary to prepare the negotiations with the associate States, which had already asked for an increase in their loans<sup>32</sup> in view of the planned enlargement.

For the first half of 1972 the specified measures were the introduction of regular meetings between the management committee and the new Member States and the development of a network of contacts. Moreover, it was appropriate to analyse carefully the financial practices of the new members and to take them into account in the bank's coming activities. Furthermore it was necessary to identify potential spheres of influence for the EIB within the enlarged European institutions, for example in the fields of regional policy and technological development. Staff recruitment procedures also

had to be adapted to the new conditions and the additional costs of the increase in staff and the requisite investment in equipment had to be estimated<sup>33</sup>. By the first half of 1972 internal bank documents had to be translated into English, the bank had to take on enough specialists from the new Member States and it had to prepare the first projects requiring financial assistance in these States<sup>34</sup>. From then until the end of the decade the EIB had to open accounts in the new Member States, move into new offices and draw up a new staff organisational chart. So the first session of the board of governors in its new form was planned for 1973. In the meantime the new board of directors also had to be put in place and the new posts required by the enlargement had to be filled. Lastly, negotiations with the African states which were members of the Commonwealth had to be prepared<sup>35</sup> and in a related move the Yaoundé Convention had to be renewed<sup>36</sup>.

The thinking that preceded the first enlargement clearly shows that in view of the changes it had to identify the EIB's management tried to adapt and restructure in order to optimise the bank's operations. In this respect the plans to modify the majorities required in the board of governors and the board of directors are worthy of special note. The thinking obviously started from the principle that an enlargement of these boards would in itself make decision-making more difficult. The

<sup>31</sup> In 1970, the EIB had 194 staff, and by 1975 there were already 359. See Chapter 2 of Part Five of this book, as well as Appendix 2, table 9, p. 354.

<sup>32</sup> EIB archives, box XXX.4, "Calendar of the Bank's work connected with the accession of new Member States", November 1971.

<sup>33</sup> *Ibid.*

<sup>34</sup> *Ibid.*

<sup>35</sup> The issue of the EIB's activities in the Commonwealth countries is discussed in Chapter 3 of Part Three of this book.

<sup>36</sup> EIB archives, box XXX.4, "Calendar of the Bank's work....", *ibid.*

intention was to counter this trend by reducing the number of decisions taken by majority.

Negotiations on the new wording of the EIB's Statute following enlargement took place during 1971. It was not possible for all the bank's proposals in the 1970 memorandum to be adopted. Thus, the amount of capital following the accession of the new Member States amounted to more than that envisaged and at 1 January 1973 was 2 025 billion units of account<sup>37</sup>. The board of directors was larger than the bank had wished, at 19 members and 10 alternates. While the make-up of the board of governors was reduced as planned, there were various proposals on the table concerning the future size of the management committee. Thus, in September 1971 vice-president Meyer-Cording approached the German permanent representative to the EEC asking him to ensure that only one additional vice-presidency, earmarked for a UK representative, should be created by the Council of Ministers. In his opinion it was not appropriate to create an additional post for the small Member States, given their lower economic weight. Such a decision would only be detrimental to the working capacity of the management committee<sup>38</sup>. The speaking note attached to that document shows how important it was to the EIB to restrict the management committee to five persons. It expressly stresses that in the event of two additional posts being created, a majority of four votes would be necessary for decision-making, which would significantly complicate

operations. In addition a management committee of six members was clearly too large for a bank of the EIB's size. The World Bank, with completely different dimensions, had for a long time been headed solely by a president and a vice-president<sup>39</sup>. On this point, the bank managed to get its way: until the accession of Greece the management committee was limited to only five members.

#### 1.2.4. The accession of Greece

As the natural conclusion to the special relations established by the 1961 treaty of association, Greece's accession to the EEC took effect on 1 January 1981, bringing the number of members of the Community to ten. While the new Member State received a transitional period in the sphere of agriculture to gradually align its prices to Community prices, the abolition of quotas in industry took place immediately and customs duties were eliminated over a planned period of five years. The country's contribution to the Community budget was expected to reach 500 million ecus in 1985. As a small, mainly agricultural country, through its link to the EEC Greece was therefore eligible for loans from the EIB. On 1 January 1981, it became a full member of the EEC, as was the case for countries which joined in 1973.

Compared with what had happened in 1973 the enlargement of the EIB to include Greece was

<sup>37</sup> In the accession agreement signed on 22 January 1972, the capital amounted to 2 070 billion ecus. Following its rejection by the Norwegian referendum, the amount was reduced by 45 million ecus, representing Norway's share.

<sup>38</sup> EIB archives, box XXX.10, note from Mr Meyer-Cording to Ambassador Sachs, 20 September 1971.

<sup>39</sup> EIB archives, box XXX.10, oral note on the subject of the make-up of the EIB's management committee, 21 September 1971.

*Exploitation of peat bogs in the Republic of Ireland. In 1976, the company Bord Na Móna received a loan from the EIB of approximately 20 million units of account for an overall investment of slightly over 50 million units of account aimed at exploiting the energy resources in the peat bogs of Ireland. The high organic matter content of peat makes it a very good fuel, once dried; it can then be used in special power stations like that in Ferbane, whose cooling towers are a reflection in the landscape of this old energy-producing activity. The project forms part both of the region's economic development and also of the Community's quest to diversify energy resources during an oil crisis period.*

relatively smooth. It should be said that “the accession of a tenth member had already been anticipated”<sup>40</sup>: Greece occupied the tenth place that had previously been prepared for Norway. The directors agreed to participation by Greece in the EIB’s capital of 112.5 million ecus out of a total of 7.2 billion ecus. With this amount it ranked in between the 210 million granted by Denmark and the 52.5 million representing Ireland’s share<sup>41</sup>.

With regard to the decision-making bodies, one Greek joined the board of governors. In 1981 this was the deputy minister for coordination, Ioannis Paleokrassas. In line with the procedure for the Council of Ministers, the qualified majority then changed to 45 votes<sup>42</sup> out of 63, of which 5 belonged to Greece. Finally, Greece gained a representative on the bank’s board of directors and shared an alternate director post with Denmark and Ireland<sup>43</sup>.

In fact, the greatest challenge posed to the EIB by Greece’s accession, which had been anticipated from the time of its application to join, related to its future activities in the country which “will want to benefit significantly”<sup>44</sup> from the opportunities for loans offered by the bank, thus reflected “in financial transfers and in changes to the share of the richest Member States in some Community funds”<sup>45</sup>.

### 1.3. What was the impact for the bank?

With the increase in its capital and reserves the EIB’s financial sphere of action grew significantly following the EEC’s first two enlargements, as did, by analogy, its area of activities.

In the case of Ireland, it was a state with relatively weak economic structures that entered the EEC. Alongside southern Italy it soon became a key area for the EIB’s support, as shown by the relatively large sums that were lent to it, even when looking only at the 1973-1980 period<sup>46</sup>. The bank thus played a significant role in the “Irish economic miracle” that has been seen since the 1990s. It tried to support the efforts made by the Irish Government to attract foreign investors, to promote the establishment in Ireland of high-technology industrial zones, to reduce unemployment and to promote the economic development of the country as a whole. Thanks to the loans from Luxembourg the Irish Government was able to finance for instance the construction of ready-to-use industrial premises as well as the infrastructure required in the country, such as the modernisation of the communications system and the construction of new roads and new power stations. Irish industry obtained other loans for processing agricultural products and for the use of local resources, although the scale of these loans was much smaller<sup>47</sup>.

<sup>40</sup> “La Grèce et la Communauté européenne”, *Europe en formation*, Special issue No 233, August-October 1979, p. 16.

<sup>41</sup> EIB archives, document 80/398 for the board of directors of 12 December 1980, CA/155/80, “Accession of Greece to the EEC - Protocol No 1 concerning the European Investment Bank”.

<sup>42</sup> Previously, it had been 41 votes.

<sup>43</sup> EIB archives, minutes of the meeting of the board of directors held on 12 December 1980, CA/156/81, p. 12.

<sup>44</sup> Archives of the French ministry of the economy and finance, B 50 501, Association and accession of Greece to the common market (1961-1980), note by J. de Larosière for the minister, “Élargissement des Communautés européennes”, 20 May 1977.

<sup>45</sup> Ibid.

<sup>46</sup> Meyer, B., *Die Europäische Investitionsbank zwischen Markt und Lenkung*, Institut für Wirtschaftspolitik an der Universität zu Köln, Cologne, 1984, p. 315.

<sup>47</sup> Ibid, p. 240.





The United Kingdom also received a disproportionate amount of loans and guarantees from the EIB during the first years of its membership. In the 1970s the country was going through a significant phase of structural change which the EIB supported by means of individual and global loans to industry in the heartlands of Britain, especially in the fields of steel, coal mining and ship-building. The borrowers were mainly large state-owned concerns and companies exploiting North Sea oil. The loans granted in the latter sector in particular, had an impact on the whole of the EEC. They created a large number of jobs in Scotland, which until then had remained structurally backward.

Thus the basic objectives of regional European policy had been followed, both from the point of view of the effectiveness of the activity and in terms of the resultant economic modernisation. It was the same for loans intended for the renewal of the British water supply system and for the numerous loans to connect Scottish infrastructure to the key regions in the south of England, especially in the areas of energy supply, telecommunications and road infrastructure<sup>48</sup>.

Compared with Ireland and the United Kingdom, Denmark's need for loans was much smaller. The EIB's loans went to infrastructure projects in Greenland, once again chiefly in the spheres of telecommunications and energy supply, as well as to large-scale industrial projects in the assisted areas to the west and north of the densely populated Copenhagen region<sup>49</sup>.

Greece, which joined the Community in 1981, was a country of marked imbalances where mountainous regions predominated but were being depopulated as people moved to the large urban centres such as Athens. The growth in the volume of loans to the country was rapid because of the experience acquired through the previous association agreement. Between 1981 and 1985 Greece received nearly 12% of the loans granted by the bank for regional development. These transactions were primarily destined for the development of infrastructure representing three quarters of loans made in 1985: telecommunications, roads, airports and port facilities. There were also investments in the energy field, particularly hydro-electricity. The agricultural and industrial sectors, made up of fragmented structures of small or medium dimensions, were especially targeted for

<sup>48</sup> Meyer, B., *Die Europäische Investitionsbank zwischen Markt und Lenkung*, Institut für Wirtschaftspolitik an der Universität zu Köln, Cologne, 1984, p. 238.

<sup>49</sup> *Ibid.*, p. 245.

*Project Lewis Offshore in 1974. Though the Outer Hebrides are mainly famous for Harris Tweed due to the importance of sheep farming there, these islands in the north-east of Scotland are also an important outpost for all operations in the North Sea, such as prospecting for and extracting petroleum resources: there are oil rigs very close to the islands, which were a godsend during the first oil crisis. The EIB therefore helped to fund the development of a yard for the construction of steel structures for these British and Norwegian offshore installations, by means of a loan of 7.7 million units of account to Lewis Offshore Limited. This project was based in Stornoway, on a 60 000 m<sup>2</sup> site granted to the development company by the local authorities, who saw this yard as a source of employment for local workers. The depth of the sea along the coast of the Isle of Lewis was also an important criterion in choosing the location of this yard, as the work involved moving large concrete platforms, some components of which had to be assembled offshore.*



*Aerial view of an oil rig in the North Sea. The EIB was involved in the expansion of oil production facilities in the Danish offshore area of the North Sea. The loan of 10 million units of account, granted in September 1975 to Dansk Boreelskab A/S, was intended to cover 40% of the cost of the project, consisting of the acquisition and setting up of rigs for the exploitation of the Dan Felt hydrocarbon deposit.*

*Godthåb Airport in Greenland. In 1977, the EIB was involved in the construction of an airport near to the capital of Greenland, which made it possible to do away with helicopter connections from the main airport on the island, Søndre Strømfjord. The bank's support was intended to cover, in particular, the construction of a terminal, a control tower, hangars for aviation equipment and a car park, and also access roads and a runway 30 metres wide and 950 metres long which could be extended southwards. The apron area needed to have space for two DCH-7 aeroplanes and two helicopters.*



*Greece, which had just joined the EEC, received a loan of 15 million ecus from the EIB in 1981 to restructure its air traffic control system. The loan was granted to the Greek Ministry of Coordination, to be allocated to the civil aviation authority. It was to help with the purchase of radar equipment, the modernisation of radio-communications systems and to make it possible to assist navigation for the airports of Athens, Thessaloniki, Rhodes and also Heraklion in Crete.*



global loans made via the Deposits and Loans Funds or the Agricultural Bank of Greece.

With regard to the EIB's criteria for granting loans to the new members, it should be understood that until the mid-1980s there was no official definition of the EEC's regional policy. As a result the bank's lending authorities were obliged to direct their activities towards the national areas of support and development, which were formulated using various criteria, and to give preference to projects that fulfilled the priorities of the Member States<sup>50</sup>. Although with hindsight the EIB's

work on this aspect can be considered as a success, the lack of clarity on a specific regional policy enabled new Member States which had joined the EEC for economic reasons to benefit significantly from the EIB's resources. Because of this realisation, and under the pressure of the future enlargements to the Community, a clear need developed for a genuine regional policy encompassing the entire Community area, giving less priority to individual national characteristics and requirements.

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<sup>50</sup> EIB archives, box XXIX.2, "Note of a meeting held in HM Treasury at 10:15 a.m.", 27 January 1972, p. 2.



The EIB from  
1973 to the  
mid-1980s:  
change in scale  
and development  
of activities



# New economic circumstances and redeployment of the EIB's activities in Europe

In 1973 the United Kingdom, Denmark and Ireland joined the EEC, helping to increase its strength in terms of the economy and trade<sup>51</sup>. At the same time the international monetary turmoil and the oil crisis of October 1973 were shaking Europe's economies in a deep, lasting way. However, the growth in the European economy continued step by step through Community policies developed in response to the challenges of the enlargements and in order to allow a return to prosperity by combating unemployment and inflation. These efforts did not hamper the opening up of the EEC to the Mediterranean, since in 1981 Greece became the tenth member of the common market, while negotiations were begun for the accession of Spain and Portugal. In this context the EIB, headed for many years by Yves Le Portz, was firstly called upon to expand its activities to new European countries, some of which such as Ireland and Greece were experiencing significant regional difficulties. Its annual financing operations in the Europe of Ten grew swiftly, thus demonstrating its ability to respond to the tasks entrusted to it but also highlighting the persistent scale of needs even though in general the European economies, including those of the less developed regions, had grown since the signing of the EEC Treaty. Gaps still existed; the energy crisis and the recession that followed the "thirty glorious years" underscored weaknesses which the EIB was called upon to address, in accordance with several directives from the European Council and the Council of Ministers.

## 2.1. Adapting to economic changes and European projects

Throughout the industrialised countries the growth rate in GDP slowed down from 1973 – for some countries even before the oil crisis – revealing some prior economic weaknesses. Inflation accelerated, unemployment grew, production stagnated and a new word appeared to define the recession of the 1970s: stagflation. This economic situation was not the result solely of the oil crisis, but also stemmed from the monetary turmoil experienced by the global economy from the late 1960s. However, the consequence of the monetary and economic crisis was to reactivate European projects designed to step up the integration of economies within a context that was less favourable than the growth of the 1960s. These projects, as well as the more uncertain economic environment, were a challenge for the bank, which had to respond to even more precise needs on the basis of the original objectives that had been set for it, and to adapt both its lending operations and borrowing operations to new factors, such as the creation of the New Community Instrument (NCI) and the ECU.

### 2.1.1. The EIB and the vicissitudes of monetary union

Without dealing specifically with issues relating to economic and monetary union (EMU) and then the European monetary system (EMS), it is interesting to note certain aspects, since

<sup>51</sup> For a more detailed examination of the first enlargements of the EEC and their impact on the EIB's activities, see the previous chapter.

these structures had consequences for the bank's activities; the bank's staff and management participated in one way or another in their establishment and implementation. This applies for example to the many studies and debates on the creation of a single currency.

The Paris Summit held from 19 to 21 October 1972, which included nine Member States in anticipation of accession, defined two main objectives: firstly, the transformation of relations between the members of the EEC into a European union during the 1980s (although the term remains deliberately vague, this was definitely a plan for political integration), and secondly achieving economic and monetary union by 1980<sup>52</sup>, which is a project of particular interest here and whose origins date further back.

In fact, the common market was established at a time when the international monetary system was stable, that is with fixed parities between the various currencies, expressed in dollars and convertible at a fixed rate from dollars into gold. During the 1960s however, monetary disturbances appeared and then worsened. From 1968 the German mark started to gain in value while the French franc depreciated following the crisis in May. At the same time the European Commission presented plans to the Member States which treated monetary union as a necessary development of the common market. Thus, following the Hague Conference in 1969 the EEC Council of Ministers mandated a committee to examine these issues which was headed by Pierre Werner,

Luxembourg's Prime Minister. In October 1970, on the basis of a report by Raymond Barre, the European Commissioner for Economic Affairs, the committee put forward a plan, usually referred to as the "Werner plan"<sup>53</sup>. It proposed that economic and monetary union be achieved in three stages by 1980, concluding with the creation of a single currency following harmonisation of national economic policies. It also sketched out the outlines of a decision-making centre independent of the Member States, with jurisdiction over economic policy. Finally, it proposed that a European system of central banks be set up, able to take decisions on monetary and credit affairs. Too supranational for the taste of the French, the proposal was first of all categorically rejected. Additionally, and the work and debates in which the EIB took part bear witness to this, profoundly differing views divided those favouring a preliminary convergence of economies prior to any action on currencies from those who wished to see support for the currencies of those countries whose economies were suffering the greatest inflation.

As well as these differences in opinion and method there was the monetary turmoil following the decision by Richard Nixon, US President, to suspend the convertibility of the dollar into gold. It was the gradual abandon of the Bretton Woods system that subjected the European currencies to intense fluctuations, whereas the plan for monetary integration was based on fixed parities... The countries of the EEC first of all attempted to resist, and on 21 March 1972 created a monetary area of relative stability, the "European snake". This system, however,

<sup>52</sup> National archives (Paris), Foundation of the Presidency of Georges Pompidou, 5AG2/65, preparatory documents for the Summit Conference.

<sup>53</sup> On the issue of economic and monetary union, see in particular Bruneteau, B., *Histoire de l'unification européenne*, "Prépa" collection, Armand Colin, Paris, 1996, p. 117.



## The EIB, the consequences of the monetary turmoil of the 1970s and Italy

The end of the “gold exchange standard” in the summer of 1971 and the first oil crisis in 1973 caused the financial institutions to change their strategies in order to guarantee the real value of their loans in the face of rising inflation and exchange rate fluctuations.

The Washington agreements, signed at the end of 1971, had in effect created the “dollar standard”, which specified an average devaluation of American currency by 11% and new fluctuation margins of currency values ( $\pm 2.25\%$ ), thus increasing the risks for financial institutions of suffering losses due to variations in exchange rates. The creation of the “monetary snake” in 1972 – limiting fluctuation margins between Community countries to  $\pm 1.125\%$  – and then of the European Monetary Cooperation Fund (EMCF) only partly reduced these risks. Moreover, in 1973 the end of the “dollar standard”, following Japan’s refusal to support an American currency which was increasingly weak on the currency market, and above all the decisions made by the Organisation of the Petroleum Exporting Countries (OPEC) about the price of oil, which had increased by more than 400% in twelve months, made compliance with the rules of the “monetary snake” more difficult. Italy, France, Ireland and the United Kingdom, whose currency was one of the weakest, left it one after the other.

This situation led the EIB to change the strategy it had been applying to the loans granted in those countries. Thus, to avoid the risks of devaluation, the Bank used strong currencies such as the Deutschmark, which protected its loans. During the 1970s the development of the less developed regions of Europe was therefore financed by making them pay the cost of their monetary weakness. The birth of the ECU in 1979, the improvement of the economic climate in the 1980s and the lowering of inflation did not solve the problem of risks linked to the devaluation of currencies (especially for Italy, which had a fluctuation margin of 6%). Henceforth, the EIB would not make any significant changes to its policies.

This state of affairs was accepted by all Community countries then in receipt of loans in strong currencies at rates “impossible” to obtain from other financial institutions (especially for borrowers from countries with weaker currencies). In

addition, the state guaranteeing the projects was liable for exchange risk losses. Italian laws 876/73 (regarding the Mezzogiorno region) and 956/76 (regarding central and northern Italy) regulated the funding mechanisms for loans granted by the EIB: the state chose the currency to be used for the loan and was itself liable for the cost of covering the exchange risk. Italy therefore was paying to guarantee the granting of EIB loans to its projects and was providing assistance to the companies concerned. For a country with a weak internal market and which had to be competitive on the world market, the cost the state was exposed to was regarded as less important than the overall advantages derived from the implementation of projects financed by the EIB and the possibility of using strong currencies at favourable rates for the import of raw materials.

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withered following the withdrawals of the pound sterling (June 1972), the Italian lira (February 1973) and then the French franc (January 1974). It was then reduced to a simple joint fluctuation agreement by an increasingly limited group of European currencies around the Deutschmark: this was a long way from EMU, even though the Paris Summit of October 1972 had confirmed the objectives set out in the Werner plan.

The oil crisis of 1973 was also to heighten the disagreements between Europeans over these economic and monetary projects to the extent that each country implemented very different national solutions to counter the crisis that, it must be said, affected them in an unequal fashion. However, as we shall see later on, there were some attempts to seek joint solutions through a primarily sectoral approach to which the EIB's lending activities bear witness.

The 1970s seem above all to define themselves through the difficulties experienced by the Community's Member States in formulating and applying a joint response to the crisis blocking the smooth operation of the EEC and preventing any further progress towards EMU. However, in March 1977 the European Council launched a real appeal for Community action to be stepped up in the fight against unemployment, and called upon the Member States to pay attention to investments that were showing signs of dwindling. The EIB then took the decision to increase its financing of the most disadvantaged regions and those affected by the recession. It wanted to contribute "at a time when differences in economic performance in individual Member Countries work against the EEC's internal cohesion [...], to a better balance by concentrating on countries and regions with structural problems<sup>54</sup>". In addition

<sup>54</sup> *EIB, 25 years, 1958-1983*, EIB, Luxembourg, 1983, p. 14.

the bank received certain responsibilities within the context of the implementation of the NCI, also referred to as the “Ortoli facility”, which was a result of the EEC Commission’s wish to increase investment using a new Community source of borrowing and lending and was also a response to the call made by the European Council.

This new impulse, stepping up the EIB’s activities, was consolidated in 1977 – despite the persistent economic and financial instability – by the revival of the idea of monetary integration by France and Germany. Chancellor Helmut Schmidt called for better coordination of European currencies in order to counter the still wide fluctuations of the dollar, which were endangering European exports, while in France President Valéry Giscard d’Estaing used every possible means to try to escape the cycle of inflation and devaluation and hoped for more rigorous monetary discipline. Thus it was that in December 1978 the European monetary system was created – without the United Kingdom’s participation, however. The entry into force of the EMS was accompanied by two major decisions for the EIB. On the one hand a European unit of account was created, the ECU, which would be used to calculate the rates of national currencies and which the Bank would be able to use for its operations, especially loans. On the other hand, in order to assist the least prosperous regions of the states participating in the new system, the Community budget was invited to fund interest subsidies on loans granted by the EIB from its own resources or those of the NCI, up to the amount of a billion ecus. This system, which was equivalent to that used in associated states and benefited Ireland and Italy especially, enabled the costs of loans to be reduced and also allowed larger sums to be lent to fund an increased number of projects.

Thus the EMS laid the foundations for renewed activity, enriched with new objectives for the EIB. It also was the proof of a desire to revive European economic integration in a context of crisis and recognised German economic supremacy. It confirmed the existence of two types of economy during the 1980s: economies in countries with strong currencies (the Deutschmark appreciated by 22% between 1979 and 1987 and the Dutch guilder by 17%) and economies in countries with weak currencies (the French franc depreciated by 16% and the Italian lira by 22%).

### 2.1.2.

#### **Industrial, energy and regional issues: more challenges for the EIB**

Although it has been said here that the crisis prevented the smooth operation of the EEC from the economic and monetary viewpoint, at the beginning of the 1970s casting doubt on the implementation of economic and monetary union, some sectoral actions deserve to be mentioned because they had a direct impact on the Bank’s lending policy. Thus the energy and industrial crises which emerged, but also the expectations of the new Member States of the EEC, led the Community to increase its regional operations, to develop the basis of a European industrial policy and, lacking a common energy policy, to set out some common energy objectives. These three fields, to which the EIB had after all been committed since 1958 within the scope of its original remit, provided the bank with many financing possibilities, but in a more specific framework than that of the EEC Treaty, one which led it to cooperate even more closely with the Commission.

The Hague conference provided an opportunity for President Pompidou to formulate new objectives,



*The customs man does a runner. This cartoon by Plantu, from March 1979, published in Le Monde on the creation of the EMS, refers to the launch of the ECU, a ship created to sail on the stormy seas of the international monetary system, which had certainly evolved since the fixed exchange rates of the post-war period. The EIB adopted the ECU on 1 January 1981.*

## From unit of account to the ECU

While the ECU was adopted as the EIB's unit of account by decision of its board of governors with effect from 1 January 1981, the Statute in 1958 originally defined the Bank's accounting unit in relation to gold. This unit of account (u.a.) then represented 0.88867088 grammes of fine gold, the same weight as the dollar before 1971. The conversion rates between this unit and the national currencies were calculated based on the parities of these currencies in relation to gold as communicated to the International Monetary Fund (IMF).

The fundamental changes in the international monetary system, the evolution of the role of gold and the resulting consequences for the parities rendered the application of these provisions increasingly difficult in the originally planned sense. This was why a first modification was made from the end of 1974, with the alignment of the Bank's unit of account with the European unit of account (EUA)<sup>55</sup>. The two units of account, with the same value but the product of distinct legal decisions, existed side by side. Thus, in the interim, the governors decided on 18 March 1975 that, as of 31 December 1974 and until the entry

<sup>55</sup> The discussions on these issues were delicate, since the British, in particular, would have liked the adoption of the special drawing right (SDR).

into force of a new definition and a new method of conversion of the Bank's unit of account, the Bank would apply the conversion rates in use between the European unit of account and the national currencies in its own operations.

The EUA was a basket of currencies, made up as follows:

0.828	deutschmark	3.66	Belgian francs
0.0885	pounds sterling	0.14	Luxembourg francs
1.15	French francs	0.217	Danish krone
109.0	Italian lire	0.00759	Irish punts
0.286	Dutch guilders		

In order to take account of the currency fluctuations, on 10 July 1975 the Member States signed a treaty modifying the bank's statute, in order to enable the board of governors, by unanimous vote and following a proposal from the board of directors, to modify the definition of the unit of account and its method of conversion into national currencies. On 30 October 1977 the board of governors decided to end the transitional period and to introduce into the bank's statute a new definition of the unit of account, which would consist of the unit that had been used during the interim period, namely the European unit of account.

On the creation of the EMS, the Europe of the Nine was provided with a single accounting currency, the ECU, with the same value and make-up as the European unit of account, which it replaced on 1 January 1981 in almost all the community's statistics and financial transactions. In May 1981 the EIB's board of governors also gave this unit the name ECU, an acronym for the European Currency Unit, which also had the advantage of being a reminder of the currency in use in France in the Middle Ages under the reign of the Valois. The use of the "private" ECU developed: deposits, bank cheques and issues of loans could henceforth be made in ecus and the EIB was one of the first to use it to issue its bonds.

Like the EUA, the ECU was a basket of currencies whose composition reflected each Member State's share of the production and exchange of goods and services within the Community. The composition of this basket remained open to review until the entry into force of the Single European Act on 1 January 1993.

The basket was redefined on 17 September 1984 in order to introduce the Greek drachma.

The composition of the ECU was as follows:

0.719	deutschmark	3.71	Belgian francs
0.0878	pounds sterling	0.14	Luxembourg francs
1.31	French francs	0.219	Danish krone
140.0	Italian lire	0.00871	Irish punts
0.256	Dutch guilders	1.15	Greek drachma

The conversion rates between the ECU and the Member States' currencies, as well as the main currencies used in international transactions, were based on market rates and published each day in the *Official Journal of the European Communities*.

In order to draw up statistics on its lending and borrowing operations, the EIB used each quarter the conversion rates in effect on the last working day of the previous quarter. As far as its balance sheet and financial statements were concerned, the Bank used the conversion rates of 31 December of the financial year concerned.

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particularly with regard to European industrial policy. General de Gaulle's departure from power in April 1969 had marked an important turning point in the history of European integration, even though many of the objectives that had been set by the EEC Treaty had been achieved. Nonetheless, going beyond a minimalist interpretation of the treaty, the famous threefold mantra of The Hague, "completion, deepening and enlargement" set the foundations for a new policy for Europe and represented an important moment, along the lines of the Messina Conference in 1955. It was in his speech on 1 December 1969 that Georges Pompidou set out to his partners the attractions of greater industrial cooperation and the need to develop new technologies jointly, by placing an emphasis on research and development.

The Colonna memorandum, taking its name from the Italian Commissioner responsible for

industrial issues and adopted in March 1970 by the Commission, then put the foundations of this industrial policy in place. This was debated once again at the Paris Summit held in October 1972, which called on the Commission to draw up an "action programme relating to industrial, scientific and technological policy". The programme was presented to the Copenhagen Summit in December 1973, but many of its provisions remained unrealised, as the crisis sharpened competition and reinforced nationalistic attitudes. Nonetheless the final assessment is far from negative, because new areas of Community action progressed. In the development of new technologies, for instance, concrete achievements appeared as soon as the late 1970s, when the EIB agreed to finance specific investments linked to these new areas. In addition, while the formulation of a joint industrial policy proved to be difficult, the loans granted by the bank in this area increased.

## The relaunch of The Hague

“We are reaching the end of the transition period. Customs duties between our countries are now a thing of the past. A single market in agriculture has been painstakingly developed but there are many questions that we need to answer. For instance, are the price disturbances caused by parity changes jeopardising the future of the common market in agriculture? Will the growing burden of farm surpluses force us to find a new production policy? Are the Six prepared to extend joint action to other fields? Do we or do we not intend to press ahead with the coordination of economic and monetary policies, technological cooperation, tax harmonisation, and company law? These are some of the questions we must answer in clear terms. [...]

Are we determined to continue building the European Community? [...]

It means that we must get to work without delay to develop and deepen Community action, our special aim being the convergence of our economic and monetary policies. If we are to do this we must set ourselves a precise and realistic list of objectives spaced out in time. I will have some suggestions to make about this.

At a time when, as we all know, the superpowers — the Soviet Union, but also the United States — view European problems as they affect their own interests, and cannot but view them thus, we owe it to our peoples to revive their hopes of seeing Europe in control of its own destiny. It was because of this and with this idea in mind that I suggested calling this Conference, whose outcome will condition not only the Community's future but also the future policy of each of the nations assembled here, and certainly that of France.”

*Extracts from the speech made by Georges Pompidou, President of the Republic of France, on 1 December 1969 in The Hague. Documentation archive of the Georges Pompidou association, speeches by the President, 1969.*

The financing of industrial projects was evidence of the real efforts being made to modernise facilities, increase the competitiveness of businesses and develop new procedures and more refined techniques, sometimes even within a transnational context, as in the loan to Airbus. Moreover, it would be a mistake to talk about an industrial policy without mentioning small and medium-sized enterprises, since the European Community stepped up its efforts in relation to them, highlighting their contribution to economic development. The year 1983 was even proclaimed “Year of small and medium-sized enterprises”. As generators of jobs and innovation, SMEs benefited from EIB help in the form of global loans starting in the late 1960s, which bears witness to its pioneering role in achieving economic objectives which gradually turned into actual Community policies.

The same applies to another sector preoccupying the common market countries: that of energy. In the 1960s the European Commission was already emphasising the danger of Europe’s significant energy dependence on external sources, in a context where coal was gradually being abandoned and replaced by oil, which at the time was cheaper. The Community became one of the main groups of oil-importing countries, which undoubtedly fed into its economic growth but ended up weighing upon its balance of payments, particularly when the price of oil rose by a factor of eleven between 1973 and 1982. While the EEC Treaty did not contain any provisions on energy policy, the ECSC and Euratom treaties set out the terms for collaboration in the field, but this collaboration was always very tentative. It was following the first oil crisis that the

Community countries attempted to step up their cooperation, without ever managing to establish a genuine policy. They defined common goals, proposed that investments be coordinated and agreed to put the brakes on energy consumption and develop the exploitation of those energies present in their territory. However energy issues remained a sensitive issue for the Member States, who wished to retain management of them. The guidelines set out by the Council of Ministers of the Communities in 1980 merely set indicative targets to be achieved by the beginning of the 1990s. Nonetheless the EIB, which had always granted lending to energy infrastructure within the framework of a regional development objective, was to change its lending policy in favour of projects specifically dealing with energy, designed to decrease Europe’s dependence in that field. It proposed to increase its investments to help Member States to construct power plants, particularly nuclear power stations. It encouraged the use of new energy sources such as geothermal energy<sup>56</sup>. It contributed to the funding of projects in Europe as well as outside the Community, for example in Austria and Norway, in order to diversify supply sources in the immediate vicinity of the EEC countries. Additionally, starting in 1977 it carried out loan operations on behalf of Euratom in order to increase the sources of available funding. It also supported European cooperation initiatives by granting loans to the Eurodif and Urenco consortia in the sphere of uranium enrichment. In terms both of the number of loans granted and the diversity of projects financed, the EIB made a significant contribution to changing Europe’s energy landscape during these crisis years.

<sup>56</sup> Peat cutting can also be mentioned, as illustrated by a loan by the bank in the Republic of Ireland, referred to in the previous chapter, p.126.



## The EIB and SMEs

"It is today perfectly clear that the upturn in employment and the European economy and the transformation of the beginnings of a recovery that can be seen in several countries in a widespread continuing growth are being achieved [...] through an increase in investment in enterprises, and especially small and medium-sized enterprises. [...]

The financial institutions of the European Community that are taking an active role in the funding of SMEs, that is above all the EIB, but also the ECSC, are doing so by means of loans. [...]

The role of the Community institutions is to provide additional resources [for the complex national networks that fund the SMEs] by granting to the institutions which make them up global loans intended to fund small and medium-sized investments. [...]

An initial development related to the sphere of action: originally, 15 years ago, global loans were only granted for a regional development purpose, that is, in regions experiencing difficulties.

Since the oil crisis the EIB has wanted to help the SMEs to rationalise their energy consumption. To this end, since 1979, global loans have been granted for small and medium-sized investments in industry with a view to promoting energy savings.

Since November 1982 there has been a third, much more extensive, possibility for action. The New Community Instrument, or NCI, for which the EIB has been entrusted with the task of managing lending operations, can grant global loans for the investments of SMEs outside regions experiencing difficulties. Now SMEs throughout the Community have potential access to Community assistance, regardless of their location."

*EIB archives, 31.0069, Speech by Yves Le Portz, President of the EIB, at the closing conference of the European Year of SMEs, Strasbourg, 9 December 1983.*

Finally, in the mid-1970s the Community decided to consolidate one of the EIB's core tasks, namely action in favour of regional development. The EEC Treaty had not laid down a specific regional policy but had created the EIB in order to reduce certain disparities. Throughout the 1960s the bank proved to be the sole Community source of finance for regional development; the diversity of its activities in this field has been illustrated above. In the early 1970s the three countries applying for membership demanded the implementation of a genuine regional policy as an essential pre-condition for their entry into the EEC. Thus, a European Regional Development Fund (ERDF) was created at the conclusion of the Paris Summit held in October 1972; this had long been a hope of Italy's, which reappeared at that time. Funded from the budget of the Communities and managed by the European Commission, starting in 1975 it granted subsidies at the request of the Member States relating to programmes designed to reduce regional imbalances. The geographical areas of activity were common to the ERDF and the EIB until the Structural Funds were reformed in the late 1980s. With a view to improving effectiveness, the bank and the Commission, more specifically the Directorate-General for Regional Policy, coordinated their activities; on occasion this resulted in co-financing, as in the "Distillers" project relating to the production of Scotch whisky. The significance of the regional policy that was created in this way is illustrated by the participation of members of the EIB in the ERDF's management committee and by the presence on the bank's board of directors of the Director-General of the European Commission responsible for regional policy. A more

precise definition of approaches to be taken regarding regional development confirmed the EIB in its original mission, particularly since new Member States such as Ireland and later Greece obtained priority status, as their needs in catching up with the development level of the other Member States were considerable.

## 2.2. Essential features of the EIB's activity until the mid-1980s

The following brief description of the EIB's loan activities is based on the development of the economic and financial context which has just been presented and which has guided the Bank's actions significantly in the member countries of the EEC.

Firstly, it is important to emphasise that the economic crisis of the 1970s did not lead to a deceleration in the EIB's lending. On the contrary the volume of its interventions grew considerably and became an appreciable asset for Member States whose economies had been made vulnerable. The Bank played its role fully in mobilising capital wherever available to guide it towards the countries which needed it to improve their employment situation or to smooth out the differences in economic performance between states in the common market. Thus the Bank, which had granted loans of 500 million u.a. in the EEC in 1972, lent almost 700 million in 1973, of which 100 million went to the new Member States and 6.5 billion ecus in 1985, more than ten times the amount allocated immediately after the first enlargement<sup>57</sup>.

<sup>57</sup> See appendix 2, table 1, p. 342 for the figures of the EIB's activities over the 1973-1985 period.



*Whisky production and bottling plant in Scotland. Working together with the ERDF, in 1975 the EIB contributed a sum of over 20 million units of account to the construction of a complex for the production and bottling of whisky in Shieldhall, near Glasgow, in Scotland. The Distillers Company Limited, which belonged to the Guinness group from 1986 and then to the Diageo group from the late 1990s, was producing very well-known whiskies but stressed the difficulties it was experiencing with its investments: long periods of storage of the whisky produced were necessary before it could be sold.*



## The appearance of a regional European policy prompted by the first enlargement

The issue of the 1973 enlargement was linked at the Community level to that of a deepening of the Community's structures. Seen with hindsight, the first enlargement of the EEC signified the end of the period of the establishment of the integration process that had begun in the post-war period<sup>58</sup>. The next phase, that of consolidation, underlined a problem: Regional policy suffered from serious difficulties of coordination, mainly affecting the relationship between national and European structural support measures. To find a solution to this problem, in 1973 the British Commissioner George Thomson proposed the creation of a Community fund to support the industrial regions of the United Kingdom<sup>59</sup>. Two years later this initiative produced the Joint Committee for regional development and the ERDF, which remains to this day the largest European Structural Fund. In the ten years following its creation, the Commission successfully transformed an instrument initially created to achieve financial equilibrium between the Member States into a tool to develop a genuine European regional policy, which acquired a suitable legal framework in the Single European Act of 1986-1987<sup>60</sup>.

<sup>58</sup> For historians, European integration may be divided into three main stages comprising sub-processes of development, which partly overlap. During the creation stage, (1952-1973) the European democracies of the West – with the exception of those that, for specific reasons, preferred not to be part of the integration process – met together within supranational institutions and decided together upon the direction of the integration process. The consolidation stage that ensued (1970-1992) was marked on the one hand by the accession of the three countries that had previously been ruled by dictatorships (Greece, Portugal and Spain), and on the other hand by the systematic deepening of the internal European structures, as set out in the Single European Act (1987) and in the Maastricht Treaty (1993). Finally, the stage of Europeanisation that has existed since 1991 is characterised by the end of the division of the continent by the iron curtain, which removed the reasons for the self-exclusion of some democracies in western Europe and made it possible for EFTA to be enlarged in 1995. In addition, the end of the Warsaw Pact and the Soviet Union created the conditions for the eastwards enlargement of the European Union. On the concept of "Europeanisation", see Featherstone, K., "In the Name of Europe", in *idem.*, and Radaelli, C. M., (Eds.), *The Politics of Europeanization*, Oxford University Press, Oxford, 2003, p. 6-12. For the significance of the concept of Europeanisation for historical studies see: Elvert, J., "Europäisierung" und Geschichtswissenschaft", in Gieseking, E., Gückel, I., Scheidgen, H.-J., and Tiggemann, A., (Ed.), *Zum Ideologieproblem in der Geschichte. Herbert Hömig zum 65. Geburtstag*, Europaforum-Verlag, Lauf an den Pegnitz, 2006.

<sup>59</sup> The agricultural sector in Great Britain was of limited size (due to the high level of agricultural imports from the members of the Commonwealth). Therefore, without the compensating measures for the agricultural levies, Great Britain would have made a major contribution to the funding of the EEC. However, it would only have benefited to a limited extent from the structural funds and would have made a net contribution even though its average income per inhabitant was lower than the average. For more on this subject, see Holtzmann, H.-D., *Regionalpolitik der Europäischen Union. Eine Erfolgskontrolle in theoretischer und empirischer Sicht*, Duncker & Humblot, Berlin, 1997, p. 103.

<sup>60</sup> *Ibid.*, p. 396.

Hans-Dieter Holtzmann has identified five levels of development for the history, birth and influence of the ERDF from the first consultations until the introduction of a European regional policy: The consultation and decision-making phase (1957-1974), the participation phase (1975-1979), the phase involving uncoupling from national regional policies (1979-1984), the creation of a separate regional policy (1985-1988) and the reform of the Structural Funds connected with the Single European Act<sup>61</sup>. Holtzmann also suggests an explanation other than enlargement to describe how the ERDF came into being. Following the Werner report of October 1970, the Council of heads of state and government had decided to establish economic and monetary union and, to this end, on 22 March 1971 specified European regional policy as part of the Community's economic interests. Thus, for the first time, the Council recognised the need to supply suitable funds to the Commission, funds which would be intended to compensate successfully the regional disparities within the Community<sup>62</sup>.

Therefore, the creation of the ERDF in 1975 is regarded as the beginning of the participation phase, because, until the end of the 1970s, the Commission was not able to choose the regions to support or the means to do so. This authority was still largely in the hands of the Council, which regularly had to find compromise solutions to satisfy differing national interests with regard to the distribution of ERDF funds. During the first few years this led to the introduction of the "watering-can principle", which meant that it was not rare for the richest regions of the EEC to receive additional funding, while the genuinely underdeveloped regions, because of limited means, were receiving neither national nor European funding<sup>63</sup>. Criticism of the ERDF mounted and the Council decided in 1979 to grant the Commission the right to carry out "specific Community measures" and to be active in the fields which were not being supported by Member States.

This decision led to the phase of uncoupling European policies from national ones. The passage to an entirely separate European regional policy only occurred when the European Council adopted a new regulation for the ERDF on 19 June 1984. The essential change consisted of the disappearance of the quotas that had existed until then and the appearance of participation margins

<sup>61</sup> Holtzmann, H.-D., *op. cit.*, p. 101.

<sup>62</sup> *Ibid.*, p. 103.

<sup>63</sup> *Ibid.*, p. 105.

which were fixed for three years (the lower limit for each Member State represented the amount of support guaranteed, and the upper limit was the maximum amount which could be received, with a difference of 30% between the two limits). The decision to totally exhaust the participation margins rested exclusively with the Commission, which took its decisions based on three criteria: each project's contribution to European regional policy, its relationship to the objectives of other Community policies and its compatibility with other ERDF means of intervention. Moreover, it was in this phase that the four types of measures of European regional policy were set out, that is, differentiation of the individual projects and programmes, exploitation of locally-generated development potential and research into efficient use of the Fund's resources<sup>64</sup>.

In view of the growing interest, following the first enlargement, in regional, structural and cohesion policy as part of the process of European economic integration, the role of the EIB, originally created to be the instrument of EEC regional policies, has continually grown. Its special strength resides in the fact that it can adapt itself flexibly to the Community's objectives.

*Jürgen Elvert*

An examination of the Bank's loans shows that although a large proportion of them were for projects related to regional development their share of the Bank's activities gradually decreased as the financing of operations of common interest was increased, with conversion projects falling under this category from this point on.

It can in fact be seen that towards the late 1970s projects of common interest accounted for an increasingly large proportion of bank lending

and that in 1985 they represented the majority of financing. In fact, in 1976 over 800 million units of account were lent to promote regional development as compared with approximately 400 million units of account for projects of common interest, whereas in 1985, 3.4 billion ecus related to regional development as against nearly 4 billion for projects of common interest<sup>65</sup>. It should be pointed out that as illustrated by graph 2, the description "projects of common interest" includes various classifications that represent the

<sup>64</sup> Holtzmann, H.-D., op. cit., p. 107.

<sup>65</sup> EIB, *Annual Report 1985*, 1986, p. 112.

Community policies or economic approaches in which the EIB was called upon to participate. These were industrial cooperation projects and projects connected with the development of new technologies, as well as energy objectives that had been declared to be priorities. In fact, we can see that the EIB's lending activities increased in those sectors to which it had already been able to provide assistance previously and within which another sphere coexisted which had benefited from the bank's loans from the outset, that of infrastructure of common interest. The action taken by the EIB in relation to projects of common interest therefore took very varied forms, one of the most memorable being its involvement in the construction of the first Airbus, in the early 1970s.

In the sphere of advanced technology the board of governors, which met in June 1984, wished to contribute to the Community's competitiveness through innovation in both products and processes. The projects were both varied and ambitious: loans to TGV Atlantique (1975), the Ariane rocket, the Eutelsat satellite, and also loans for the installation of transoceanic fibre optic cables between the USA and Europe as well as between the Middle East and Europe. These projects accounted for 30 million ecus in 1980, and 470 million ecus in 1987 (approximately 10% of the EIB's activity).

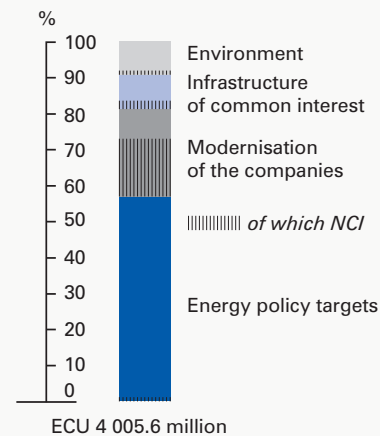
Finally, a new element made its appearance in lending policy in the early 1980s. This was loans for environmental protection, which belonged to projects of common interest since they fulfilled a requirement of the Community. Ecological issues were raised for the first time in a Commission communication to the Council dated 22 July 1971. The ministerial conference on the environment which was held in Bonn in October 1972 enabled the

ministers to reach agreement on the need to prevent pollution and on the principle of polluters paying for damage caused. They asked the national public authorities to take account of environmental impact in their decisions. While it was really the Single European Act that made environmental protection into a separate Community objective, from the early 1980s the EIB directed its loans towards the area, for instance by funding anti-pollution facilities, water treatment systems, river regulation works to prevent erosion, etc. In 1983 the bank also signed a "Declaration of Environmental Policies and Procedures relating to Economic Development" jointly signed by the United Nations, the EEC and the main development bodies wishing to integrate environmental issues into the concerns of economic development in the world. The loans granted by the bank for environmental protection accounted for only 1% of its activities in 1980, but 13% in 1988.

Graph 2

### Projects of common interest

Breakdown by the main objectives of economic policy



EIB, Annual Report, 1985, 1986, p. 26.

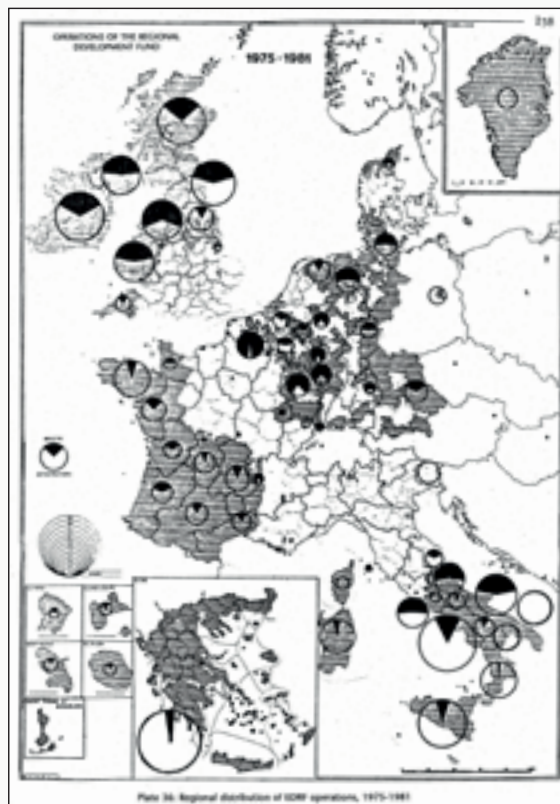
Table 8

## Comparative study of the geographical locations and sectors of intervention of the EIB and ERDF, 1975-1982

*in million ecus*

Country	ERDF interventions	%	EIB loans	%
Belgium	70.26	0.98	545.40	3.00
Denmark	84.48	1.20	728.80	4.00
France	1 128.48	15.80	2 104.40	11.50
Germany	392.08	5.50	559.50	3.00
Greece	474.85	6.70	672.30	3.60
Ireland	450.82	6.40	1 759.10	9.60
Italy	2 740.03	38.30	8 030.70	43.70
Luxembourg	7.23	0.10	0.00	0.00
Netherlands	100.40	1.40	30.40	0.20
United Kingdom	1 707.19	23.80	3 947.90	21.40
<b>Total</b>	<b>7 155.82</b>	<b>100.00</b>	<b>18 378.50</b>	<b>100.00</b>

Romus, P., *Économie régionale européenne, 4th edition, Brussels University Press, Brussels, [1983], p. 256 and the annual reports of the EIB from 1975 to 1982.*



Romus, P., *Économie régionale européenne, 4th edition, Presses universitaires de Bruxelles, Brussels, [1983], plate 36.*



The Commission of the European Communities had some difficulty in drawing up a definition of a “European region”, and the 1969 programme restricts itself to saying: “A region is an entity formed by a group of populations more or less closely linked by a certain number of local factors”<sup>66</sup>. This is why, after the creation of the ERDF, the EEC returned the problem to the Member States, requiring of them that regions benefiting from the Fund should be made the recipients of national programmes for regional development. Thus, the ERDF and the EIB relied on national policies for their regional development interventions<sup>67</sup>. Table 8 enables us to establish a comparison between the intervention areas of the two European bodies and the accompanying map shows the ERDF’s areas of activity. Italy, but also the United Kingdom, were the principal beneficiaries of the regional development policies. These policies continued until in 1979 the Commission drew up a “coordination solution” for Member States’ regional aid by setting maximum ceilings, either as a percentage of the investment or in units of account per job created, the choice being left to the investor.

Under these conditions, the situation in 1979 was as follows:

- no ceiling for Greenland;
- 100% of the ceiling for regional aid or 17 500 units of account per job created for Ireland, the Italian Mezzogiorno, Northern Ireland and West Berlin;
- 30% of the investment or 5 500 u.a. per job created for western France, Italy (except the Mezzogiorno) and the United Kingdom (apart from the “intermediate areas”);
- 25% of the investment cost or 4 500 u.a. for the Zonenrandgebiet regions (special development zones in Denmark);
- 20% or 3 500 u.a. for all other regions.

*Michel Dumoulin and Émilie Willaert*

<sup>66</sup> Commission of the European Communities, *Une politique régionale pour la Communauté*, Brussels, 1969, p. 22.

<sup>67</sup> For more on this subject, see the insert on national mechanisms for regional aid, p. 55.

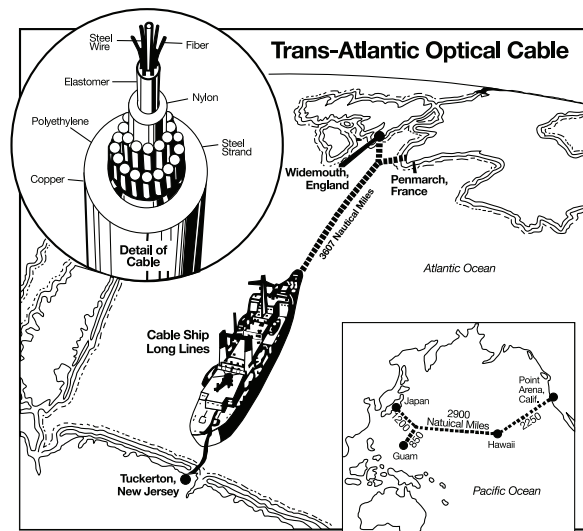


1972-2002: thirtieth anniversary for the Airbus A300. The first wide-bodied twin-jet engine aircraft in the world, the A 300 is a symbol of successful European industrial cooperation. The EIB granted a loan of over 14 million units of account to the Société nationale industrielle aérospatiale in 1971 to equip the factories in Toulouse (France – Midi-Pyrénées) and Nantes-Saint-Nazaire (France-Pays de la Loire) and it financed the acquisition of aeroplanes by Air France, from 1974.

Regional development projects retained their importance and remained the EIB's prime responsibility. In value they increased by a factor of ten between the eve of the first enlargement and the mid-1980s. It must be said that the original disadvantaged regions were joined by certain regions experiencing difficulties in the

United Kingdom, Ireland and Greece, and these, together with Italy, constituted the prime destination for the EIB's loans<sup>68</sup>. Projects linked with regional development still related to the industrial sector, some transport infrastructure, telecommunications, and also agricultural facilities, as shown in graph 3.

In 1986 the bank granted a loan of 340 million French francs to the French postal and telecommunications authority through the intermediary of the State telecommunications fund. This related to increasing the capacity of transoceanic telephone connections through fibre optic cables, first used in 1983 between the east coast of the United States and Europe. The new cable, known as TAT 8, linked Tuckerton in New Jersey to Penmarch in France and Widemouth in England. The cables were provided by a US-UK-French consortium (AT&T, Standard Telephones & Cables plc of Britain and CIT Alcatel - Les câbles de Lyon), and their manufacture and installation required financial input from the public authorities. At the same time, another Pacific transoceanic connection project was being developed.



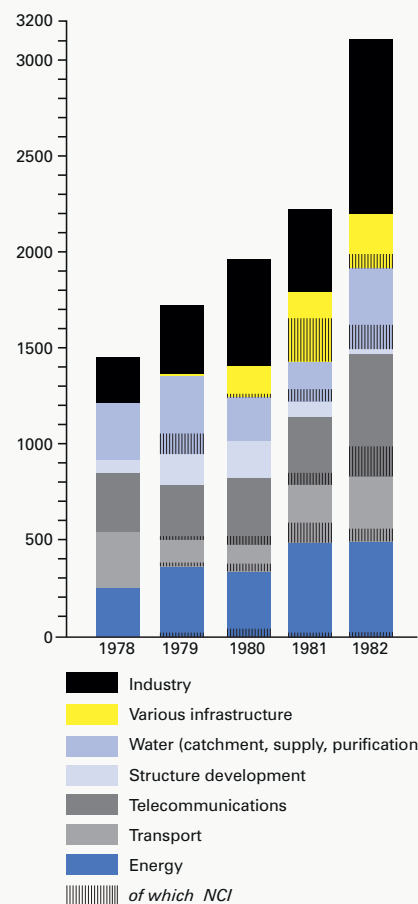
<sup>68</sup> See graph 4, p. 154 and appendix 2, table 3 p. 344.

Some emblematic projects can provide an example of the diversity of the bank's action, such as the loan to the Union laitière normande (France) or projects to expand telephone systems in Sicily. These loans might complement actions under the new Community tool, the ERDF, or benefit from interest subsidies of 3% within the context of EMS, the bank's resources or those of the NCI. Thus, in 1982, the EIB granted 185 subsidised loans amounting to over 4 billion ecus in total, two-thirds of them in Italy and the remaining third in Ireland. Also part of regional development were one-off projects to assist regions that had experienced violent earthquakes, in particular southern Italy in November 1980 and central and southern Greece in February and March 1981. It was through a decision taken by the Council of Ministers of the European Communities that the EIB was called upon to assist these damaged regions by means of subsidised loans intended to reconstruct the economic and social infrastructure of the areas affected. The majority of these loans, amounting to 1 billion units of account for Italy and 80 million units of account for Greece, were granted from the resources of the NCI. This action by the bank was a manifestation of European solidarity, and was complementary to national assistance and investment programmes.

Finally, the technique of global loans developed by the EIB in the late 1960s expanded considerably during the 1970s. While until then it had been directed towards small and medium-sized enterprises, it was now also relevant to local authorities via specific funders such as the Caisse d'aide à l'équipement des collectivités locales (CAECL) in France that were seeking new resources. Loans to local authorities were intended, for example, to improve water supply or sewerage systems, or to develop and modernise secondary road networks.

Graph 3  
**Diversity of the EIB's action  
for regional development  
(1978-1982)**

Breakdown by sector, in million ecus



*EIB, 25 ans, 1958-1983,  
Luxembourg, [1983], p. 25.*

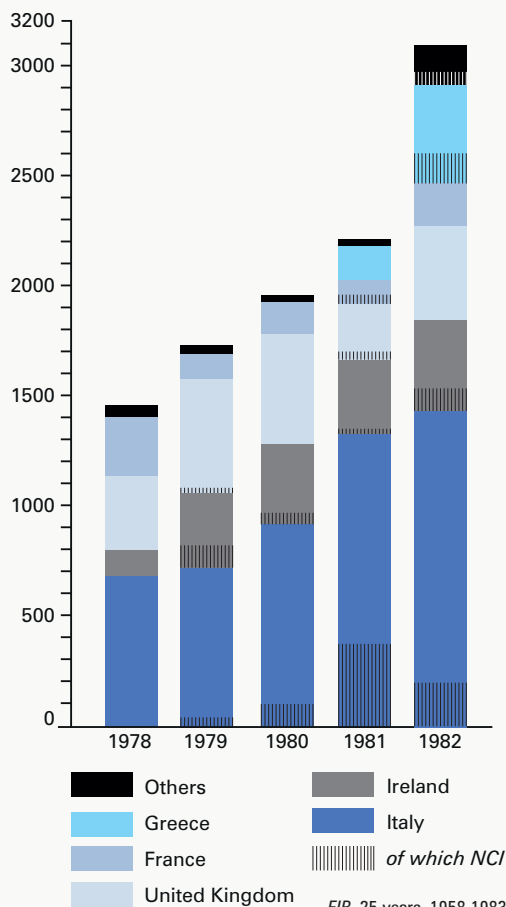
In the 1978-1982 period the bank lent over 1 billion ecus in global loans.

These years, marked by the crisis and the first enlargements, entailed for the bank a heightened significance for energy projects, the use of new resources provided by the Community budget but also the continuing preponderance of lending in Italy in its activity in Europe.

Graph 4

### Financing in the Community from 1978 to 1982

Geographical breakdown, in million ecus



*EIB, 25 years, 1958-1983, Luxembourg, [1983], p. 25.*

## 2.3. New and diversified resources

As already mentioned, the resources used by the EIB to carry out its operations comprised the paid-in part of its capital, its reserves and provisions, borrowings and the budget funds provided by the Member States or by the Community, including those of the NCI from the late 1970s onwards, recorded in the special section of the accounts. These resources evolved significantly during the period from 1973 to the eve of the accession of Spain and Portugal in 1985, both because of increases in the bank's capital and the consolidation of its statutory reserves, as well as the expansion of its borrowings.

### 2.3.1.

#### Substantial own resources for a solid credit rating and to facilitate the raising of capital on the markets

The EIB's capital, which in 1971 had risen to 1.5 billion units of account, grew once again after the accession to the EEC of the United Kingdom, Denmark and Ireland in 1973 and Greece in 1981. In fact, under the bank's Statute all new Member States must contribute to its capital in line with a table that takes their economic situations into account. In 1981, these four new Member States together contributed more than 27% of the subscribed capital, and the United Kingdom's share was nearly 22%<sup>69</sup> on a par with France and Germany.

Additionally, to respect the rule stipulating that the total outstanding loans and guarantees could not exceed 250% of the subscribed capital, the

<sup>69</sup> The figures setting out the changes to the EIB's capital are available in appendix 2, tables 6, pp. 348 et seq.



*Donations from the EIB in the event of natural disasters. The EIB has been involved in the various outbursts of European solidarity that occur following natural disasters, both within the Member States of the EEC and in countries associated with the Community. For example, the bank has granted loans at subsidised interest rates to affected countries, to help them reconstruct their economic and social infrastructure. This was the case in southern Italy following the earthquake in November 1980, and in Greece following those in February and March 1981. Since 1976, however, the bank has also given donations to countries that have suffered such disasters. For example, it provided support in the form of non-reimbursable aid in the aftermath of the major Portuguese floods in April 1978, when a cyclone hit the Antilles in September 1979, and during the floods in England and Wales in February 1980. The EIB also provided aid to Algeria in October 1980, when it was hit by a violent earthquake that killed at least 5000 people in the El-Asnam region (known as Orléansville during the French colonial period and now called Chlef) around 200 kilometres west of Algiers, near the Mediterranean coast. This region had already been badly affected by a previous earthquake in September 1954.*

bank's board of governors decided to increase the EIB's capital on three occasions, at the annual meetings of 10 July 1975, 19 June 1978 and 15 June 1981. This was to make it possible to meet the needs generated by the significant growth in its lending activity and to ensure that it had access to the capital markets on the best possible terms. It should also be added that the increases decided on in 1978 and 1981 were in response to specific requests by the European Council. In March 1977 the Council had stressed the need to intensify investment in Europe, which had decreased significantly following the first oil crisis, consequently stimulating the lending policy of the bank, which was certainly willing to respond to expectations in its own sphere of action. In 1981 the doubling of capital originated from a proposal by the European Council on combating unemployment by all possible means and increasing investment in the energy sector.

Thus, from 1.5 billion u.a. in 1971, the bank's capital was increased to 14.4 billion ecus as at 15 June 1981, of which 1.465 billion was paid in, which was very slightly more than 10% of subscribed capital. It can be seen that this proportion had fallen markedly when one remembers that when the bank started the proportion was 25% (paid-in

capital had therefore grown by 486% since 1958). Reasons for this lie in the fact that the bank, which was looking for opportunities to increase its activities, did not want its shareholders to bear the full burden of these increases in capital, particularly as they still viewed them with caution. The bank therefore regularly had to adjust its own resources as closely as possible to what was required for its activities, so as not to have recourse to annual increases in capital and to preserve the excellent credit rating it enjoyed on the financial markets.

Besides, the reserves that had been set up in 1958 had grown considerably since the early 1970s thanks on the one hand to the increasingly high interest rates on the markets in which the bank's own resources were invested and on the other to the contributions paid by the new Member States in proportion to their participation in the bank's capital, as explained above. Finally, the bank's annual profits fed into the reserves, even though the interest on loans granted was calculated to match the cost of borrowing as closely as possible. The low commission that the EIB charged for each loan (0.15% in the mid-1980s) was primarily intended to cover its operating costs. Thus, the reserves and provisions which in 1972 were



*Butter production in France. In 1978, the EIB granted a regional development loan for an expansion of milk collection and processing equipment. The loan was granted to the Union laitière normande, a group of nine milk cooperatives bringing together around 20 000 farmers. It is one of the largest businesses in France in the dairy product sector, and it wanted to rationalise and modernise all its milk-collection centres, as well as the milk dairies and cheese dairies and its marketing equipment in the west of France (Normandy, Brittany and Pays de la Loire).*

just under 200 million units of account rose to nearly 3 billion ecus in 1985. During that period of extreme economic and monetary instability they constituted protection from risks on loans and guarantees but also protection for paid-up capital in terms of inflation.

### **2.3.2.** **Borrowing**

The raising and investment of resources borrowed on the capital markets is undeniably the main source of funds for the EIB's lending activity. While it obtained over 450 million units of account on the financial markets in 1973, it procured nearly ten times that amount in 1984. The growth of the bank's borrowing activities has thus been significant from 1972 and helped to make the EIB one of the prime borrowers on the capital markets, thanks to quality of its signature. In fact, its paper received the "AAA" classification reserved for absolutely top-class issuers and granted by the two main US rating agencies, Standard & Poor's and Moody's.

While the share represented by public borrowing remained greater than that of private borrowing, as for the previous period (with a ratio of approximately 60/40 since the late 1970s), the special feature of the EIB's borrowing activities until the

mid-1980s was the result of geographical diversification in the markets approached and the currencies of issue, because of the much higher number of currencies being used for international transactions than had previously been the case, as illustrated in graph 5. The bank had called upon the markets of the Community's Member States and the Swiss market in the 1960s. Starting in 1975, however, it made more use of national markets outside the EEC, first of all by approaching the US market, following the removal of interest equalisation tax, then by issuing a yen bond on the Japanese market and, again, by accessing the Austrian market with an issue of 350 million schillings in 1976. In Asia the EIB was also the first non-Asian borrower to issue bonds in dollars; thus, in late 1975 it issued 20 million dollars on the Singapore market and also borrowed on the Hong Kong market. Finally, the bank borrowed on markets in the Middle East, where there were significant opportunities because of the surpluses created by the rise in oil prices. It can thus be said that, in line with the wish of its founders, the EIB really did organise a transfer of savings from external markets towards the Community. It found resources where they were available on the best terms in order to fulfil its remit of promoting the harmonious development of the common market. In addition, its innovative role in the opening up of new markets should be stressed.



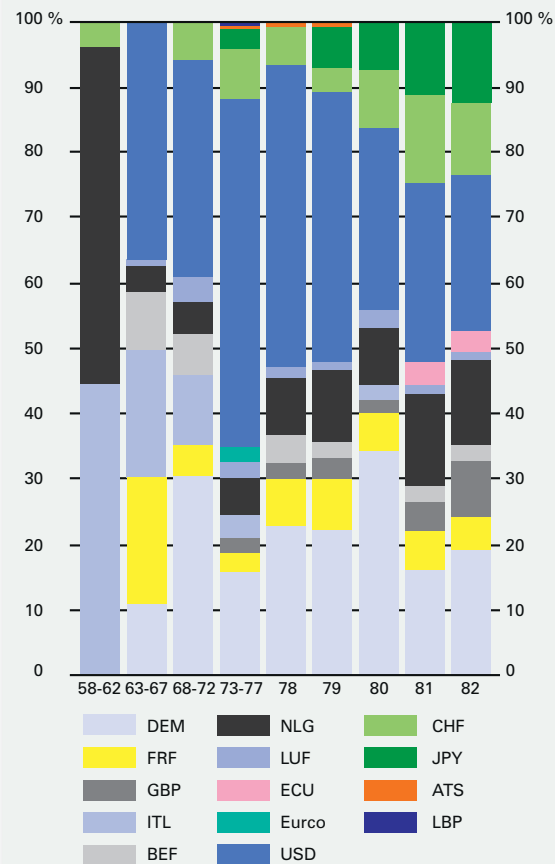
The EIB borrows on the Asian markets. The bank's aim was to acquire funds under advantageous conditions, in order to be able to offer developers within the Community the best possible interest rates; to this end, it was one of the first European financial institutions to get involved in the Asian capital markets. It entered the Japanese market in 1975, in order to acquire yen. The 1976 issue, signed on 23 July, was for 10 million yen with a duration of 12 years and a coupon of 8.9% (see certificate). In the same year, the bank borrowed US dollars in Singapore and, in 1978, it did the same thing in Tokyo. The EIB is unquestionably a major player in the principal global financial markets.

This innovative role was confirmed by the issue in 1973 and 1974, in collaboration with several European banks, of debt securities in euro (European Composite Unit), a European borrowing unit which paved the way for the creation and use of the ECU on the markets in line with the objectives of the future European monetary system. The EIB was also the first Community institution to issue bonds in ecus in 1981, on the Italian, French and even Japanese markets, thus contributing to the promotion and development of this new European currency unit. However, the choice of currencies in which the EIB borrowed varied according to the needs of its clients and the availability and cost of the particular currencies involved. In the early 1980s as many as 12 currencies were obtained, of which over half were external to the EEC, the dollar being predominant.

The 1972-1985 period thus revealed the bank's ability to adjust to both difficult economic circumstances and the new priorities that arose from time to time during the process of European integration, such as the enlargements and the defining of Community policies in the energy sphere and advanced technologies or the environment. Its initiatives were at times even in advance of those of the Community.

The development in lending and borrowing activities therefore illustrates the bank's ability to tackle

Graph 5  
EIB borrowing 1973-1985



EIB, 25 years, 1958-1983,  
Luxembourg, [1983], p. 25.

*The EIB and the euro. The EIB was involved in placing loan issues in euro, a new borrowing unit made up of the sum of fixed amounts of all the currencies of the Member States of the EEC. In September 1973, it issued a loan of 30 million euro on the international market, for a term of 15 years. The issue, listed on the Luxembourg Stock Exchange, was underwritten by an international syndicate headed by Rothschild & Sons Limited. According to the bank, "the euro provides investors with a new instrument for investing their savings that spreads their risk between all the currencies of the EEC according to an appropriate weighting, which should thereby offer greater stability in the value of their investments"<sup>70</sup>.*



new needs by implementing new banking and financial techniques. It achieved a leading role on the financial markets, where it was able to establish the common currency that some had been calling for since the origins of the EEC – the ECU. The EIB was therefore able to respond to the renewed

challenges of European integration while maintaining the remit it had been given by the EEC Treaty, by continuing to finance the investments of greatest urgency for the European economy.

*Émilie Willaert*

<sup>70</sup> EIB, press release of 12 September 1973, p. 2.





The EIB from  
1973 to the  
mid-1980s:  
change in scale  
and development  
of activities

The EIB's lending activities outside the territory of the EEC Member States had begun in 1963 by implementing the financial assistance provided for under the association agreements entered into between the European Community and Greece, Turkey and then the AAMS and the OCT. The bank was thus involved in the implementation of a European aid policy for developing countries through granting and managing financial assistance. This activity for associated countries continued in line with the renewal of the association agreements to which the financial protocols were annexed. In addition, the action took on a whole new dimension when, alongside the 19 signatory states of the Yaoundé II Convention, the independent states of the Commonwealth joined the Lomé Convention in 1975, not long after the United Kingdom's accession to the EEC. There were then 46 states in Africa, the Caribbean and the Pacific (ACP) that were associated with the EEC and could receive EIB loans.

Although it could be presented as one of the consequences of the first enlargement of the common market, that is not the only explanation for the geographical expansion of the bank's activities outside the EEC during the 1970s. It also resulted from the numerous association agreements signed with states in the Mediterranean region; these agreements were once again accompanied by financial protocols involving the EIB and these helped to give the bank the external sphere of activity that it has today. The agreements were part of the formulation of a Community Mediterranean policy, but some of them were also intended to facilitate the economic integration of states applying to join the EEC, first among whom were Greece, Spain and Portugal.

While the EIB's loans outside the Community contributed significantly to the financing of

investment in the countries involved, one should hasten to add that they represented a modest and diminishing proportion of the bank's activities as a whole, even though they tended to increase in volume. Thus, for the 1973-1977 period, the EIB devoted approximately 712 million units of account to its external operations, including both ordinary and special loans, representing 12.6% of its total activity, whereas for the 1980-1984 period these operations, which had risen to 2 674 million units of account, only represented 10% of all the loans granted by the bank.

At a time when the EEC Member States were having to face numerous challenges, such as the expansion of the common market and the resolution of the issue of its resources, but also the worsening of the international economic and financial environment which was weakening their economies, it is interesting to look at the guidelines they set out in order to continue to cooperate with many countries, some of which were among the poorest in the world. The Community considered that it had a moral obligation to help them, in particular through action by the EIB, because of a shared past or strong cultural relations. But the political and economic situation also helped to reinforce the European presence in the developing world.

### 3.1. The Lomé Conventions: new responsibilities for the EIB

The financial assistance provided by the EIB under the Yaoundé association agreements, from its own resources but also as an agent of the European Community, was destined to last. In fact, the renewal of the second Yaoundé Convention gave rise to the Lomé Convention, from

## Yves Le Portz



*President Yves Le Portz (centre) in Ivory Coast, during a trip by the board of directors in 1972.*

An 'Inspecteur des Finances', after the Second World War, Yves Le Portz occupied various positions under the French ministers of finance who succeeded each other in the many ministerial reshuffles characteristic of the Fourth Republic. He became director of the private office of the minister for reconstruction and housing in 1955 before starting an international career; he was delegated to the United Nations Economic and Social Council (1957-1958) and then had responsibility for Algeria's finances. In 1962 he was appointed vice-president of the EIB, and then president in 1970. Universally considered one of the major figures in the bank's history, he significantly developed its activities in support of a common market which was undergoing profound changes, and also outside the territory of the Community's Member States, to which he was particularly attentive.

*Émilie Willaert*

the name of the town in Togo in which it was signed on 28 February 1975. The nine Member States of the EEC entered into a trade cooperation agreement with 46 ACP States, a group formed following the Georgetown agreement of 6 June 1975 resulting from the adoption of a common position by these countries on issues of vital importance for their economic and social development. The first Lomé Convention and its successive renewals constituted the widest cooperation agreement in the history of North-South relations, since they went beyond the regional dimension of the Yaoundé Conventions. In addition they formed part of an international context

that remained tense as a result of the upheavals of the Cold War, the repercussions of the 1973 oil crisis and the ideological debates on the new international economic order.

### 3.1.1.

#### Lomé I: increased and diversified resources for the EIB

The aim of the first Lomé Convention was to include some Commonwealth countries in the EEC's cooperation programme for developing countries following the accession of the United Kingdom. Over and above a genuine humanitarian aspect,



*The spirit of Lomé. This banner conveys the context in which the Lomé I Convention was signed on 28 February 1975. It was favourably received by the populations of the 46 States associated to the EEC.*

## The signatory states of the Yaoundé I Convention to the Lomé II Convention

### ***Yaoundé I (1963):***

Benin; Burkina Faso; Burundi; Cameroon; Central African Republic; Chad; Congo (Brazzaville); Democratic Republic of Congo (Kinshasa); Ivory Coast; Gabon; Madagascar; Mali; Mauritania; Niger; Rwanda; Senegal; Somalia; Togo.

### ***Yaoundé II (1969):***

Kenya; Tanzania; Uganda.

### ***Lomé I (1975):***

Bahamas; Barbados; Botswana; Ethiopia; Fiji; Gambia; Ghana; Grenada; Guinea; Guinea-Bissau; Guyana; Jamaica; Lesotho; Liberia; Malawi; Mauritius; Nigeria; Western Samoa; Sierra Leone; Sudan; Swaziland; Tonga; Trinidad and Tobago; Zambia.

### ***Lomé II (1979):***

Cape Verde; Comoros; Djibouti; Dominica; Kiribati; Papua New Guinea; St Lucia; Sao Tome and Principe; Seychelles; Solomon Islands; Suriname; Tuvalu.

### ***States that joined Lomé II before 1984:***

Antigua and Barbuda; Belize; St Christopher and Nevis; Vanuatu, Zimbabwe.

it also aimed to consolidate trade links with these countries that represented openings for Community exports, within an overall context of economic slowdown. In addition, the EEC sought to guarantee that it had easy, diversified access to the raw materials present in large volumes in some of the ACP states. Finally, the signing of these cooperation agreements enabled it to strengthen its presence in various regions of the world, which represented a geostrategic achievement in the context of international relations

still dominated by the two superpowers, the USA and the USSR.

In general, the system laid down by the Lomé Convention which entered into force on 1 January 1976 was to guarantee wider, duty-free access for products coming from the ACP states onto European markets in line with the trade partnership principle. It also emphasised increased industrial cooperation and put forward some new features not seen in previous agreements, such as the

creation of Stabex, a mechanism for stabilising export earnings on agricultural products. Operational from July 1976, this original system was put forward by the European Commission and made significant resources available to the ACP countries – 375 million units of account in 1975 – to fund their individual agricultural sectors when they were experiencing difficulties through a fall in their export earnings. Thus, over and above the trade arrangements, the Lomé Convention, like the Yaoundé Conventions, certainly made provision for financial assistance intended to improve living conditions and encourage the economic and social development of the associated states. That financial assistance, which was available in various forms, was primarily under the responsibility of the Commission of the European Communities, which decided to increase the volume of its subsidies under the EDF framework to meet the needs of the many signatory states. However, the EIB was also called

upon to participate in the financial mechanisms laid down by the association. Its board of directors and its departments very quickly thought about the procedures for more increased activity outside the Community. Notes and studies advanced various assumptions about the amount that the bank could devote to this, as a function of its own resources and the resources that it had to obtain on the capital markets. It also had to take into account the already considerable growth in its activity in the EEC Member States and the various positions expressed by the Member States regarding the amount and methods to be used for financial assistance.

There was however no question of the EIB failing to share the genuine wish for solidarity displayed by the EEC towards the ACP States, or failing to continue with the activities that it had begun in the early 1960s. Thus, the bank found itself entrusted with a very specific role within the

## Lomé I Convention – Chapter IV: financial and technical cooperation

### *Article 40:*

1. The purpose of economic, financial and technical cooperation is to correct the structural imbalances in the various sectors of the ACP States' economies. The cooperation shall relate to the execution of projects and programmes which contribute essentially to the economic and social development of the said States.
2. Such development shall consist in particular in the greater wellbeing of the population, improvement of the economic situation of the State, local authorities and firms, and the introduction of structures and factors whereby such improvement can be continued and extended by their own means.
3. This cooperation shall complement the efforts of the ACP States and shall be adapted to the characteristics of each of the said States."

**Article 43:**

1. The method or methods of financing which may be contemplated for each project or programme shall be selected jointly by the Community and the ACP State or States concerned with a view to the best possible use being made of the resources available and by reference to the level of development and the economic and financial situation of the ACP State or ACP States concerned. Moreover, account shall be taken of the factors which ensure the servicing of repayable aid.
2. Account shall also be taken of the nature of the project or programme, of its prospects of economic and financial profitability and of its economic and social impact.

In particular, productive capital projects in the industrial, tourism and mining sectors shall be given priority financing by means of loans from the Bank and risk capital.

**Article 44:**

1. Where appropriate, a number of methods may be combined for financing a project or programme.
2. With the agreement of the ACP State or ACP States concerned, financial aid from the Community may take the form of co-financing with participation by, in particular, credit and development agencies and institutions, firms, Member States, ACP States, the third countries or international finance organisations."

**Article 46:**

1. The financing of projects and programmes comprises the means required for their execution, such as:
  - capital projects in the fields of rural development, industrialisation, energy, mining, tourism, and economic and social infrastructure;
  - schemes to improve the structure of agricultural production;
  - technical cooperation schemes, in particular in the fields of training and technological adaptation or innovation;
  - industrial information and promotion schemes;
  - marketing and sales promotion schemes;
  - specific schemes to help small and medium-sized national firms;
  - microprojects for grassroots development, in particular in rural areas.

*OJ L 25, 30.1.1976, p. 2 (may also be consulted via <http://eur-lex.europa.eu>).*



## Questions asked by Yves Le Portz regarding action in the ACP States

"The Member States asked the bank about the volume of ordinary loans from own resources that might be included in the Community assistance to be offered to the ACP States.

A correct answer to this question must, in fact, answer four different questions:

- 1- What effective role can the bank play in Community development aid for the ACP States?
- 2- What proportion of the Community's total aid to the ACP States can the bank's ordinary loans represent?
- 3- What proportion of the bank's own resources can be devoted to loans in the ACP States?
- 4- What are the technical conditions for an increase in the bank's ordinary loans in the ACP States?"

*EIB archives, extract from a note by Yves Le Portz dated 4 July 1974,  
"Intervention de la banque dans les pays associables d'Afrique, des Caraïbes et du Pacifique".*

framework of financial assistance which included, in addition to Stabex mentioned above:

- subsidies (2 100 million units of account), special loans (430 million units of account) and assistance in the form of risk capital (95 million units of account), funded by the Community budget as part of a Fourth EDF;
- ordinary loans from the EIB's resources up to a maximum of 390 million units of account.<sup>71</sup>

In total therefore it was planned to grant 3 390 million units of account to the ACP States over

five years. In addition, following the decision by the Council of the European Communities dated 26 June 1976, these financial measures applied in similar terms to the overseas countries and territories of the EEC States, which enlarged the bank's geographical area of responsibility correspondingly.

The EIB was therefore responsible for granting ordinary loans from its own resources, as it was already doing within the framework under the previous agreements. These loans were intended for

<sup>71</sup> All the figures mentioned correspond to the amounts in units of account as they appear in the convention signed in 1975 for the ACP States, but do not include the amounts provided for the OCT. They gradually increased as further States joined the Lomé Convention.

profitable projects, more specifically in the industrial sector, whether in the agrifood, mining or tourism spheres, and the interest rate in force as at 1 October 1975 was 9.5%. But, and this was a new development as compared with the Yaoundé Conventions, interest subsidies of 3% could be given on these loans, charged to the resources of the Fourth EDF up to a maximum sum of 100 million units of account. For the associated countries these subsidies were of considerable benefit, given the general rise in interest rates at the time. In addition it was the EIB, as part of establishing increased cooperation between the EEC and the ACP States in the industrial, mining and tourism sectors, that granted assistance in the form of risk capital, on behalf of the Community and using the Community's budget. This cooperation was mainly intended to reinforce the bank's action in countries where industrial investment faced specific problems such as restricted markets, or a lack of experienced labour. Risk capital assistance in the form of risk capital could be given through operations:

- of direct participation in the own resources of a company on behalf of the Community;
- of "subordinated" loans, only to be repaid after the settlement of priority loans;
- of "conditional" loans, only to be repaid once conditions were attained that indicated the project had achieved a certain degree of profitability.

As for loans with special conditions – that is, loans of a duration of up to 40 years with a grace period of up to 10 years and an interest rate of 1% – which the EIB had been responsible for managing

under the Yaoundé Conventions, they were now appraised and managed by the Commission. If one were to give a brief summary of the bank's activities under the Lomé Convention, it would first be necessary to stress that all the sums in the form of the bank's ordinary loans had been granted by 1980, at the end of the period covered by the convention. Africa was by far the main recipient of this assistance, with African countries receiving 348 million units of account out of the 390 million granted. Although there was in any case no quota of any kind for the distribution of aid by country, 80% of aid went to countries with more advanced economies, such as Ivory Coast, Nigeria, Kenya or Cameroon. On the other hand risk capital assistance, for which the budgeted allocation had also been totally used up, mainly went to the most disadvantaged states mentioned in Article 48 of the Lomé Convention<sup>72</sup>.

While there was no geographical quota for granting financial aid, nor was there any annual quota, the amount granted depending only on the quality of the eligible projects submitted to the bank. Thus, the volume of the EIB's activities in the ACP States increased year on year. It should be said on the one hand that the bank had made preparations on the ground for the application of the new Lomé Convention so that it was ready to act as soon as it was implemented and on the other hand that 13 new States progressively joined the Convention, which increased its sphere of responsibility correspondingly. Thus, bank lending rose from 90 million units of account in 1976 to approximately 145 million in 1980, representing

<sup>72</sup> Botswana, Burundi, Chad, Dahomey, Ethiopia, Gambia, Guinea, Guinea Bissau, Lesotho, Mali, Malawi, Mauritania, Niger, Rwanda, Somalia, Sudan, Swaziland, Tanzania, the Central African Republic, Togo, Tonga, Uganda, Upper Volta, Western Samoa.

on average 30% of its activity outside the EEC during the period as a whole, but less than 10% of its total activity and less than 5% for the year 1980.

The financing granted under the Lomé Convention related by and large to the industries that it had to help to promote, since they were considered to be one of the elements of economic development. The varied spheres of agrifood, building materials, chemicals and mineral extraction or metal processing were the main recipients of the EIB's loans. Its loans to a rice-processing factory in Mali and a sugar refinery in Swaziland in 1978, to a chromium dephosphorisation plant in Madagascar in 1979 or to gold mines in Upper Volta in 1980 illustrate the diversity of the bank's activity and represent a change from the Yaoundé Conventions, which had put more of an emphasis on infrastructure projects. Tourism and hotel projects also fell within this category, which formed part of industrial development. In fact, the EIB began to grant loans to this sector that generates foreign currency and creates many jobs, by financing the construction of hotels almost exclusively, for instance in Malawi, or hotel complexes. These tourism projects were often small initiatives however, so that, as in the Community countries, the EIB used financial institutions such as regional development banks as intermediaries. These banks, like the Trinidad and Tobago Development Finance Company Ltd, which received a loan of 5 million units of account in 1978, or the Barbados Development Bank, which received 2.5 million units of account in 1979, became more and more common on the international financial landscape. Even outside the EEC Member States they became regular partners of the EIB, including for small or medium-sized industrial projects. Thus, in 1982, 25% of loans for industrial development

were provided through these banks, very often in the form of global loans. Sometimes the EIB also used the risk capital channel, namely Community resources, to take holdings in the capital of some of these banks in order to consolidate their financial base or to subscribe to the bonds that they issued. This cooperation between the EIB and the development banks located outside the European Communities, above and beyond the opportunities it created for completing more projects, contributed above all to the development and modernisation of the banking sector of certain States or sometimes even large regions. Finally, an examination of the sectoral distribution of the bank's loans also reveals its significant contribution to the energy sector, which often accounted for 30% of the bank's activity in the ACP States. This high proportion might be surprising, since energy consumption has never been very significant in these developing countries. It nevertheless represented a heavy burden for their balance of payments since many of them were dependent on oil imports and, like the Member States of the European Communities, suffered from the first and then the second oil crisis. Power stations, and also hydroelectric projects such as the one built in Ghana in 1978, and the development of electricity networks, benefited from loans from the bank at the time.

The activity of the EIB, both from its own resources and from Community resources, was highly diversified geographically and by sector. In addition the financial methods used were very varied. In line with the desires of those who chose them, they were a response to specific needs and to a wish to contribute to the attainment of objectives laid down in the first Lomé Convention, which were subsequently made more specific.



*The financing of tourism infrastructure. Under the Lomé Conventions the EIB became a source of funding for the development of tourism in the ACP States. Generating foreign currency, tourism had an impact on all the economies and promoted the development of the regions involved. The construction of hotel complexes, mainly in beach resorts but also near business centres, created jobs in areas where unemployment prevailed and increased the utilisation of a rich cultural and natural heritage that tourists discovered, for instance, on safari.*

### **3.1.2.** **New guidelines in the second Lomé Convention**

The considerable support provided by the Lomé Convention to the economic development of some countries in the developing world and the political importance that this agreement had for the European Communities led to the opening of negotiations for its renewal on 24 July 1978. On 31 October 1979 the discussions resulted in the signing of a second convention, referred to as Lomé II, for another five-year period. The agreement now bound 58 ACP States to the European Communities, which thus showed that the developing world remained the target of special attention. For the EIB the new agreement meant a further geographical expansion of its activities, particularly since an agreement on identical terms was planned for the OCT, as had already been the case for the Yaoundé and Lomé I Conventions. Some of these, however, like the French overseas

departments (DOM)<sup>73</sup>, were no longer considered to have OCT status and thus received EIB loans on the same terms as mainland territories.

The Lomé II Convention entered into force on 1 January 1981. In addition to trade arrangements, it confirmed Europe's desire to contribute to the economic and social development of the ACP States, in particular by continuing with financial aid, which was highly sought after by these countries as it represented about half of the aid they received from developed countries. Thus, the Lomé II Convention made provision for a financial allocation of over 5 billion units of account in various forms, the majority of which had already been in use in the previous convention, as detailed below.

The Lomé II Convention confirmed the EIB's role in granting ordinary loans from its own resources, but at 685 million units of account plus

<sup>73</sup> From 18 March 1980.

15 million for the OCT the amount was greater. These loans could still receive the 3% interest subsidies established by the First Lomé Convention and for which 175 million units of account were reserved from the 5th EDF. The bank was also given extra risk capital resources compared with the previous convention because of the success, emphasised by both the Commission and the bank, that that type of aid had encountered since its implementation in 1976.

For the EIB the new feature added by this convention was the funding of initiatives of joint

benefit to the Community and the ACP States by exploiting mining resources, which had already received loans from the bank in the past, but for which a special new mechanism was created – Sysmin. This “system of stabilisation of mining products” was intended to enable a State that was strongly dependent on a mineral and which was experiencing a fall in its production and exports to receive special financial assistance. In fact, in contrast to Stabex, the mechanism was not intended to stabilise export earnings, but to grant loans to re-establish production capacity, which had fallen by at least 10% as a result of

## Distribution of the financial assistance provided for by the Lomé II Convention, broken down by types of funding

Figures in millions of units of account; they do not include amounts intended for the OCT:

Managed by the Commission of the European Communities – EDF resources:	
- Subsidies	2 753
- Loans on special conditions	504
- Transfers for stabilising export earnings (Stabex)	550
- Special funding facility for mining products (Sysmin)	280
Managed by the EIB	
- Loans from the bank's own resources	685
- Risk capital from EDF resources	280
- Interest subsidies from EDF resources	175
- Mining and energy investments of joint ACP/EEC benefit from EIB resources	200

*EIB, booklet entitled „Financing under the Second Lomé Convention”, p. 6.*

natural disasters, political events and the drop in world prices. The second oil crisis and the industrial crisis that followed, which lowered demand for minerals, as well as the political instability in certain ACP countries, could have weakened the export of mineral resources, which were the source of considerable earnings and generated jobs. The EIB therefore decided to supplement the Sysmin operations, which fell within the responsibility of the European Communities, by stepping up its activity in favour of the sector, which accounted for approximately 10% of the aid granted annually by the bank to the ACP States, as exemplified by loans such as that granted to Zimbabwe or to Ghana for the modernisation of a manganese factory in 1983. The sectoral distribution of the EIB's loans also illustrated the particular attention paid to energy and industrial projects, even though it was not easy for the bank to find projects to finance in these sectors<sup>74</sup>. The first projects still related to the development of a local supply and, as previously under the First Lomé Convention system, related to the construction of power plants such as the one in the Rift Valley in Kenya and the exploitation of coal resources in Zimbabwe in 1982. These loans accounted for approximately a third of the EIB's activity in the ACP States. As for the industrial projects, funding was shared between spheres as diversified as in the past, with a preponderance of the agrifood, construction materials and chemistry sectors. The textile industry also received many loans from the EIB, such as those granted in Tanzania for a cloth factory or in Niger or Cameroon for cotton factories, since this local processing activity met the needs of the local people. Finally, the bank's activity in the ACP States was increasingly directed at the regional development banks, which

on average accounted for slightly over 20% of the EIB's loans, and exceptionally 43% in 1983, and benefited small and medium-sized projects in the textile sector mentioned above, the tourism sector and the timber industry. In 1983, the bank was even involved in the creation of a development bank: the Zimbabwe Development Bank.

Finally, the geographical distribution of the bank's loans remained unchanged as compared with the previous period because it was Africa that continued to receive the vast majority of the EIB's loans. In 1983, it received almost 95% of the loan amounts granted under the Lomé II Convention.

While the first two Lomé conventions bore witness to the strength of developing countries in international relations, they also expressed the desire to renew the dialogue between North and South, between the European Communities and certain developing countries, based on a more diversified system of trade and financial cooperation. It was in this way that they left a mark on the history of this era. Their objectives of making world trade prosper while trying to stabilise international relations formed part of the opening of a new era in development aid policy between the EEC and the ACP States. The EIB played a part in this through a role that went beyond mere management of the financial assistance granted to the associated countries. The bank thus contributed to the creation of many jobs and to the modernisation of these States' economic and financial structures.

Between 1975 and 1985 the EIB granted no less than 1 398 million units of account in almost all

<sup>74</sup> Interview with Jacques Silvain, 12 December 2007: "We had a small opening in the field of industrial projects".

the ACP countries and the OCTs, as shown in map 3, p. 174, 1 000 million of which was from its own resources. The sectoral distribution of its activity, also illustrated in map 3 below, shows that a large proportion of aid benefited industry (64% for the 1975-1985 period), and the energy sector (30%), whereas infrastructure projects represented a bare 8% of the bank's loans, reflecting a change as compared with the Yaoundé Conventions: "the EEC no longer wishes to appear as a mere source of aid to the developing world", stressed the EIB in 1983, "but it must also be a trustworthy and responsible trade partner. Financial cooperation with developing countries should be additional to their exports, not replace them". It was for this reason that the bank emphasised industrial projects intended to meet local demand or exports that generated foreign currency. From the first enlargement until the mid-1980s it participated more and more actively in very diverse modes in European development aid policy for a large group of states, considered as a whole and not individually, in contrast with the countries of the Mediterranean, which made up the other sphere of the bank's external activities during the same period.

### 3.2. The EIB, Europe and the Mediterranean

Just after the Second World War and during the era of decolonisation, the interest of European countries in the Mediterranean region tended to diminish in favour of European integration and the maintenance of special relations with the overseas territories. However, very soon after they grouped together, the common market countries

paid very special attention to their neighbours in the Mediterranean. The association to the EEC of Greece in 1961 and Turkey in 1963 bore witness to the economic, financial and trade links that were being developed.

#### 3.2.1. Consolidation of activities in Greece and Turkey and start of a new era

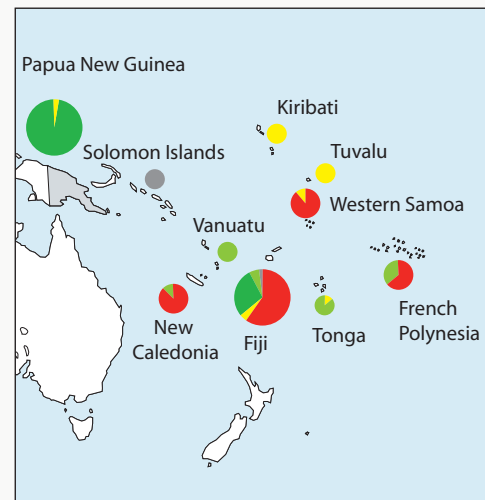
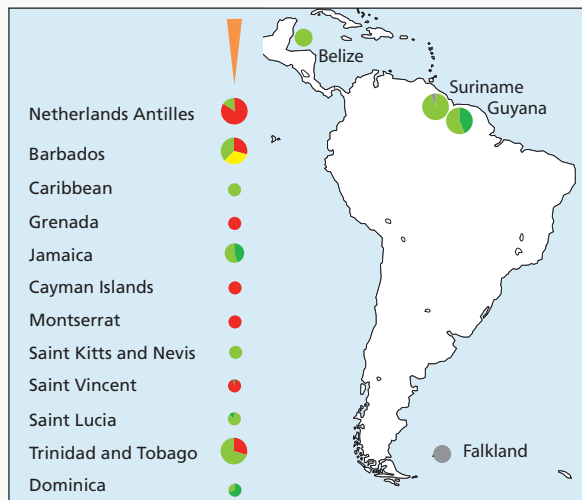
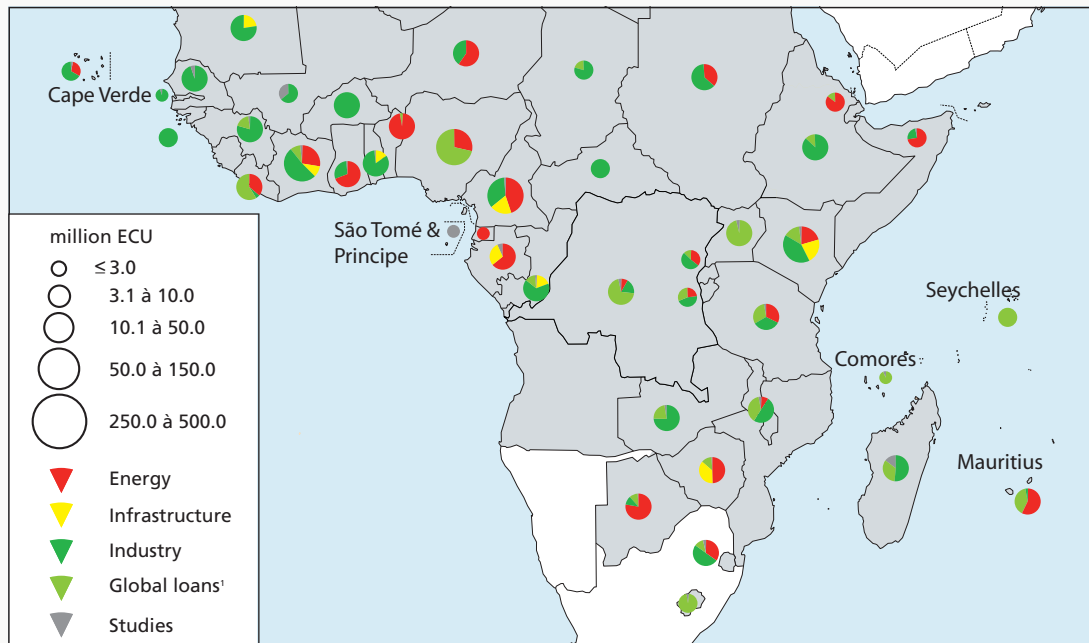
In March 1969 bilateral cooperation agreements were signed between the EEC and Algeria, Tunisia and Morocco, establishing closer trade relations with those countries through a preferential tariff and also making provision for technical cooperation and financial aid in the form of subsidies. In March 1970 a non-preferential trade agreement was signed with Yugoslavia. In June 1970 a preferential trade cooperation agreement was entered into with Spain with a view to promoting its economic development but without a confirmed prospect of the country's accession to the EEC because of the obstacle then presented by the Franco regime. The same type of agreement was signed with Israel. Finally, in December 1970 Malta was associated to the EEC in the same way as the Maghreb countries.

This increasingly strong wish to move closer to the Mediterranean countries continued in the early 1970s. Thus Portugal, which had asked to open negotiations to lay the basis for cooperation with the EEC back in 1962, had its request granted in January 1971 after the Six had agreed that the European Commission should conduct exploratory conversations with a view to cooperation with six countries<sup>75</sup> in the European Free

<sup>75</sup> Austria, Iceland, Norway, Portugal, Sweden, Switzerland.

Map 3

### Geographic and sectoral distribution of the EIB's loans under the two Lomé Conventions (1976-1985)



<sup>1</sup> Global loans in the countries of the Mediterranean area. Financial assistance to these developments banks in the ACP States and the OCTs.



Trade Area (EFTA) that were not candidates for accession. Relations between the EEC and Portugal were then governed by the Brussels agreements of 22 July 1972, which entered into force on 1 January 1973 and set up a free trade system. In 1972 an association agreement was entered into with Cyprus and trade agreements were signed with Egypt and Lebanon.

Thus, by the middle of the 1970s a large number of agreements had been signed between the EEC and various Mediterranean countries. On the one hand there were agreements dealing strictly with trade, which received a hostile reception from the United States in particular since they went against the principles of the GATT. On the other there were association agreements, like the one previously concluded with Greece – frozen in 1967 but reactivated in 1975 with the fall of the dictatorial regime – and with Turkey, renewed in 1969 (with entry into force in 1973). These association agreements, as well as being trade arrangements, proposed systems for technical and financial cooperation in the form of subsidies and loans from the EIB (solely in the cases of Greece and Turkey). The bank intervened through ordinary loans from its own resources which were eligible for interest subsidies from the Community budget, and also managed special loans as agent for the EEC and the Member States. In Greece the bank thus used the remaining part of the 1961 agreement. In Turkey it had a budget allocation of 195 million units of account under the second protocol to grant special loans from budget funds (242 million under the additional protocol of 30 June 1973 following the enlargement of the EEC). However, a new feature was that the bank was also able to grant ordinary loans from its own resources up to a maximum of 25 mil-

lion units of account, with a guarantee provided by the Member States. However, trade agreements and association agreements formed part of the overall framework of the EEC's cooperation policy towards developing countries.

### 3.2.2.

#### **Enlargement of the EEC to the south: a turning point for Mediterranean policy**

The mid-1970s were without doubt a turning point in European policy in favour of the countries of the Mediterranean area.

Firstly, as far as southern European countries were concerned, applications for accession were made by some candidates or appeared to be a probable evolution of the EEC in the coming years. Also, the European Communities were gradually taking measures to develop the cooperation or association systems in force, and the EIB was entrusted with new operations. Over and above the exceptional aid that the Bank gave Portugal after the return of democracy in 1975 and in the context of the country's serious economic difficulties, it also was given the responsibility of allocating pre-accession aid to candidates, the first of which was Greece under a second protocol which came into effect in 1978, then Spain and Portugal, whose applications had been made in 1977 and who started to receive this financial aid in 1981. Although previous trade arrangements had enabled these states to be integrated more closely into the common market, their economies needed to be consolidated and the loans from the EIB were part of this. Thus, the Bank could intervene in Spain through loans from its own resources of a maximum of 200 million u.a. and in Portugal of 150 million u.a., of which



*The EEC-Cyprus association agreement was signed by Ioannis Christophides, Cypriot minister for foreign affairs, and Titos Phanos, head of the Cypriot delegation to the European Communities, as well as Norbert Schmelzer, the Dutch minister of foreign affairs and president in office of the Council of the European Communities, and Sicco Mansholt, president of the Commission (above, left to right). The agreement provided for the conclusion of a customs union within ten years. The two communities on the island, the Greek Cypriots and the Turkish Cypriots, had been consulted during the association negotiations. A first stage was due to be completed on 30 June 1977, to be followed by a customs union in the early 1980s, but this second stage remained pending following the tragic events of 1974.*

125 million was eligible for interest subsidies of 3% from the Community budget. Moreover, between 1976 and 1977 financial protocols were appended to the association agreements signed at the beginning of the 1970s with Cyprus and Malta, which could henceforth receive ordinary and special loans from the EIB. Finally, following the declaration of Belgrade in 1976, Yugoslavia could receive ordinary loans from the EIB of 50 million u.a. for projects of common benefit to the country and the Community, especially in the areas of transport and energy. These financial provisions were renewed at the beginning of the 1980s

for an allocation of 200 million u.a., and are shown in table 9 which summarises this point.

Over the same period the implementation of a “general Mediterranean policy” was added to the strengthening of EEC cooperation with the countries of southern Europe. The policy was in response to the decisions of the Council of Ministers in November 1972, which had defined the outlines of the Mediterranean policy which the Community was to follow and involved replacing a multitude of trade and association agreements with a genuinely integrated approach. The

## Turkey – second financial protocol – description of investment projects

“Under this second protocol, the EIB was able to finance investment projects to be implemented on Turkish territory in all sectors of the economy.

**Projects were eligible for EIB funding if they were identified as:**

- contributing to the growth of productivity of the Turkish economy and in particular intended to equip Turkey with a better economic infrastructure, a more productive agriculture as well as companies, whether industrial or service-based, that were modern and properly operated, regardless of whether they were publicly or privately managed;
- promoting the attainment of the goals of the association agreement;
- falling within the framework of the Turkish development plan in force.

Particular consideration was to be given to projects likely to contribute to the improvement of Turkey’s balance of payments situation.

The agreement of the Turkish state was necessary.”

*Becker, M., La Banque européenne d’investissement,  
“Notes et études documentaires” collection, No 4022-4023,  
La Documentation française, Paris, 17 September 1973, p. 24-25.*

new policy began in May 1975 with a free trade agreement with Israel, but above all with the signature of trade and cooperation agreements in April 1976 with all three Maghreb countries, taken as a group and no longer treated individually. In the same way it was extended in 1977 to the Machrek countries (Egypt, Jordan, Lebanon and Syria). These agreements were intended to promote the free access of Mediterranean industrial and agricultural products to the common market without reciprocity, thanks to a reduction in customs charges. They were also accompanied by financial protocols involving ordinary EIB loans, which could often be subsidised, and special loans. Although a certain amount of time was required to bring the 1972 decisions to fruition, it must be added that these Mediterranean countries had insisted on implementing the arrangements for renewed cooperation with the EEC because they feared competition with Spain and Portugal, who were to join the Community. Moreover, the common market countries had an interest in associating more closely with these countries of the southern and eastern Mediterranean, which at the beginning of the 1980s were the market for 10% of their exports. Thus were the foundations laid of the Euro-Mediterranean policy of the second half of the 1980s.

### 3.2.3.

#### **The activity of the EIB in the Mediterranean area**

The EIB, which had intervened in Greece and Turkey since the beginning of the 1960s, gradually extended its activities to a total of fifteen states with varying levels of economic development and under policies with different objectives. This involved preparing for accessions, strengthening privileged economic and trading relations, strengthening the European presence in these

areas or extending the provisions of EEC cooperation policy to states with problems of under-development.

The Bank intervened in particular in the form of ordinary loans in southern European countries, which represented about two thirds of the aid which it allocated to all countries in the Mediterranean area, as shown by map 4 opposite. As far as its interventions since 1978 in the Maghreb and Machrek countries are concerned, these were more like the aid it usually granted to developing countries: special loans were in the majority. This can be confirmed by a study of the sectoral distribution of the Bank's financing in the Mediterranean basin. Indeed, about 45% of the EIB's funding in the Maghreb and Machrek countries was for infrastructure, especially transport, over the period 1973-1985, while in southern European countries the bank's interventions were mainly directed towards the industrial sector. However, in addition the Bank's financing in the energy sector was considerable across the whole region, which reflected Community policies and preoccupations in this field.

Thus the Bank participated in the financing of very diverse projects, among which one could mention the construction of a motorway in Syria linking Damascus to the Jordanian border in 1984, the construction of railway lines in Tunisia at the beginning of the 1980s, the installation of nine automated centres for the control and management of electricity production and transmission in Yugoslavia, and the global loans to the Portuguese Caixa Geral de Depósitos for small industrial and tourist initiatives.

The EIB continued its activities outside the EEC under the Lomé Conventions and the financial protocols signed with several Mediterranean

countries; they formed a limited but nonetheless important part of the whole of its operations considering the amounts of the loans granted.

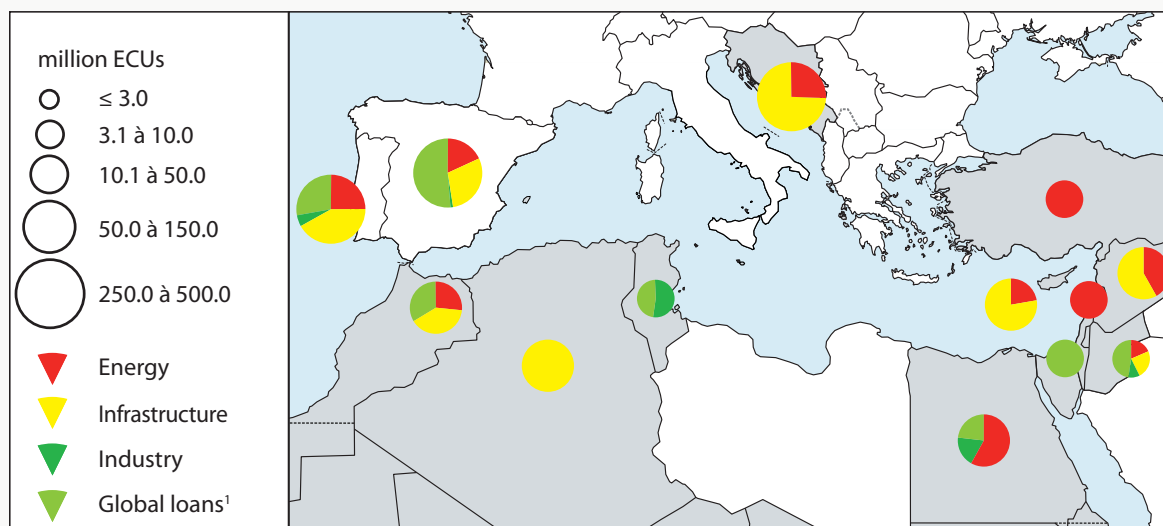
The Lomé Conventions had established the greatest-ever partnership between developed and developing countries in order to accelerate the economic, social and cultural development of the ACP countries, taking account of national sovereignties, equality of signatories and a permanent wish for dialogue. It was with this goal that the economic and financial provisions of these Conventions were drawn up and the projects funded by the EIB contributed to strengthening solidarity between countries, groups of countries

and the Member States. The industrial development of these young nations, often with a GDP lower than 250 dollars per capita, was frequently dependent on agricultural exports and mining products. Affected as they were by the global economic crisis of the 1970s, only financial aid and industrial and economic cooperation could ensure their development.

Likewise, the EIB's activities in the Mediterranean countries were part of the growth of economic and trading relations, which was desirable in the context of the economic crisis and necessary for the integration of the economies of the candidate countries for accession. In the years from 1973

Map 4

### EIB interventions in the Mediterranean area (1981-1985): geographical and sectoral distribution of loans



<sup>1</sup> Global loans in the countries of the Mediterranean area. Financial assistance to these developments banks in the ACP States and the OCTs.

Table 9

### Financial protocols of the EIB's activities in the Mediterranean area (1983)

*in million ecus*

European countries		Loans from EIB resources	Interventions from budget resources		Total assistance
			loans with special conditions	Non-repayable assistance	
Portugal	Exceptional Financial assistance to enable Portugal to overcome a period of a "particularly difficult economy" (1975-1977)	150 <sup>(1)</sup>	—	30	180
	Financial Protocol (1978-1981)	200 <sup>(1)</sup>	—	30	230
	Pre-accession facility within the framework of the negotiations for accession to the EEC (from 1981 to the accession date)	150 <sup>(1)</sup>	—	125	275
		500	—	185	685
Spain	Pre-accession facility within the framework of the negotiations for accession to the EEC (from 1981 to the accession date)	200	—	—	200
Turkey	Association agreement signed 12.9.1963				
	1st Financial Protocol (1964-1969)	—	175	—	175
	2nd Financial Protocol (1973-1976)	25	195	—	220
	3rd Financial Protocol (1979-1981)	90	220	—	310
	4th Financial Protocol (not yet signed. Scheduled expiry date: 31.10.1986)	225	325	50	600
	340	915	50	1 305	
Yugoslavia	Interim Agreements for financing according to the Belgrade Declaration (1976-1978)	50	—	—	50
	Financial Protocol (1.7. 1980-30. 6.1985)	200	—	—	200
		250	—	—	250
Cyprus	Financial Protocol (1.1.1979-31.12.1983)	20 <sup>(1)</sup>	4	6	30
Malta	Financial Protocol (1.11.1978-31.10.1983)	16 <sup>(1)</sup>	5	5	26
<i>Sub-total European countries</i>		1 326	924	246	2 496

<sup>(1)</sup> Amounts liable to interest rate subsidies deducted from non-repayable aid.

<b>Maghreb</b>		Loans from EIB resources	Interventions from budget resources		Total assistance
			loans with special conditions	Non-repayable assistance	
Algeria	1st Financial Protocol (1978-1981)	70 <sup>(1)</sup>	19	25	114
	2nd Financial Protocol (1.1.1983-31.10.1986)	107 <sup>(1)</sup>	16	28	151
		177	35	53	265
Morocco	1st Financial Protocol (1978-1981)	56 <sup>(1)</sup>	58	16	130
	2nd Financial Protocol (1.1.1983-31.10.1986)	90 <sup>(1)</sup>	42	67	199
		146	100	83	329
Tunisia	1st Financial Protocol (1978-1981)	41 <sup>(1)</sup>	39	15	95
	2nd Financial Protocol (1.6.1983-31.10.1986)	78 <sup>(1)</sup>	24	37	139
		119	63	52	234
<b>Mashreq</b>		Loans from EIB resources	Interventions from budget resources		Total assistance
			loans with special conditions	Non-repayable assistance	
Egypt	1st Financial Protocol (1978-1981)	93 <sup>(1)</sup>	14	63	170
	2nd Financial Protocol (1.1.1983-31.10.1986)	150 <sup>(1)</sup>	50	76	276
		243	64	139	446
Jordan	1st Financial Protocol (1978-1981)	18 <sup>(1)</sup>	4	18	40
	2nd Financial Protocol (1.1.1983-31.10.1986)	37 <sup>(1)</sup>	7	19	63
		55	11	37	103
Lebanon	1st Financial Protocol (1978-1981)	20 <sup>(1)</sup>	2	8	30
	Exceptional emergency assistance (1977-1978)	20	—	—	20
	2nd Financial Protocol (1.3.1983-31.10.1986)	34	5	11	50
	2nd exceptional emergency assistance (1982-...)	50	—	—	50
		124	7	19	150
Syria	1st Financial Protocol (1978-1981)	34 <sup>(1)</sup>	7	19	60
	2nd Financial Protocol (1.2.1983-31.10.1986)	64 <sup>(1)</sup>	11	22	97
		98	18	41	157
<i>Subtotal Maghreb + Mashreq</i>		<i>962</i>	<i>298</i>	<i>424</i>	<i>1 684</i>
Israel	1st Financial Protocol (1978-1981)	30	—	—	30
	2nd Financial Protocol (not yet signed. Scheduled expiry date: 31.10.1986)	40	—	—	40
			70	—	—
<b>Total Mediterranean countries</b>		<b>2 358</b>	<b>1 222</b>	<b>670</b>	<b>4 250</b>

<sup>(1)</sup> Amounts liable to interest rate subsidies deducted from non-repayable aid.

to the mid-1980s these activities were also essential from a political viewpoint, in view of the conflicts and tensions which could affect certain regions. Economic progress, trading, industrial

and technical cooperation encouraged peace and contributed to the strengthening of democracies.

*Émilie Willaert*







# Part Four



Enlargement,  
growth and  
redeployment  
since mid-1980s

# The EIB in greater Europe

The history of the EIB since the mid-1980s has been one of transformation. The most visible change has been in the size of the bank, as a result both of the enlargement of the European Union and the independent growth of the bank's activities: one indicator of this is the growth in capital from EUR 14.4 billion to EUR 164.8 billion between 1986 and 2007. These numbers are all the more significant given that this was a period of low inflation, thanks to the policies conducted by the national governments since the start of the 1980s. In 1986, when two Mediterranean countries, Spain and Portugal, entered the Community, the bank's capital increased by 2.3 billion and the accession of Austria, Finland and Sweden in 1995 resulted in the capital rising from 57.6 to 62 billion. Finally, the major enlargement to the East in 2004, combined with an increase in Spain's contribution, brought the bank's capital to EUR 163.6 billion. However, it was the general increase in the bank's activities that justified the doubling approved in June 1985 (from 14.4 to 28.8 billion ecus), the second doubling in January 1991 (57.6 billion), and the increase in capital to 100 billion in January 1999 and to 150 billion in January 2003<sup>1</sup>. The expansion of the Union and the increase in the volume of activities do not on their own explain the changes experienced by the bank over the last two decades. Of course any growing institution needs to change and an increase in the volume of activities is bound to affect the structure of the bank, but international economic developments – such as globalisation,

the increasingly important role of the market, new technologies, etc. – and the greater pace of European economic integration since the 1980s have also brought about major changes that have shaped the EIB today.

## 1.1. From ten to fifteen: The EIB and the enlargements of 1980-1990

### 1.1.1. New funding for structural policy

Although the Commission had been trying to establish the general outline of a European regional policy since the 1960s by analysing the problems encountered by the regions and defining the regions concerned, it had mainly expected the Member States to coordinate their own regional policies<sup>2</sup>. This had proved impossible before the ERDF was set up in 1975 and with very good reason: national laws were very varied and continued developing throughout the 1960s, and their classification of regions was not based on the same criteria – some were economic, others demographic. The EIB's interventions, which essentially focused on regional development, therefore had to mesh with national aid systems because the bank's activities were targeted on the basis of these national classifications.

According to Fridolin Weber-Krebs, who worked at the EIB from 1969 to 1999, ending up as the

<sup>1</sup> It should be noted that the majority of the increase in called capital implemented in 1991 was achieved by converting reserves amounting to 1 225 million, only 300 million of which was ultimately contributed directly by the States. The two capital increases in 1999 and 2003 were funded entirely by drawing from reserves, in accordance with a decision taken in 1990 when the bank stated a desire to stabilise its capital until 2010 and thus to shift its strategic focus away from increasing the volume of its operations.

<sup>2</sup> See Robert Marjolin's communication '*lignes générales d'une politique régionale européenne*', Commission of the EEC, Directorate-General for Economic and Financial Affairs, Brussels, 11 November 1960, document II/COM(60)167.

head of the directorate for operations outside the Community and in candidate countries, the accessions of Spain and Portugal to the EEC in 1986 and of Finland, Austria and Sweden to the EU in 1995 were not to cause serious problems. Although the first three countries had experienced some structural problems, at the time of their accession the bank already had considerable experience of Member States needing modernisation measures, which meant that it was able to launch its activities in the new Member States right at the outset, in accordance with the rules on accession arrangements. With regard to the 1995 enlargement, all three of the countries that joined had enough economic power for the bank actually to be considerably strengthened by their accession due to the increase in own funds that they provided. On the other hand it had been relatively difficult prior to this accession to convince the responsible ministers in the candidate countries of the need to join the EIB – despite the fact that this was clearly laid down in the accession treaties and in the *acquis communautaire* that they had accepted<sup>3</sup>.

These two waves of enlargement occurred during a period of remarkable growth in regional policy. It is worth drawing attention in this context to the measures taken in the Single European Act (SEA), which was signed in February 1986: as part of the discussions on the content of the Treaty, the Member States with weak economic structures (Ireland, Greece, Spain and Portugal) pushed for 'greater economic and social cohesion' within

the EEC. In other words, the harmonious development of the Community as a whole should be promoted by reducing the discrepancies between the various regions and the underdevelopment of the most disadvantaged areas<sup>4</sup>. In order to achieve this objective the Single European Act required Member States to adapt existing structural funds to take account of new data and to link the activities of the EIB with those of the structural funds. This was also intended to help to strengthen economic and social cohesion within the EEC<sup>5</sup>. Funding allocated to structural policy also increased, to almost a third of the Community budget, which meant that between 1989 and 1993 the EIB deployed 60.3 billion ecus for measures specifically relating to regional policy<sup>6</sup>.

The Maastricht Treaty of 1 November 1993 firmly established economic and social cohesion as a top priority for the European Union. At the same time it set limits on the Member States' deficits and government debt, which presented the poorest Member States with financial difficulties that hampered their ability to modernise their infrastructure. This once again made it imperative to revise the Community's regional, structural and social policy instruments. The Commission was now required to report on progress in economic and social cohesion every three years. Regional policy also had to help promote global economic stability: it therefore needed not only to reduce regional disparities but also to contribute to strengthening Economic and Monetary Union (EMU), thus giving the European Union's regional

<sup>3</sup> Interview with Fridolin Weber-Krebs, 30 January 2008.

<sup>4</sup> Knipping, F., *Rom, 25. März 1957. Die Einigung Europas*, collection '20 Tage im 20. Jahrhundert', Deutschen Taschenbuch-Verlag, Munich, 2004, p. 228.

<sup>5</sup> Article 130b(3) in conjunction with Article 130a(1) of the Single European Act, Official Journal L 169 of 29.6.1987.

<sup>6</sup> Holtzmann, H.-D., *Regionalpolitik der Europäischen Union. Eine Erfolgskontrolle in theoretischer und empirischer Sicht*, Duncker & Humblot, Berlin, 1997, p. 121.

policy a specific function in economic and political stabilisation<sup>7</sup>. It was in this context<sup>8</sup> that the Cohesion Fund was created as a new financial instrument for regional policy. The Union's principal aim with this fund was to support environmental and trans-European transport projects; its resources were only available to Member States with

a per capita GNP of less than 90% of the Community average. For the period between 1993 and 1999 it had an overall budget of 15.15 billion ecus and the main beneficiaries over this period were Spain, which received between 52 and 58% of the funds, Greece and Portugal with 16-20% each, and Ireland, which received between 7 and 10%<sup>9</sup>.



*The logo of the EIB is a visual representation of the bank's identity. The first logo, adopted in 1963, was inspired by that of the United Nations. It showed a map of Europe with the Member States in black and was updated in 1973, 1981, 1986 and 1995 to add the new members. In 1973 the management committee also took the opportunity to add West Berlin, which had been missing from the first version, and in 1990 the logo was modified once again to include the former German Democratic Republic. Furthermore, each time the logo was updated the seal and laurel wreath surrounding the map were also discreetly modernised. In 1999 the EIB decided to replace this logo with an abstract symbol in order to mark the 'profound changes witnessed by the EIB over the past ten years in terms of its borrowing and lending facilities, the increased sophistication of its operations and its ever-growing partnership with both the banking community and EU institutions'. The new logo was 'composed of three vertical elements tracing the form of a square. The central element is "European blue" in colour: it represents the "project of European integration" and echoes the main symbol of the European Union. The side elements are grey, the dominant colour of the Bank's building; they surround and protect the central element. The square is the shape generally adopted for bank logos, and therefore underscores the specific role of the EIB among the European institutions and its ties with the financial community. However, in contrast to most symbols in the banking world, the square formed by the new logo is neither complete, closed nor totally symmetrical. This open quality reflects the process of European integration, the very reason for the Bank's existence: while the symbol is irreversible and robust, it is also receptive to "the outside world".<sup>10</sup>*

<sup>7</sup> Holtzmann, H.-D., *Regionalpolitik der Europäischen Union. Eine Erfolgskontrolle in theoretischer und empirischer Sicht*, Duncker & Humblot, Berlin, 1997, p. 96.

<sup>8</sup> It is worth emphasising in this connection the pressure brought to bear by the Spanish government, which made its agreement to Economic and Monetary Union (EMU) conditional on the creation of a compensation fund (which was non-compulsory, in view of the principle that Community funds must not replace national funds). Cf. *ibid.*, p. 98.

<sup>9</sup> Holtzmann, H.-D., *op. cit.*, p. 98.

<sup>10</sup> *EIB Information*, 1999, No 1, p. 28.

### 1.1.2. The EIB's responses

Compared with the measures taken prior to the first enlargement, the EIB's approach to the enlargements in the 1980s and 1990 was primarily characterised by the fact that the technical and administrative considerations that had been at the forefront during the first enlargement were much less of an issue. The experience gained in the early 1970s essentially acted as a guideline and was put into practice without difficulty: amending the EIB's Statute, reorganising the boards, increasing staff numbers, calculating the subscribed capital and the respective shares of the new members, reviewing the bank's reserves and the paying-in methods. Where possible the EIB also followed its already established method for networking the financial centres of the new members.

During the 1980s and 1990s the country analyses carried out by the EIB's economists and the potential challenges for the bank that they revealed were therefore right at the heart of internal considerations. For the enlargements in 1981 and 1986 these considerations took concrete form in the first half of 1978, when the democratic structures in the three Mediterranean countries had stabilised and the applications for accession had been officially submitted but before the Commission had formally

recognised the three countries as candidates. The Commission had however indicated to the European Council in April 1978 that the forthcoming negotiations were expected to result in the admission of Greece, Portugal and Spain to the EEC<sup>11</sup>.

On 23 May 1978 the research department published a memorandum on the subject of 'the EIB and the enlargement of the Community to the South'<sup>12</sup>. The authors felt that in view of its previous experience in the Mediterranean region the issue did not present a major technical problem for the bank. More than 60% of loans between 1963 and 1977 had already gone to this region – for projects in Greece, Turkey, Portugal and Yugoslavia<sup>13</sup>. In Greece and Turkey these activities had led to the creation of 32 000 new jobs, not including the jobs created in other sectors following the funding of infrastructure projects. In addition the bank played a significant role in stabilising existing jobs and in improving working conditions by co-financing forestry and irrigation projects in this area<sup>14</sup>. Thus the EIB had accumulated considerable experience in the countries concerned, with the exception of Spain, where operating conditions were nevertheless comparable to the other countries: its overall economic situation, its development prospects and the concrete possibilities for establishing, financing and implementing investment projects were the same as in the other candidate countries<sup>15</sup>.

<sup>11</sup> On 19 April 1978, the Commission submitted a report to the Council on 'Reflections on the Problem of Enlargement', referred to as 'April-Fresco' Cf.: Martín de la Guardia, R., 'In search of lost Europe', in Kaiser, W., and Elvert, J., (dir.), *European Union Enlargement. A comparative history*, Routledge, London-New York, 2004, p. 102.

<sup>12</sup> EIB archives, box XX.2, economic studies department, memorandum 'The EIB and the enlargement of the EEC to the South', 23 May 1978.

<sup>13</sup> *Ibid.*, p. 4.

<sup>14</sup> *Ibid.*, p. 5.

<sup>15</sup> *Ibid.*, p. 7.



The authors of the memorandum recognised that the Mediterranean enlargement would present the EEC with a number of political, economic and institutional problems that were not the responsibility of the EIB but of the Community's political institutions, in particular the Commission. At the same time, the North-South divide within the Community would deepen considerably, and it was also likely that the number of underdeveloped regions and sectors experiencing structural problems would increase<sup>16</sup>.

The memorandum left no room for doubt: the EIB considered itself to be well prepared for the Mediterranean enlargement. The measures expected to be taken by the EEC in the context of regional policy could all be implemented by the bank. Its expertise and capacity for action should indeed have a positive influence on the decision-making process at Community level, so as to help to move European regional policy in a new direction and thus make it more effective. In view of the relatively small amounts of money allocated by the EIB to the Mediterranean region in comparison to the sums brought in by the World Bank, however, it seemed appropriate to increase these contributions significantly in order to stop the EIB being regarded as a lender of secondary importance in this area. The bank's aim in the medium and long term was to maintain or even increase its influence in the region in the face of its various competitors<sup>17</sup>.

The financing agreements concluded between the EIB and Spain and Portugal before they joined the Community demonstrated that there was close communication between the bank and the Commission. The EIB's loans needed to be used strategically for regional policy purposes. In Portugal this primarily came down to improving productivity and the capacity of the national economic system, focusing in particular on the industrial sector, national infrastructure and the modernisation of agriculture and fisheries<sup>18</sup>. In Spain the agreements aimed to promote measures to support the country's integration into the EEC: this involved improving regional infrastructure in order to address the structural imbalances within the country, and also improving the connection of Spanish infrastructure with the EEC. There was also an emphasis on promoting the modernisation and development of SMEs and on measures to improve the country's energy efficiency<sup>19</sup>.

The Mediterranean enlargement thus opened up interesting new prospects for the bank, provided that the Community's regional policy could be adapted as set out in the Single European Act.

In macro-economic terms the accession of Finland, Austria and Sweden<sup>20</sup> seemed even less problematic for the EIB. The Austrian economy was regarded as stable, and also as having considerable potential for growth resulting from the changes to its geopolitical situation at the end

<sup>16</sup> EIB archives, box XX.2, research department, memorandum 'The EIB and the enlargement of the EEC to the South', 23 May 1978, p. 7.

<sup>17</sup> With regard to the need to increase the intervention funds in the Mediterranean region, see: EIB archives, box XVI.2 research department, referred to in dossier No 3 of 11 December 1979 on the bank's projected activities in the Mediterranean countries (except Greece, Portugal and Spain).

<sup>18</sup> EIB archives, box XX.5, Ackermann memorandum, 'Medium term policy – Spain and Portugal, Accession – Synthesis', 18 September 1984.

<sup>19</sup> Ibid.

<sup>20</sup> Norway ultimately decided not to join the Union, following a referendum.



*The European Investment Bank supported the construction of the Casa da Música in Porto with a loan of EUR 56 million – this covered half the construction costs, the other half being provided by the Portuguese State. The building, which was designed by the Dutch architects Rem Koolhaas and Ellen Van Loon, has been a feature of the urban landscape since its inauguration in April 2005. It houses three orchestras: the National Orchestra of Porto, the Orquestra Barroca and the Ensemble Remix.*

*With more than 45 000 specimens and 110 000 m<sup>2</sup> of aquaria (containing 42 million litres of water), the marine life centre in the Ciudad de las Artes y las Ciencias (City of Arts and Sciences) in Valencia, Spain, is one of the largest marine aquaria in the world. Visitors can see a whole host of plants and animals from all over the world, in realistic marine environments. This beautiful complex, with its distinctive roof, is the work of Valencian architects Felix Candela and Santiago Calatrava. The EIB provided a loan of EUR 90 million to fund its construction, with the Spanish State providing the remaining 101 million.*



of the Cold War. Austria therefore appeared to be an attractive and credit-worthy customer for the EIB, with which it already had a good relationship. The EIB's analysts felt that a number of projects were needed in Austria to improve East-West infrastructure, that the European gas and electricity networks needed to be expanded, and that there was a need for environmental protection measures. The EIB also projected that there would be an increase in demand for loans from Austrian SMEs, which in general were highly competitive<sup>21</sup>.

The situation in Finland was slightly different. Although the Finnish economic system had grown well since the 1960s, it had been significantly affected by the upheavals in Eastern Europe in 1990 and 1991 and was suffering from a recession that showed little sign of recovery until 1993. From the point of view of the EIB, which also had business contacts with Finland, there was a need for development and credit in both the infrastructure and industrial sectors. The country needed to be better connected to the trans-European networks, in particular to those linking Europe to Russia and the Baltic countries, and there was also a need for investment in the environment, as the sewerage system in Greater Helsinki needed modernisation. Measures were also planned to reduce levels of toxic emissions from the paper industry, agriculture and fisheries<sup>22</sup>.

Sweden on the other hand had the largest and most varied economic system of the candidate countries.

*In 2001 a EUR 300 million loan from the EIB enabled the Finnish Housing Fund to renovate social housing and to construct energy-efficient housing in urban regeneration zones. Owing to the extreme weather conditions during the winter, which mean that residents have to stay at home much of the time, the Finnish authorities pay considerable attention to the technical quality and durability of low-cost social housing. New-build housing uses sustainable technology and the existing housing stock is renovated to improve its quality.*



Even so, it was even more badly affected than Finland by the recession connected with the geopolitical changes of 1990-1991, and things did not start to get better until 1994. Public debt also proved to be a major problem, reaching 7.8% of Gross National Product in 1992 and continuing to rise from there, but the EIB's analysts also saw interesting prospects for its operations here, both in the infrastructure sector and in industry. This meant connecting the country to trans-European

<sup>21</sup> EIB archives, minutes of the meeting of the board of directors of 9 November 1993, 'EIB-Lending: Austria, Finland, Norway and Sweden', CA/274/93, Annex 2a.

<sup>22</sup> Ibid., Annex 2b.

networks – the Öresund crossing was specifically mentioned – and also extending the Swedish motorway and railway networks. In the energy sector Sweden's large reserves of hydraulic energy opened the possibility of developing the country's export potential, particularly to Germany and the Baltic countries but also to Denmark and Poland. The possibility was also considered of constructing a gas pipeline to Norway. As in Finland the

paper industry, mining, agriculture and fisheries needed modernisation from the environmental protection point of view. The bank already had good business relations with the large industrial enterprises, which were able to act as a starting point, and Swedish SMEs were regarded as highly innovative and export-orientated, which was likely to give rise to considerable demand for international loans.



*The Öresund bridge is the longest combined road and rail cable-stayed bridge in the world and cost around EUR 1 billion to build. The bridge is part of the Öresund link, which connects the Danish capital Copenhagen with the city of Malmö in Sweden, thus creating a true 'Öresund region'. The Öresund bridge opened to traffic on 1 July 2000. The European Investment Bank granted loans amounting to more than EUR 65 million for the development of the rail network, which now runs from the province of Scania to the Greater Copenhagen area, one of the top-priority projects for the trans-European transport network (TEN-T).*

Map 5

### Europe, from ten to twenty-seven

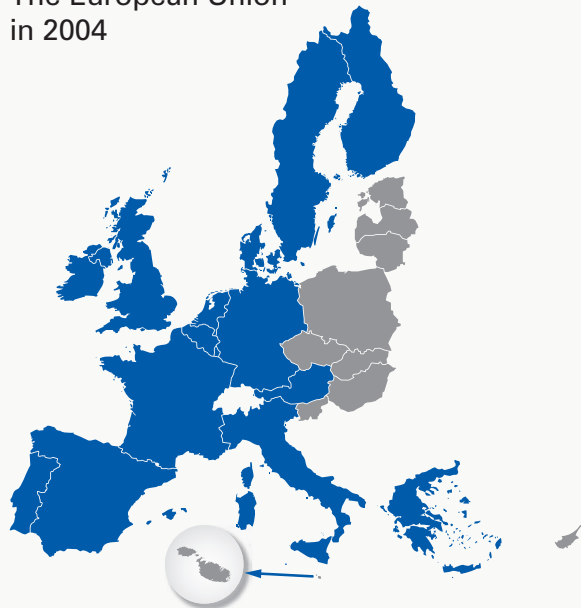
The European Communities  
in 1986



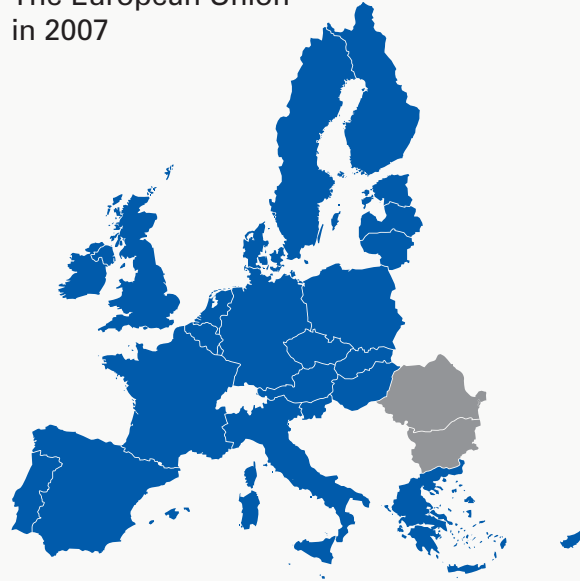
The European Union  
in 1995



The European Union  
in 2004



The European Union  
in 2007



## 1.2. From fifteen to twenty-seven: Europe as a continent

### 1.2.1.

#### Opportunities and challenges for the EU

The measures taken in the context of the upheavals in Eastern Europe to promote the economic restructuring of the States concerned had to have a strong connection to European regional policy. Under the pressure of events, 25 countries (the EEC, EFTA, the United States, Canada, Australia, Turkey, New Zealand and Japan) rapidly adopted the PHARE programme (Poland and Hungary Action for Restructuring of the Economy). It was coordinated by the European Commission, which already had considerable related experience and continued to manage the majority of the funds

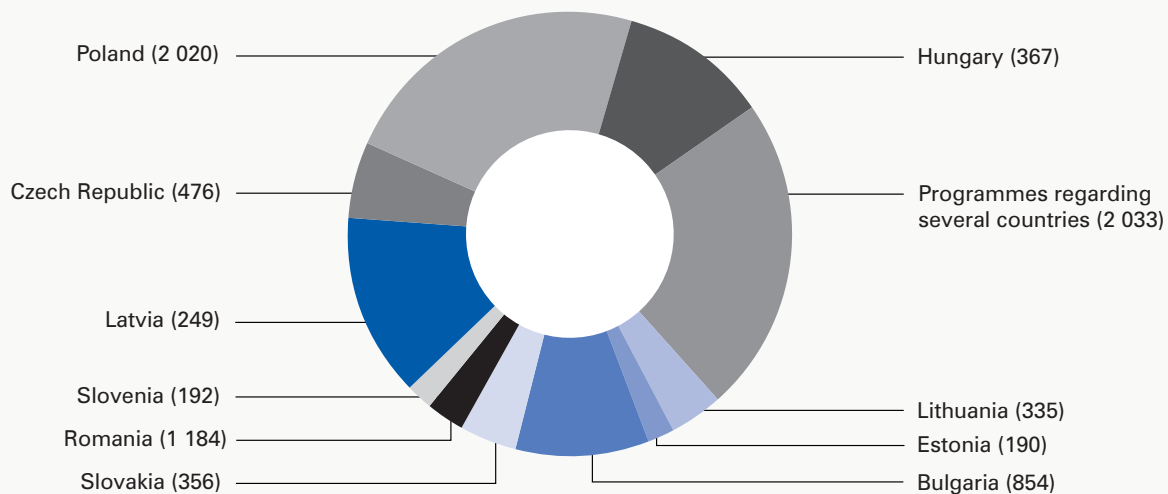
employed until the end of the programme. The individual framework programmes and their objectives and funding priorities were drawn up on an annual basis jointly by the EU and the countries concerned, while the actual implementation was the sole responsibility of the PHARE countries themselves. From its introduction to the accession of the countries of Central and Eastern Europe, PHARE was thus a part of the adaptation strategy for the candidate countries<sup>23</sup>.

The turmoil in Eastern Europe, the enlargement of the European Union in 1995 and global environmental problems all forced the Community to take urgent action, resulting in an increasingly opaque patchwork of objectives and instruments. It was in this context that the Treaty of Amsterdam once again stressed the importance of the cohesion

Graph 6

### Funds spent as part of the PHARE programme between 1990 and 1999

in millions of euros



Source EIB

<sup>23</sup> Weidenfeld, W., and Wessels, W., (dir.), *Europa von A bis Z. Taschenbuch der europäischen Integration*, Institut für Europäische Politik, Europa Union, Bonn, 8th edition, 2002, p. 414.

policy and a concerted employment policy to reduce unemployment was introduced as a new political objective. In March 1999 the European Council resolved to refocus regional policy in order to make more specific and effective use of the resources available with a view to the forthcoming enlargement<sup>24</sup>. The EU's Solidarity Fund was created in 2001 with the aim of assisting areas devastated by natural disasters. The funding plan for the first decade of the century was established during the course of 1999: a third funding plan covered the period from 2000 to 2006; it set the upper limit for EU receipts at 1.27% of gross national product and projected a budget of EUR 92 billion for 2000 and EUR 107 billion for 2006. Around 45% of this funding was paid as subsidies under the common agricultural policy and almost 35%, i.e. 213 billion over the whole period, was spent on structural aid. A comparable distribution was then set until 2013<sup>25</sup>.

### 1.2.2.

#### The EIB and preparations for enlargement

Wolfgang Roth, who was vice-president of the EIB at the time, now feels that the bank's initial hesitancy in promoting projects in this area was a mistake<sup>26</sup>. This was particularly true during the initial phase of the process. However, it can also be explained by the fact that the bank had been created as an instrument of Community regional

policy and only entered into operations with countries that had a contractual relationship with the EEC. Thus, when the *Financial Times* asked the EIB on 22 May 1989 if it could envisage lending money to Poland, it responded that it would be possible in principle, but that it would require the board of governors to pass a resolution and contracts to be concluded<sup>27</sup>.

Subsequently the various Community bodies had discussions to establish the extent to which the EEC needed to provide financial support for what was apparently the increasingly dynamic process of reforms to the east of the 'Iron Curtain', and the role that the EIB should play in this. In August 1989 a decision needed to be taken and Roland Dumas, who was president of the Council at the time, received a letter from the Hungarian prime minister, Gyula Horn, expressly requesting that the Council give the EIB the necessary powers to issue loans to the countries of Central and Eastern Europe in general and Hungary in particular<sup>28</sup>. Shortly afterwards the Polish government made a similar request to the Community.

The EIB needed to get to know the situation in Hungary and Poland quickly. The memoranda drafted by the various directorates for the management committee and the board of directors recognised the efforts made by the States to institute reforms but did not reach definitive

<sup>24</sup> Two preparatory programmes were set up for this purpose: ISPA (Pre-Accession Structural Instrument), which funds transport and environmental projects (with funding amounting to EUR 7.28 billion) and Sapard, a special programme providing measures for agriculture and rural development (EUR 3.64 billion of funding).

<sup>25</sup> Between 2002 and 2004 the share of VAT in the EU's budget shrank from 0.75% to 0.5%. In contrast, funds originating from GNP increased, to become the EU's primary source of revenue. See Kipping, F., *op. cit.*, p. 288.

<sup>26</sup> Interview with Wolfgang Roth, 6 December 2007.

<sup>27</sup> EIB archives, box IV.18, note from Adam McDonough, Brussels office, to Mr Schmidt, EIB, 23 May 1989; the article in question was published in the *Financial Times* on 23 May 1989.

<sup>28</sup> EIB archives, box IV.15, letter from Mr Horn to Mr Dumas, 25 August 1989.

## Ernst-Günther Bröder



*President of the EIB from 1984 to 1992.*

Ernst-Günther Bröder was born in Cologne and studied science and political science at various universities in Germany and then in Paris. After working for some years in industry and then at the World Bank he spent most of his career at the Kreditanstalt für Wiederaufbau in Frankfurt, one of the EIB's first partners, becoming the spokesman for its management committee in 1980. It was in this capacity that he became a director of the EIB between 1980 and 1984; he was appointed president in 1984 and led the bank through a period of growth at the time of the enlargement in 1986 and then the implementation of the Single European Act. He also set in motion the preparations for the enlargement to the East, by means of the first loans granted to Poland and Hungary from 1990.

*Éric Bussière*



conclusions as to the results. In addition, the research department's assessment stressed the problems facing the Hungarian and, to an even greater extent, Polish economies: 'Poland's current economic problems reflect severe and deeply rooted micro- and macro-economic distortions, structural imbalances and the failure of previous reforms to implement corrective measures earlier on [...] Annual inflation for 1989 is now projected to be in the range of 800% - 1 000%. Combined with consumer goods shortages, the price developments have led to foreign currency hoarding, giving the Polish economy a high level of excess liquidity...'<sup>29</sup>

Nevertheless, the criticism that financial aid for the reform process in Central and Eastern Europe was provided too late needs to be put into context: on 6 December 1989 Ernst-Günther Bröder, president of the EIB, was able to inform the president of the Council of the EEC, Pierre Bérégovoy, that following a unanimous decision by the board of governors the bank had been authorised to issue loans from its own funds up to a total of 1 billion ecus, provided that the Community could act as guarantor<sup>30</sup>. After all, while the process of change had accelerated after the fall of the Berlin Wall on 9 November 1989, it was still not complete. The assessments and negotiations that led up to the governors' decision related to limiting the credit risk and sharing the burden with other international lenders such as the World Bank or the IMF; the upper limit of

1 billion reflected both the hopes of the board of governors and the management committee that the reform process would succeed and their keenness to use the resources entrusted to the bank as responsibly as possible.

The EIB thus proved its ability to react rapidly and flexibly, but also that it could act responsibly in the light of the process of reform in Central and Eastern Europe: this showed both its possibilities and its institutional limitations. In view of the extent of the reform process and of the resulting unusually high demand for funding throughout Central and Eastern Europe, many political decision-makers felt that the EIB did not have enough room for manoeuvre: for example, in a speech on 25 October 1989 to the European Parliament in Strasbourg, the French president François Mitterrand suggested establishing a bank that was institutionally linked to the EEC and could thus promote major projects in Central and Eastern Europe like the EIB, but without being as geographically restricted as the latter in its activities<sup>31</sup>. It remains to be seen whether it would have been easier to widen the EIB's field of financial activities rather than creating a new bank. The French president's proposal was rapidly implemented, resulting in the establishment in 1991 of the London-based European Bank for Reconstruction and Development (EBRD); this meant that the EEC now had two instruments for financing the process of reform and modernisation in Central and Eastern Europe.

<sup>29</sup> EIB archives, box IV.6, EIB memorandum, 'Poland and Hungary – Economic Conditions, Reform and Financing', Luxembourg, 16 November 1989.

<sup>30</sup> EIB archives, box IV.1, Dr Bröder to Mr Bérégovoy, 6 December 1989.

<sup>31</sup> EIB archives, box IV.13.



*On 25 October 1989 the French president François Mitterrand, addressing the European Parliament in response to the far-reaching changes taking place in Eastern Europe, called for the establishment of a European bank for the economic reconstruction of this region: 'What can Europe do? It can do a whole lot more! Why not create a bank for Europe that, like the European Investment Bank, can fund large projects by including the twelve Member States on its board of directors?'*

Although the two institutions have had some success in promoting the process of reform in Eastern Europe and have generally worked well together, there has nevertheless been a certain amount of competition between them. In vice-president Roth's opinion this above all represented an opportunity that the EIB seized, as shown by the growth in the volume of its loans in Central and Eastern Europe. It focused on projects that supported the process of adapting economic systems,

growth and labour market consolidation and, ideally, acted as flagship projects for the country's economy. In that connection the EIB supported the development of infrastructure, trans-European networks, energy supply and environmental protection. The challenges presented by this situation required flexibility in the bank's decision-making powers with regard to the nature and form of the operations to be undertaken. In the venture capital sector the EIB was able to

*In 2002, the EIB lent the Czech Republic EUR 95 million to extend and modernise Masaryk University in Brno, the second largest city and second largest university in the country. This loan was a first for the bank, relating as it did to an educational project in an accession country. It fell under the bank's 'i2i' programme, which aims to establish an innovative and knowledge-based European economy in the current and future Member States of the European Union.*



Table 10

### Flows of money in 2000 under various programmes (estimates) to the countries of Central and Eastern Europe

*in million of euros*

Country	National PHARE/MEDA programmes etc.	Sapard programme	ISPA programme	EIB	EBRD	World Bank	Total
Bulgaria	150.6	52.1	83.2 - 124.8	160	61	239	745.9 - 787.5
Czech Republic	101.5	22.1	57.2 - 83.2	385	64	0	629.8 - 655.8
Estonia	32.5	12.1	20.8 - 36.4	42	30	27	164.4 - 180.0
Hungary	119.8	38.1	72.8 - 104.0	240	35	34	539.7 - 570.9
Latvia	33.8	21.8	36.4 - 57.2	10	12	44	158.0 - 178.8
Lithuania	86.0	29.8	41.6 - 62.4	10	92	61	320.4 - 341.2
Poland	483.4	168.7	312.0 - 384.8	941	776	174	2 855.1 - 2 927.9
Romania	260.3	150.6	208.0 - 270.4	853	179	122	1 772.9 - 1 835.3
Slovakia	78.8	18.3	36.4 - 57.2	242	117	0	492.5 - 513.3
Slovenia	33.4	6.3	10.4 - 20.8	65	10	10	135.1 - 145.5
<b>Total</b>	<b>1 380.1</b>	<b>519.9</b>	<b>878.8 - 1 201.2</b>	<b>2 948</b>	<b>1 376</b>	<b>711</b>	<b>7 813.8 - 8 136.2</b>

*Source EIB*

collaborate with the European Investment Fund (EIF). The EIB's response to the challenges of growing its activities in the countries of Central and Eastern Europe has demonstrated its flexibility and it was able to make good use of this

experience in the context of the preparatory work for the accession of the new countries to the EU between 2004 and 2007.

*Jürgen Elvert*



Enlargement,  
growth and  
redeployment  
since mid-1980s



# Changes in the economic environment and new areas of activity

Enlargement is far from being the only challenge to have faced the bank over the last two decades. The institutional changes in the EU (in particular the Single European Act and Economic and Monetary Union), the globalisation of the markets and the disengagement of public bodies from national economies have all brought about in-depth reflections on the nature of the bank's tasks and how to implement them. This reflection has been a constant feature since the end of the 1980s, and has not only shaped the bank's relationship with the Commission and the Member States but also resulted in a reorientation of its methods and objectives and a reconfiguration of the structures within the EIB group.

## 2.1. Changes in the economic environment and strategic reflections

The revival of the European economy during the 1980s could be regarded as Europe's response to globalisation. This manifested itself in the development of an increasingly open economic framework via the multilateral trade negotiations undertaken first under the GATT and then in the World Trade Organisation, which was created following the Uruguay round (1986-1994). It generated greater competition with the United States and then with Japan in the field of advanced technologies and opened the way for successive generations of new industrial and trading giants, from South Korea to China. However, this globalisation was also characterised by the breakdown of the framework of monetary stability that had been created in the immediate post-war period, the floating of

currencies and the creation of regional monetary zones. It also brought with it tensions within and challenges to the economic hierarchy. The Europe of the early 1980s was moving more slowly than other regions in renewing its industrial infrastructure, while the optimum size for a business in certain sectors was increasing. The aim of the boost given in the mid-1980s at the joint initiative of the Member States, the Commission and the economic players themselves was to establish a huge homogeneous market in Europe in order to create the conditions for a successful economy. The Single European Act signed in 1986, the primary objective of which was to establish a European internal market by the end of 1992, and the Maastricht Treaty, the main contribution of which was Economic and Monetary Union, formed the basis for the relaunch of European economic regionalism within the wider context of globalisation. To a certain extent the context of the revival in the 1980s and 1990s was similar to the early years of the EEC in the 1960s, which meant that the EIB was once again called on to support the changes that the upsurge in the market-led revival entailed for the European area. The objectives that the new treaties gave to the bank were in fact directly descended from those defined at the end of the 1950s. For example, Article 30 of the Single European Act confirms that the bank's role is to promote the 'overall harmonious development of the Community', while the Maastricht Treaty both reaffirms that objective and encourages the bank to get more involved in the activities of the Structural Funds with regard to trans-European networks, strengthening industrial competitiveness, the environment and development cooperation<sup>32</sup>.

<sup>32</sup> EIB, *Annual Report 1987, 1988*, p. 15; *idem, Annual Report, 1992*, pp. 9 and 18.



*The London European Council of 5 and 6 December 1986, chaired by Margaret Thatcher, made a very favourable assessment of the previous year for the European Communities: the accession of Spain and Portugal in January, the signature of the Single European Act in February, laying the foundations for the internal market. There was also progress in the convergence of economic policies and technological cooperation.*

However, the economic context in which the EIB had to meet these objectives had changed, and it needed to adapt its activities to take account of this new context, which entailed an in-depth consideration of the nature of its missions and the way it could develop its activities. As its president stated in May 1989, all the changes being made both confirmed the bank's role and required adaptations in its implementation: 'The construction of Europe could be expected to advance considerably in coming years, with radical changes in the Community's markets and the structure of its economy. If the Bank was to go on playing its full part in the balanced development of

the Community, its policy of pragmatic adaptation would have to be pursued steadily and consistently. This could mean diversification of its existing activities, and in turn reform of existing structures, or consideration of the case for creating a subsidiary'<sup>33</sup>.

Finance and banking in Europe had been changing very rapidly since the mid-1980s. The growth of the financial markets had tended to reduce bank intermediation in financing large companies and institutions, which now had broad access to the capital markets, and the bank therefore needed to adapt to a context in which some of

<sup>33</sup> EIB archives, minutes of the meeting of the EIB's board of directors of 23 May 1989, CA/234/89.



the large bodies that traditionally used its services, some of which had now been privatised, now had less need for them. Consequently there was also greater competition for clients between the EIB and the major European banking institutions, many of which were evolving towards a universal bank model and were targeting business customers. All of this meant that the bank needed to take a good look at the range of its activities, but in reality it was the legitimacy of its actions that was in part at stake: should the EIB not be concentrating its efforts primarily on bodies that did not have easy access to capital, rather than seeking in the name of subsidiarity the business of institutions that could get funding on good terms from banks or from the market? The question arose of what added value was provided by the bank's involvement in projects that would in any case have been able to get the necessary funding on satisfactory terms<sup>34</sup>.

The EIB therefore needed to find the right place for its activities between the Structural Funds, which had been growing since the late 1980s and acted via subsidies, a much more efficient capital market than in the 1960s, and a banking sector that was diversifying its activities<sup>35</sup>. In reality some of the bank's shareholders started at the end of the 1980s to call for its activities to be more targeted. Some justified their position by referring to the new economic and financial context that suggested that it was more efficient to increase involvement by the private sector; others, more

prosaically, were motivated by a desire to avoid having to make additional payments in the event of an increase in capital. The bank therefore needed to justify the necessity of its operations much more than in the past, in particular by responding to the initiatives and requests from the Council. As we will see, it focused primarily on this during 1990 in the context of the enlargements and the implementation of EMU.

At the end of the 1990s the bank once again undertook a close examination of its missions and how they were changing. Just as at the end of the 1980s, this examination was triggered by the preparations for the capital increase in January 1999<sup>36</sup> and it also ran along the same lines as ten years earlier: the majority of senior management and the president stressed the need to maintain the level of the bank's resources with a view to the coming enlargement to central Europe<sup>37</sup> and to support the implementation of the EMU, whereas certain members of the board of directors were more reserved, with some of them advocating slower growth and a stabilisation of the volume of loans, once again highlighting the problem of subsidiarity.

The debate surrounding the bank's missions and the concept of subsidiarity became even more important at the end of the 1990s in that it fitted in with the broader debate concerning the position and role of public financial institutions within the European Union. The private sector

<sup>34</sup> EIB archives, background paper for the EIB board of directors, 'Growing the bank's activities and finances', 89/245, 23 May 1989.

<sup>35</sup> EIB archives, minutes of the meeting of the board of directors of 7 November 1989, CA/238/89.

<sup>36</sup> This increase in capital was resolved by the board of governors in June 1998 and entered into effect on 1 January 1999; it increased the bank's capital to EUR 100 billion.

<sup>37</sup> EIB archives, minutes of the meeting of the board of directors on 17 April 1997, CA/308/97.

was becoming increasingly sensitive to the issue of distortions of competition that favoured the public institutions: the guarantees provided by the Member States and their less-demanding requirements in terms of dividends enabled such institutions to offer their customers better terms. The debate was taken to the Commission during the 1990s with regard to the German *Landesbanken*, and the Commission equated the benefits enjoyed by such institutions to prohibited State aid.

The EIB therefore needed to consider the consequences of this new environment for its own practices, as various aspects of its own situation – the guarantees provided by the Member States, which *de facto* did not receive a dividend – were similar to those of the German *Landesbanken*. Indeed, although the EIB's sphere of activity is smaller than that of the big banks, which are subject to competition, it nevertheless enjoys certain advantages over them. The concept of subsidiarity was therefore once again put at the heart of the problem and the bank needed to show in its actions that it was meeting needs that were not met by the market, and that its operations were complementary to those of banks in the competitive sector and not a substitute for them<sup>38</sup>.

A corollary of that was a revival in the desire to reduce the real contribution of the Member States to future capital increases, or even to receive a dividend, as occurred to the tune of 1 billion ecus in respect of the 1998 financial year. There was also lively debate within the board of directors on the issue of the links between the

EU's regional policy objectives, the EIB's activities and those of the Structural Funds. In fact the bank wanted to stress that it still had numerous opportunities for action, even in a context where project promoters had wider access to a broader range of funding sources, but that those opportunities justified refocusing the bank on a series of sectors where it could make a specific contribution, in terms not only of the cost of capital but also of loan periods and technical expertise, and also as a catalyst for public-private partnerships. The EIB's ability to add value through its interventions is therefore right at the heart of the choices it makes<sup>39</sup>.

In reality, reflections on the nature of the bank's tasks and on the conditions for implementing them have become a permanent necessity since the 1990s. One of the bank's directors put it like this: 'the need [has] emerged to institutionalise the strategy discussion and to establish priorities between the Amsterdam special action programme, trans-European networks, enlargement and structural policies'<sup>40</sup>. At the end of the decade the bank therefore responded to the new conditions under which it was operating by establishing a strategic plan setting out the main thrust of its activities over the next several years. The exercise was initially linked to the assessments undertaken with a view to the capital increase in 1999, with some of the directors explicitly drawing a connection between this operation and the implementation of a plan, but the strategic action framework drawn up in 1998 was further developed the next year in the form of a medium-term

<sup>38</sup> EIB archives, file 31.0194, memorandum from A. Steinherr for the management committee, Public Banks and EU Competition Policy, EI/CED/2001-204, 28 August 2001.

<sup>39</sup> Interview with Philippe Maystadt, 3 December 2007.

<sup>40</sup> EIB archives, minutes of the meeting of the board of directors of 24 March 1998, CA/318/98.

## Sir Brian Unwin



*Sir Brian Unwin, president of the bank between 1993 and 1999, meeting Jacques Santer, president of the commission, during a visit to Brussels in July 1998.*

Brian Unwin studied at Oxford and then at Yale; he started his career in the UK Diplomatic Service before moving to the Treasury in 1968, where he held a number of positions. Over this period he was particularly involved in issues relating to banking and financial markets at both Community and international level, at a time when the technologies and regulatory framework governing these activities were undergoing major changes. He joined the Cabinet Office in 1985 and became Chairman of the board of HM Customs and Excise in 1987 in which capacity he was heavily involved in implementing the Single European Act. He was also a director of the EIB from 1983 to 1985. His presidency was characterised by a rapid growth in the bank's operations, linked to the implementation of economic and monetary union and the preparations for the enlargement to the East.

*Éric Bussière*

rolling operational plan defining the EIB's priorities for two, and then three, years<sup>41</sup>. This innovation gave the bank an instrument enabling it to reflect carefully on its tasks and their development, on improving the coordination between its own operating rules and the guidelines set by the board of governors and on its working relationship with the Commission, while also making it possible to open up a balanced and constructive dialogue with all its institutional partners<sup>42</sup>.

Another aim of this action framework was to meet the bank's 'commitment to improve transparency and accountability'<sup>43</sup>. The implementation of a strategic framework has strengthened planning within the bank since the early 2000s and has resulted in better coordination than in the past between planning and budget, and hence in greater efficiency and consistency in activities<sup>44</sup>. Above all, it has supported the cultural change represented by the bank's commitment to understanding the needs of its clients and to prioritising added value over volume of operations<sup>45</sup>. The drafting of the operational plan for 2007-2009, which was validated by the board of governors in June 2005, was once again an opportunity to reflect on the bank's role and thus to give added depth to this guidance<sup>46</sup>. It started from the premise that 'for a significant proportion of traditional intermediated EIB operations, developments in the financial market place over

recent years have had an adverse effect on the Bank's financial value added' – hence the need to reconsider the content of this concept. The bank's strategy therefore needed to aim to 'focus more on the types of operations than on volume and allow for a controlled increase in its tolerance of risk on individual operations'<sup>47</sup>. Priority therefore needed to be given to tailor-made actions aimed specifically at partners who did not have access to the financial resources necessary for their growth, all in cooperation with the banking sector.

The EIB's strategic framework therefore came out of a long period of reflection and a commitment to building a sustainable operating framework in a significantly altered and still mutating environment. In real terms it came down to a combination of returning to the fundamentals on the basis of which the EIB was initially established, directing its efforts towards meeting specific needs that were poorly met by the market, and adapting its culture to a radically different context.

## 2.2. Response to impetus from the Council

The 1990s were characterised by a series of initiatives from the Council, the aim of which was to encourage the bank to support or speed up changes in the EU's economic structures while

<sup>41</sup> The bank's first corporate operating plan (COP) related to the period 1999-2000, and was then extended for a three-year period (2001-2003).

<sup>42</sup> EIB archives, minutes of the meetings of the board of directors of 17 April 1997 and 15 September 1997, CA/308/97 and CA/313/97.

<sup>43</sup> 'Message from the president' in EIB Group, *2003 Activity Report*, 2003, p. 5.

<sup>44</sup> EIB Group, *Activity Report 2002*, 2003, p. 9.

<sup>45</sup> EIB, *The EIB Group in the Year 2000*, 2001, p. 7.

<sup>46</sup> *Towards a new strategy for the EIB Group*, EIB, Luxembourg, June 2005.

<sup>47</sup> *Ibid.*

still at times also responding to the requirements of the economic situation. At the end of 1992 for example, the Council expressed a wish for the bank to support the economy by implementing the Edinburgh facility, which had 5 billion ecus available to fund trans-European networks (TENs) and environmental projects. The Edinburgh facility was extended in Copenhagen in June 1993 and endowed with an additional 3 billion. These initiatives came during a period of economic slowdown and in the middle of the ratification process for the Maastricht Treaty, and aimed for quick results; the bank was therefore encouraged to speed up the implementation of projects currently undergoing appraisal and to look for new projects with the assistance of the Member States and the Commission<sup>48</sup>. The emphasis was once again placed on growth, competitiveness and employment, via funding for trans-European networks, which represented major investments as part of the work of the Christophersen group and the white paper adopted by the Commission in December 1993. In response to these initiatives the bank was able to provide tailor-made funding which offered long repayment periods but could be committed as quickly as possible<sup>49</sup>.

The Amsterdam European Council resolution on Growth and Employment of 16 June 1997 itself fell within the context of the discussions on the Stability and Growth pact linked with the implementation of EMU. The Amsterdam special action programme (ASAP) thus once again represented the Bank's response to a request from the Council aimed at supporting a significant development

of the Union<sup>50</sup>. This programme was put in place via a series of innovations while not breaking with normal procedures. It expanded the eligibility criteria in education, health and the environment, raised certain funding ceilings, relaxed procedures and allowed grace periods or longer loan terms for some large operations. It also sought closer collaboration with the States and Community bodies with a view to 'made-to-measure' programmes making it possible to launch a series of projects quickly. One of the newest objectives linked to the ASAP involved establishing a facility for the financing of high technology projects in the broadest sense, in other words implementing innovative projects or projects leading to the creation of new businesses.

The bank's ability to respond rapidly to initiatives from the Council was demonstrated again in the form of the Innovation 2000 initiative, which formed its contribution to the Lisbon Strategy<sup>51</sup>, the aim of which was to support the development of a knowledge-based economy by promoting the information society, research and development, competitiveness and investment in human resources. The EIB had been involved in defining these objectives and the initiatives proposed by the bank on this occasion had been included in the conclusions of the Lisbon Council<sup>52</sup>. The EIB made its contribution to this strategy via a series of priorities: training, venture capital, information and telecommunications technology, and funding for innovation. In this connection the EIB committed new resources for venture capital operations for innovative SMEs and decided to devote

<sup>48</sup> EIB archives, minutes of the meeting of the board of directors of 20 July 1993, CA/273/93.

<sup>49</sup> EIB archives, minutes of the meeting of the board of directors of 3 May 1994, CA/280/94.

<sup>50</sup> Interview with Michel Deleau, 11 December 2007.

<sup>51</sup> Interview with Philippe Maystadt, 3 December 2007.

<sup>52</sup> Interview with Michel Deleau, 11 December 2007.



*The Amsterdam European Council, which ran from 16 to 18 June 1997 under the Dutch Presidency, laid the foundations for the treaty of the same name signed on 2 October 1997, which made a series of changes to the institutions of the EU. It also adopted a resolution on growth and employment which opened the way for the third phase of EMU.*

EUR 12 to 15 billion over three years to a series of high-priority areas.

In 2003 the bank was once again involved in preparing the European action for growth, which the Council launched in December of that year. The aim of this initiative was to boost Europe's long-term growth potential via a series of investments that continued down previous paths: trans-Euro-

pean networks (TENs), innovation and research. Two huge programmes were established to implement this policy: the TENs investment facility aiming to grant EUR 50 billion between 2004 and 2010 and the Innovation 2010 initiative aiming to mobilise EUR 40 billion over the same period<sup>53</sup>.

The EIB was only able to respond as it did to this series of initiatives from the Council, representing

<sup>53</sup> EIB Group, *Activity Report 2003, 2004*, p. 4-5.



*The Lisbon Extraordinary European Council, 23 March 2000. The European Union suffered a major economic recession at the start of the 2000s, just as the euro was coming into circulation and the largest enlargement in EU history was on the horizon. The Lisbon Strategy, launched in 2000, struggled to make headway and the Extraordinary Council of March 2003 set out a new series of measures for growth and employment with the aim of supporting the economic activity of the Union at a crucial point in its history.*

the bank's shareholders, because from the 1990s onwards it had access to the greater resources provided by the capital increases made during the period. This made it possible to take a more nuanced view of the contrast between the volume and quality of bank financing. In reality the situation over the previous year involved a continual search for a new balance rather than a radical culture change, as confirmed by the nature of the relationship between the bank and the Commission.

### 2.3. Closer cooperation with the Commission

The EIB had gradually been developing a working relationship with the ERDF since 1975, but it was at the end of the 1980s that its cooperation with the Structural Funds took on a new dimension, when those funds were largely redeployed and increased in conjunction with the establishment of the single market, EMU and enlargement.

The doubling of the Structural Funds that went along with the implementation of the Single European Act was the object of much discussion within the bank, which took the position in early 1988 that 'success in attaining the regional objectives framed in the Single European Act will depend on effective coordination between EDF grants and EIB loans so as to ensure that Community financing has the largest possible effect on investment at a given budgetary cost. An artificial displacement of loans by grant aid would weaken the anticipated impact and might encourage the implementation of poorly planned and badly managed projects by exempting them from the normal constraints that the need for profitability would impose. Community policy should therefore be conceived as a coherent combination of subsidies and loans'<sup>54</sup>. The bank has since regularly restated its position in very similar terms to this<sup>55</sup>. This consequently raises the question of the working relationship that the bank needs to maintain with the Commission.

<sup>54</sup> EIB, *Annual Report 1987*, 1988, p. 15.

<sup>55</sup> EIB, *Annual Report 1988*, 1989, p. 15.

What the bank wanted was a flexible balance between loans and subsidies, with the proportions depending on the ability of the projects concerned to make a profit. It thus wanted to avoid subsidies being granted at a high uniform level, which would not encourage the efficient management of projects. It was therefore concerned by the opposition between the 'programme' approach of the Structural Funds and the bank's 'project' approach: was there not a risk that the introduction of the Structural Funds' working methods could reduce the bank's autonomy in decision-making and lead to regrettable changes in direction?

In fact the bank succeeded in consolidating its role alongside the operations of the Structural Funds while retaining its own operating standards. A series of regulations drafted over the course of 1988 following in-depth discussions with the Commission set out the conditions for cooperation between the Commission and the EIB: the bank had to be involved in developing the framework plan for Community action in regional policy, and in monitoring the programmes and projects emerging from the plan<sup>56</sup>. These measures were implemented in 1989; in the same year the EIB was involved in drafting indicative financing plans for the Community support frameworks drawn up between the Commission and the Member States and in preparing the operational programmes<sup>57</sup>. Following extensive negotiations an agreement was reached with the Commission in June 1989 concerning operational guidelines for the way

in which loans issued by the EIB were combined with subsidies granted by the Structural Funds for infrastructure investments.

Article 130 of the Maastricht Treaty simply reinforced the need for cooperation between the EIB and the Structural Funds: 'The Community shall also support the achievement of these objectives by the action it takes through the Structural Funds (European Agricultural Guidance and Guarantee Fund, Guidance Section; European Social Fund; European Regional Development Fund), the European Investment Bank and the other existing financial instruments'. The decisions taken at the Edinburgh Council in December 1992 consolidated this approach by establishing the Cohesion Fund<sup>58</sup>.

However, synergies between the EIB and the Structural Funds did not just appear by themselves, and the results were not as good as had been hoped following the reforms of 1988. A number of investigations and studies showed the limits of this approach. In 1992, for example, an evaluation of the synergies between loans from the EIB and subsidies from the Structural Funds showed that relatively few EIB loans for regional development had been granted in parallel with Community subsidies<sup>59</sup>. A true integration between the activities of the EIB and those of the Structural Funds would in practice have required a major commitment from the bank in terms of human resources, which it did not have. Moreover, in 1994 the Economic and Social Committee judged that the new

<sup>56</sup> EIB, *Annual Report 1988*, 1989, pp. 14-15.

<sup>57</sup> Framework Regulation (2052/88) and implementing Regulation (4253/88) for the Structural Funds.

<sup>58</sup> EIB, *Annual Report 1992*, 1993, p. 19.

<sup>59</sup> *European community lending and the structural funds*, Economic and Social Research Institute, Dublin, 1992.



## The Structural Funds and the Cohesion Fund

In order to promote harmonious development throughout the Community the EU has gradually set up an economic and social cohesion policy, supported by a number of financial instruments.

- 1957 The EEC Treaty established the **European Social Fund (ESF)**, which aimed to 'facilitate the employment of workers and to increase their geographical and occupational mobility within the Community'<sup>60</sup>.
- 1962 The **European Agricultural Guidance and Guarantee Fund (EAGGF)** was set up. Two years later the 'guidance' section became independent. It focused on the structural adjustment of rural areas whose development is lagging behind.
- 1975 Following the first wave of enlargement, which included new less-developed areas, and with a view to strengthening Community monitoring of State aid, the Community created the **European Regional Development Fund (ERDF)**, an instrument for a true regional policy. The ERDF 'is intended to help to redress the main regional imbalances in the Community through participation in the development and structural adjustment of regions whose development is lagging behind and in the conversion of declining industrial regions'<sup>61</sup>.
- 1986 The Single European Act specifically included 'economic and social cohesion' in the Treaty as a Community responsibility, and laid down reforms to the Structural Funds.
- 1988 Following the Single European Act and the accession of Spain and Portugal the operation of the Structural Funds was radically reformed so that their interventions were based on four principles: concentration on high-priority objectives, subsidiarity, additionality (i.e. Community action is on top of, not instead of, national action) and programming (which must be the subject of negotiations between the Commission and the Member State concerned). The reforms were accompanied by a doubling in the Funds' financial resources.
- 1993 As laid down in the Maastricht Treaty, the Council created a 'cohesion financial instrument', which was succeeded in 1994 by the **Cohesion Fund**. This fund helped to finance projects in the fields of environment and transport in Member States with a per capita gross national product of less than 90% of the Community average. The Council also set up the Financial Instrument for Fisheries Guidance (FIFG).
- 2005 In the context of reforms to the Common Agricultural Policy, the 'guidance' section of the EAGGF was replaced by the **European Agricultural Fund for Rural Development (EAFRD)**.
- 2007 The FIFG was made a separate fund, under the name **European Fisheries Fund (EFF)**.

*Arthe Van Laer*

<sup>60</sup> Treaty establishing the European Community, Article 123, available via <http://eur-lex.europa.eu>.

<sup>61</sup> Ibid., Article 160.

cooperation and coordination mechanisms were not enough to provide the necessary synergies between the EIB and the Structural Funds<sup>62</sup>.

The reflections at the start of the 1990s led however to the development of a closer working relationship with the Commission and first of all with the new Cohesion Fund. The Regulation on the Cohesion Fund (1994) states that 'the Commission shall invite the EIB to contribute to the appraisal of projects as necessary'. This cooperation was formalised by way of a framework agreement between the two institutions in which the bank agreed to evaluate a certain number of projects each year on behalf of the Funds in return for remuneration. An assessment in February 1998 showed that as of that date the bank had analysed the files for 67 proposals and progressed to a full appraisal of 15 projects, while around 40 co-financed operations had given rise to an in-depth exchange of information between the Cohesion Fund and the bank.

The new millennium marked a new phase in the quest for better coordination between the EIB's lending activities and the Funds' operations<sup>63</sup>. The new Structural Funds programme coming out of Agenda 2000 led to a more robust cooperation agreement between the EIB and the Commission for 2000-2006. The EIB's expertise, which had worked to the benefit of the Cohesion Fund, could now benefit all the funds including the

ERDF by exchanging information on the various programmes and taking projects into consideration at an earlier stage, whether or not co-financing was involved<sup>64</sup>. Based on a complementary approach to that of the funds, the EIB now directed some of its resources towards regions where the economy was getting stronger and that were therefore gradually losing the assistance of the Structural Funds, and also towards income-generating projects which could most easily be linked with borrowings, such as communications, energy and sanitation<sup>65</sup>. The EIB's first co-financing arrangements for programmes supported by the EU Structural Funds or Cohesion Funds under the heading 'loans for structural programmes' were set up in 2001 for the Mediterranean countries and were then extended to cover disadvantaged regions of Germany and Central Europe.

Cooperation with the Commission, particularly the Directorate-General for Regional Policy (DG Regio), was therefore strengthened over the next few years, especially in the context of drafting the economic and social cohesion policy for 2007-2013<sup>66</sup>. The recent institution of new project engineering assistance for countries eligible for the Structural Funds has made it possible to consolidate the working relationship between the bank, the Structural Funds and the other partner institutions. JASPERS (Joint Assistance to Support Projects in European Regions) is particularly representative

<sup>62</sup> Own-initiative Opinion of the Section for Regional Development and Town and Country Planning of the Economic and Social Committee on the role of the European Investment Bank in regional development, rapporteur: E. Muller, Brussels, 7 February 1994.

<sup>63</sup> Interview with Michel Deleau, 11 December 2007.

<sup>64</sup> EIB, *Annual Report 1998*, 1999, pp. 11-13; idem, *Annual Report 1999*, 2000, pp. 11-15.

<sup>65</sup> BEI, *Annual Report 1999*, 2000, p. 13.

<sup>66</sup> EIB Group, *Annual Report 2004*, vol. I, *Activity Report*, 2005, p. 14.

of this approach by creating teams within the EIB funded by the Structural Funds to help prepare investment projects as part of the EU's regional policy<sup>67</sup>. JEREMIE (Joint European Resources for Micro-to-Medium Enterprises), a joint initiative of the EIB Group and the European Commission to improve access to finance for small and medium-sized enterprises, is based on the same model, as is JESSICA (Joint European Support for Sustainable Investment in City Areas), an initiative of the European Commission supported by the EIB and with the participation of the Council of Europe Development Bank. It exploits financial engineering mechanisms to support investment in sustainable urban renewal in the context of EU regional policy.

Relations between the bank and the Commission, which could at one time have been described as competitive, have in truth developed over recent years in a spirit of complementarity and a closer working relationship. Far from having reduced the bank's activities, they have in fact helped it to assert its role and confirm its expertise.

#### 2.4. Increased resources for action: a major player on the markets

As its activities developed, from the 1980s onwards the EIB faced growing needs which it addressed by borrowing on the financial markets. In 1983 for example it obtained 3 619 million ecus in 80 transactions averaging 45.2 million each. In 1994 this rose to a total of 14 156 million in 73 transactions of 191 million each. In

2007 the figure stood at nearly EUR 55 billion in 236 issues, each representing an average of 233 million.

The speed at which this volume of transactions developed posed a series of challenges. The bank needed to respond to the increased amounts requested by its clients, in a wide variety of forms suited to their needs in terms of currencies, rates (variable rates) and repayment dates, and at the lowest possible cost. The terms on which it borrowed therefore represented a major aspect of how the bank was run. All of which explains why the EIB has had since the 1980s to assimilate the most sophisticated financial innovations that have emerged on the markets, even contributing to their development and more widespread use. Thus while creating the necessary conditions to meet its own needs, it was at the same time helping to modernise domestic markets in Europe and then to develop a European capital market.

The bank's primary concern was to provide for its growing needs<sup>68</sup>. In relation to its lending operations, it had for a long time met its targets by drawing on the domestic markets in the Member States. In this way the bank had for a long time borrowed on an ad hoc basis in the currencies that served as support for the loans it granted to its own clients, who benefited from the particularly favourable terms reserved for the EIB due to its excellent rating. These borrowing arrangements formed part of each market's annual issuing programme, the bank negotiating its share with the relevant finance ministries. The increase in its needs, however, led the EIB to approach markets outside the

<sup>67</sup> EIB Group, *Annual Report 2006*, vol. 1, *Activity Report*, 2007.

<sup>68</sup> Interview with Philippe Marchat, 10 December 2007.

Community: the US dollar market first of all, then a series of major domestic markets where large savings were available, such as the samurai market in Japan. Very soon the bank became involved in the international capital market – the Euromarket – which offered flexibility, large capacity and reduced costs. It thus contributed to the development of the Euromarket in several currencies, sometimes taking the initiative, often with the support of the most active local banks. It was in this way that it played a part in the opening of the Euroyen market in London. The increase in the volume and variety of demands made on it obliged the bank however to focus its operations on the largest markets, while going ahead with the necessary swaps and hedging designed to obtain the currencies it required. Swaps grew extremely rapidly during the 1990s, to the point where 97% of the bank's issues in 2003 were the subject of swaps<sup>69</sup>. In the same way the search for arrangements that would secure funds at the right price and at the right time while meeting various demands in terms of rates (variable rates), currencies or repayment dates, obliged the bank increasingly, but with the necessary prudence, to turn to the most tried and tested hedging techniques. The rising importance of derivatives thus offered the bank the opportunity to adapt as far as possible to its clients' demands and pass on to them the benefits of the best market conditions at any given time.

It was by employing these techniques that the EIB was able for example to use a deferred rate setting mechanism to protect its customers from the risks related to the volatility of interest rates

between the date of signing a contract and the date of disbursement. As a result of these innovations the management of interest rate risk, exchange risks and counterparty risks became one of the constant concerns of the bank and its management<sup>70</sup>.

The increase in its business explains why the bank made increasing use of public issues on the international market (Euromarket) and the domestic markets, rather than private issues. The bank also encouraged bodies to compete with one another by using the most competitive awarding techniques. The first time it did so was in 1983, by a call for tender placing several potential lead banks in competition with one another. Soon after this it sought to obtain net price offers on an 'all-in-cost' basis, in order to base its decisions on a full and transparent knowledge of the costs while bearing in mind the composition of the tendering applicant groups and their effective placement capacity. The increase in volumes together with the development and stability of the secondary market for EIB securities required it to do so.

It was in this way that while the bank's needs were expanding, large institutional investors became more active, such as pension funds whose capacity to take on large volumes of paper was matched by the need for a high degree of market liquidity. The bank made great efforts to provide liquidity in the secondary market for its bonds by issuing flagship loans that served as benchmarks. It also periodically launched fungible issues with identical characteristics offering the same liquidity advantages as the flagship loans, while enabling the bank

<sup>69</sup> EIB group, *Activity Report 2003, 2004*, p. 34.

<sup>70</sup> Interview with Philippe Marchat, 10 December 2007.



*EIB trading floor in Luxembourg, the focal point of the bank's activities on the international financial and money markets.*

to borrow only to the extent of its lending needs as they developed. The concern to optimise the liquidity of its securities and their stability also led the EIB to manage its bonds actively on the secondary markets by creating repurchase funds.

The expansion of its operations was linked in part to the Union's successive enlargements and inevitably meant that the bank worked in an increasing variety of currencies which imposed numerous management constraints and made little contribution to the depth of the market that the EIB needed. It was for this reason, in addition to the general political aspects of its mission, that the bank played an essential role in promoting the ecu. Thus from the beginning of the 1980s the bank became one of the main promoters of the private ecu. This currency, developed by economic players alongside the official ecu of the central banks, experienced a boom due to its stability and ability to limit exchange risks for certain borrowers. The EIB therefore became the leader in this market. Its ecu issues grew from 85 million in 1981 to more than 1 600 million in 1989. In 1989 it was the leading issuer in ecus, with 12% of the market<sup>71</sup>. The bank helped to develop the use of the ecu both on the continent and further afield by introducing it to the Japanese market in 1986 and then to the international market. The growing importance of the bank's activities on the markets has since made it one of the leading issuers on all the capital markets. This role was recognised in 1991, when it was awarded the title of borrower of the year by *International Finance Review* in consideration of its role in the globalisation of capital markets and the promotion of domestic markets.

These last characteristics became even more apparent at the turn of the century owing to the successful introduction of the euro and the development of the new domestic markets in central Europe. The transition to the euro presented several challenges for the bank. On one hand the single currency strengthened the hopes that the ecu had represented before the 1992 currency crisis limited its use on the markets. By unifying the European capital market the advent of the euro expanded it to the size required by the bank's growing operations. But by helping to develop the market in this brand-new European currency the bank also played a pioneering, even deliberately directive, role in keeping with its duty as a European Union bank. The first transaction in euros was carried out in 1997 for a sum of 1.3 billion. At the time it represented a gamble, since the terms under which the new currency would replace the old national currencies and the ecu had not yet been formally defined<sup>72</sup>. It was also in this year that the first 'tributary' issues in national currencies were launched, designed to be replaced by a single security when the euro was introduced. Eleven issues of this kind in seven different currencies of the Union were launched in 1997. The bank also paved the way for the euro on the foreign markets by making the first global issue in Europe, Asia and America for a total of 2 billion in 1998. The introduction of the euro therefore enabled the bank to reach the vast domestic market it needed in Europe and internationally. The benchmark, multi-billion euro issues made by the bank from 2000 and listed on the major electronic exchanges placed it among the leading sovereign or supranational issuers whose securities were

<sup>71</sup> EIB, *Annual Report 1990*, 1991.

<sup>72</sup> Interview with René Karsenti, 28 February 2008.

Prospectus for the issue of a tranche of EUR 300 million of a total loan of 1 300 million. This was the EIB's first borrowing transaction in euros and took place over a year before the new European currency was launched on 1 January 1999. The lead managers of the issuing syndicate were the Caisse des dépôts et consignations, Paribas and Warburg.

OFFERING CIRCULAR  
Dated 3rd March, 1997



## EUROPEAN INVESTMENT BANK

**EURO 300,000,000**

**5 1/4 per cent. Notes due 2004**

*to be consolidated and form a single issue with the Euro 1,000,000,000  
5 1/4 per cent. Notes due 2004 issued by European Investment Bank on  
14th February, 1997.*

**Issue Price 99.606 per cent.**

**plus accrued interest from and including 14th February, 1997 to, but excluding the  
Closing Date (as defined below).**

*The EURO 300,000,000 5 1/4 per cent. Notes due 2004 (the "Notes") will be consolidated and form a single  
issue with the EURO 1,000,000,000 5 1/4 per cent. Notes due 2004 issued by European Investment Bank  
("EIB") on 14th February, 1997 (the "Original Notes").*

*Interest on the Notes will be payable annually in arrears on 15th April of each year. The first coupon shall  
be payable on 15th April, 1997 in respect of the period from and including 14th February, 1997 to but  
excluding 15th April, 1997.*

*Until the introduction of the Euro at the start of the third stage of economic and monetary union pursuant  
to the Treaty establishing the European Community all monetary rights and obligations in respect of the  
Notes shall be performed in ECU at the rate of one ECU for one Euro.*

*Application has been made to list the Notes on the Luxembourg Stock Exchange.*

*The Notes will, unless previously redeemed or purchased and cancelled, be redeemed at their principal  
amount on 15th April, 2004.*

*Offers and sales of Notes, and the distribution of this document, are restricted as mentioned in  
"Subscription and Sale".*

*The Notes will be represented by a global note without interest coupons (the "Global Note") which is  
expected to be deposited with a common-depositary for Morgan Guaranty Trust Company of New York,  
Brussels office, as operator of the Euroclear System ("Euroclear") and Cofel Bank, société anonyme  
("Cofel Bank") on or about 5th March, 1997 (the "Closing Date") and will be exchangeable for definitive  
Notes in bearer form, with interest coupons attached, in the limited circumstances set out in such Global  
Note and described under "Summary of provisions relating to the Notes while in Global Form" below.*

**CDC MARCHES**

**PARIBAS CAPITAL MARKETS**

**SBC WARBURG**

sought after by the largest financial institutions. In the same spirit in which it had promoted the euro, the bank played a key role in the reconstruction of the financial markets in Central and Eastern Europe. By borrowing in local currencies from 1996 it helped to introduce international standards to these markets and to modernise and develop them. Its financial activities thus formed part and parcel of the range of expertise it was able to offer the countries which had recently become members of the Union.

## 2.5. From the bank to the EIB group: the European Investment Fund

### 2.5.1.

#### The need for a new institution

The EIB, together with the European Commission, instigated the creation of the European Investment Fund (EIF) in 1994. This new institution was to compensate for market failure by intervening in ways that the bank could not because of its Statute: issuing guarantees and taking holdings in the fields of TENs and SMEs.

Although in the late 1980s the idea of promoting trans-European networks had become part of the vision for achieving the internal market, the budgetary constraints of the Member States led them to turn to the private sector for this kind of investment. In its desire to support SMEs the EIB came up against its Statute, which required that any loan or guarantee to an entity other than a Member State be guaranteed or counter-guaranteed by the state on whose territory the project was to be carried out or by other adequate guarantees. In accordance with their new policy, however, the Member States often refused

to provide these guarantees. It was for this reason that the bank proposed the creation of an independent institution, provisionally called the 'European Investment Fund', that would be able to provide guarantees for EIB loans to TEN projects. The fund would also offer guarantees to other backers in order to attract more private funding for these large infrastructure projects.

At the same time the bank wanted to extend its support to SMEs, which play a crucial role in the European economy. The development of SMEs was clearly suffering from a lack of access to venture capital, above all in the least developed regions of the Community, but the EIB's Statute prevented it from providing them with equity. The bank managed to get round this prohibition: in May 1991 it adopted a new SME mechanism that converted its normal loans into equity through the intervention of intermediaries. The interest aroused by the mechanism clearly showed that there was a market demand, but the hybrid nature of the instrument proved problematic. This area was therefore seen as a potential second function for a new European investment fund.

The creation of new instruments to address the questions of guarantees and holdings was raised for the first time at the meeting of the board of governors in 1986. In May 1987 the management committee made a proposal to the board of directors for the creation of a trust fund for the sole purpose of guaranteeing EIB loans on demand. Although all the directors agreed that a means should be found to overcome the problem of guarantees, some criticised the proposed instrument, calling it an 'attempt to by-pass the Statutes': 'if the bank was not able to lend without guarantees, it was impossible to see how



it could pay into a fund to guarantee its own loans<sup>73</sup>.

The idea of the European Investment Fund as such dates back to the end of 1989. The board was in favour of extending the bank's sphere of activity in terms of guarantees and equity holdings, and the bank and the Commission established a joint working group to pursue the idea. The EIB-Commission group confirmed that there was a 'market need' that would justify creating a new instrument for TENs and SMEs. The group went on to examine several options that would enable them to overcome the barrier posed by the Statute. If the EIB was to provide guarantees and capital its Statute would need to be amended. In order to enable the bank to provide guarantees for its own loans without impacting its credit rating, it would also need to create a separate guarantee body, or 'window'. The most attractive solution to come out of this was the creation of a tripartite 'fund', which would institutionalise a partnership with the Commission and with other banks and financial institutions. The Commission would act as a kind of guarantor for the fund's Community objective, while the public-private nature of the fund would clearly demonstrate that it strengthened market mechanisms.

The EIB-Commission group submitted its conclusions to the bank's board of directors in December 1991. Chapter XII of the new treaty committed the Community to contributing towards establishing and developing trans-European networks,

explicitly stating that its support was to include the issuing of loan guarantees. In January and March 1992 the bank organised two exploratory meetings with state and private banks belonging to the Club of Institutions of the European Community Specialising in Long-term Credit<sup>74</sup> who had expressed an interest in a tripartite structure. The creation of the EIF and its operating procedures were defined in May. It was decided that there would be no restrictions on taking holdings in SMEs situated in the supported regions. The fund would be equally 'open': able to issue guarantees not only to its shareholders but also to other companies or institutions.

The Commission submitted the proposal to the European Council of Edinburgh of 11 and 12 December 1992. The Council assented to the idea and asked the ECOFIN Council and the EIB 'to give urgent and sympathetic consideration to the establishment as quickly as possible of a European Investment Fund'. It would nonetheless be a year and a half before the EIF saw the light of day. The Act amending the Protocol on the Statute of the EIB empowering the board of governors to create a European Investment Fund, signed on 25 March 1993, had to be ratified by each Member State. At the same time the EIB and the Commission went to considerable lengths to gather subscriptions from banks and financial institutions. It was mainly 'traditional' EIB customers who took up the invitation. The General Meeting establishing the EIF was at last held on 14 June 1994, in the EIB buildings in Luxembourg.

<sup>73</sup> EIB archives, minutes of the meeting of the board of directors of 12 May 1987, PV/215/87, p. 46.

<sup>74</sup> The Club of Institutions of the European Community Specialising in Long-term Credit was founded in 1973 to promote information sharing amongst its members. The EIB played a coordinating role in the club and provided the secretariat.

### 2.5.2.

#### The identity of a new institution

The new European Investment Fund, granted legal personality and financial independence, had an authorised capital of 2 billion ecus, 1.7 billion of which was effectively subscribed at the time of its constitution. Its share ownership was uniquely structured: 800 million ecus (40% of the capital) was held by the EIB, 600 million ecus (30%) by the European Union – represented by the Commission – and 300 million ecus (15%) by 58 Community financial institutions. A balance of 300 million ecus remained available to be taken up by other financial institutions.

During its start-up phase the EIF's activity would consist solely of issuing guarantees on loans granted by the EIB and other financial institutions, up to a maximum of 50% of project costs. It was planned that after this initial stage the fund would also be able to take equity holdings. In 1996 the fund was in fact authorised to allocate up to 20% of its own resources to venture capital investments supporting SMEs. For TEN projects the fund dealt directly with promoters, whereas for SME schemes it operated through specialist funds. The fund's two target sectors were extremely different, as Georges Ugeux, the second chairman, recognised: 'We all agree that issuing guarantees for SMEs and, on the other hand, issuing guarantees for major projects are probably two very distinct businesses and I would not rule out that, as we grow, we will specialise one way or another between those two very different markets'<sup>75</sup>. The fund's resources were not vast, but its primary aim was to act as a catalyst. Its loan guarantees were intended to lessen the

risk of investment while its minority holdings were designed to foster competition among other investors, in particular in the private sector. While the fund may have had a public mission it was also required by its articles to adopt a commercial approach and pursue profits, in order to avoid any distortion of competition.

The fund's management structure was based on that of the bank. The financial committee, made up of three people appointed by the Commission, the EIB and the financial institutions respectively, was responsible for day-to-day management. The supervisory board consisted of three representatives from the EIB (including the bank's president), two representatives from the Commission and two from the financial institutions. It was responsible for overseeing operations and taking decisions on any guarantee transaction worth more than 30 million ecus. For the fund's first year the EIB provided it with administrative and treasury services as well as offices. The EIF went on to become more independent in terms of management and moved to its own premises in September 1997. At the end of 1994 it had 11 staff members, including the financial committee. Five years later it employed 45 people, many of whom were seconded to the fund from the EIB.

Not long after the EIF was created the European Commission proposed that its activities be extended beyond TENs and SMEs to include the management of a new European audiovisual guarantee fund. The supervisory board did not reject the suggestion outright, but expressed caution in light of the EIF's relatively limited resources and the difficulties of that particular sector. In the end the proposal did not achieve the required

<sup>75</sup> 'Balancing risks against sound bank principles' [interview with G. Ugeux], *European Voice*, 7-13 March 1996, p. 20.



*The logo adopted by the EIF in 1994 depicts a bridge symbolising the link between public and private financing. Its division into three bands represents the tripartite shareholding system. The 12 stars indicate that the fund is a European Union institution. This logo was modernised in 2008. Based on the initials 'EIF', the new rectangular graphic suggests stability and balance, as well as the tripartite share ownership and the fund's three areas of activity (guarantees, venture capital and JEREMIE). The blue and grey are the colours of the EIB while the yellow and blue recall those of the European Union.*

unanimity in the Council. The European Commission and the bank did however entrust the EIF with other remits, primarily in the area of SMEs. The budgets managed on behalf of the Commission and the EIB quickly exceeded the amount of the fund's own resources.

### 2.5.3. Reform of the EIF

Barely five years after the EIF was founded the EIB undertook an extensive reform. Guarantees for SMEs had developed much more slowly than anticipated. The bank had relaxed its policy on guarantees and found more effective market solutions. By contrast, venture capital for SMEs had generated a huge number of operations, but following the Amsterdam mandate (ASAP) the EIB had itself entered the venture capital sector. As far as the banking sector was concerned subscriptions to the Fund's capital had tailed off, despite new 'recruitment campaigns': at the end of 1999,

only two thirds of the 30% of shares reserved for financial institutions had attracted buyers. It had to be admitted that the fund's profitability was below initial estimates.

The EIB negotiated the reform of the fund with the Commission and the other shareholders and it was approved by its General Meeting on 19 June 2000. The aim was to clarify the roles of the fund and the bank and to improve their cooperation. The EIB became the majority shareholder and thus took control of the EIF. The tripartite structure was kept, however, in particular to maintain the partnership with the Commission. The bank now held more than 60% of the capital, the Commission retaining its 30% and the private institutions keeping only a small minority<sup>76</sup>. The governance structures were also reorganised to reflect the EIB's new majority position. The financial committee was replaced by a chief executive. The supervisory board was renamed the 'board of directors' in view of its extended operational responsibilities.

<sup>76</sup> At the start of 2007, the exact division of the capital was as follows: 61.2 % of shares belonged to the EIB, the European Commission held 30% on behalf of the Union, and the financial institutions held 8.8%.

In October 2000, the boards of directors of the EIF and the EIB decided to transfer all the bank's activities relating to venture capital within the Union to the EIF. At the same time the fund's activities in relation to trans-European networks were transferred to the bank. The EIF thus became the first subsidiary of an 'EIB group', specialising in venture capital within the Union and in candidate countries.

At the end of the year 2000 the EIB and the EIF signed an agreement whereby the EIB would take charge of a number of departments including the

management of the fund's treasury and auditing services.

With the EIF as its subsidiary the EIB thus became known as the 'EIB group', a concept not featured in its Statute. Through this action the bank implied that it could in future diversify its operations through specialised subsidiaries while benefiting from potential synergies, following in the footsteps of private banking groups and, above all, the World Bank.

*Éric Bussière with Arthe Van Laer*



Enlargement,  
growth and  
redeployment  
since mid-1980s

## Dynamics of sectors and areas

Above and beyond the permanent nature of its mission the EIB acts in accordance with the changes imposed on it by real events. The areas to be taken into account are expanding, the pressure on resources and on the environment is increasing, and citizens' concerns and needs require responses that the Union is striving to provide through its policies. Through its work the EIB is therefore part of a complex dynamic affecting both the areas taken into account and its main lines of action.

### 3.1. The spheres of activity

Although the bank's main spheres of activity since the mid-Eighties have followed on from those of previous years without any major interruptions, each one of them has changed in direction for reasons linked to the development of economic data and of the priorities defined by the Union.

#### 3.1.1.

##### Network infrastructure

Financing of major network infrastructure has been confirmed as one of the bank's main activities over the last twenty years: 'Just as the Seventies can be regarded as the decade of investment in energy, the Nineties seem destined to be characterised by investment in communication [...]. The funding of key Community infrastructure thus represents one of the Bank's principal areas of activity' it was remarked at the beginning of 1990<sup>77</sup>. This priority was explicitly linked to the implementation of the single market. The bank outlined this objective at the beginning of 1985, that is to say

shortly after Jacques Delors' policy speech to the European Parliament on 14 January 1984. It concerned both modern means of telecommunication (satellites) and transport infrastructure adapted to a better integrated economic area<sup>78</sup>. The bank placed its action in a broad historical perspective when it drew a parallel between the construction of the transport networks of the 19th century, an era in which the national markets were built, and the 1992 objective, which made further development of communication systems necessary across Europe. Great disparities could still be observed in the mid-Eighties, in particular as a result of the enlargement under way to integrate Spain and Portugal. The planned programmes combined the modernisation of existing networks with large-scale operations designed to link up national networks, on the model of the Channel Tunnel<sup>79</sup>.

The bank's activity in this area very quickly grew in importance. Between 1983 and 1988 its contribution to the funding of communication networks amounted to 4 billion ecus, which formed part of an overall investment of 15 billion ecus. A five-year assessment carried out in 1995 showed 27 billion ecus of loans earmarked notably for roads and motorways (7 billion), high-speed rail networks (5 billion), exceptional works – tunnels, bridges (2 billion), airports and air transport equipment (2 billion), and sea transport (1 billion). These operations generated 88 billion ecus of investment.

The signing of the Maastricht Treaty provided the opportunity to relaunch funding for trans-European networks. The main impetus was given at the

<sup>77</sup> EIB, *Annual report 1989, 1990*, p. 24.

<sup>78</sup> EIB, *Annual report 1984, 1985*, pp. 30-31.

<sup>79</sup> EIB, *Annual report 1987, 1988*, pp. 11-15.

## Eurotunnel: the EIB's largest single investment<sup>80</sup>



La Vie du Rail n° 2220, 23-29 novembre 1989

*The EIB intervened alongside a consortium bringing together Europe's largest banks in order to finance the Eurotunnel company in charge of the construction and operation of the Channel Tunnel. The Rino cartoon was published in November 1989 in La vie du Rail at a time when construction of the tunnel was experiencing its first delays.*

The bank played a crucial role in the financing of the Channel Tunnel, which was built between 1987 and 1994. While the idea of a permanent link between the United Kingdom and the continent was very old and had given rise to a number of projects since the early 19th century, it was the United Kingdom's accession to the Community in 1973 that prompted the conclusion of an agreement aimed at the construction of a tunnel. Appraisal of the project was thus begun by the EIB, but the task was interrupted by the UK authorities in 1975, in particular because of the budgetary cutbacks occurring as a result of the economic crisis.

The new political climate which followed the Fontainebleau summit (1984) enabled Margaret Thatcher and François Mitterrand to announce in January 1986 the signing of an agreement and the choice of private promoters that would be entrusted with the undertaking. The victorious group took the name 'Eurotunnel'.

In order to finance the work, the cost of which was estimated at some 6.8 billion ecus, Eurotunnel chose both to raise its own funds and to contract loans. The EIB was naturally called on to help. Presenting the Eurotunnel project to the board of directors, the bank's president underlined the major role that the bank was asked to play in its completion. 'To an unparalleled degree, the project [meets] all the principal criteria for which the EIB was established – community interest, regional development, economic cooperation and complementary cofinancing with the private sector'. The board members gave a very

<sup>80</sup> See on this subject: Tabary, P., 'Eurotunnel: la BEI, principal bailleur individuel de fonds', *Revue du Marché commun*, n° 315, March 1988, p. 161-162; Marcou, G., Vickermann, R., and Luchoire, Y. (ed.), *Le Tunnel sous la Manche entre États et marchés*, Presse universitaires de Lille, Lille, 1992.



favourable reception to this project which would unite transport systems and nations' and be 'a milestone in the history of the Community'<sup>81</sup>.

Significant intervention appeared all the more desirable since the bank was the only Community institution that was able to support the project, the Thatcher government having decided that it would not invest a penny of public money in it, either directly or through the European Community. The concessionaires thus had to raise private funds. The UK Government agreed to EIB intervention provided that the loan was repayable.

On 7 September 1987, the EIB signed an agreement with Eurotunnel for a loan of 1.4 billion ecus. The repayments would be made until 2017 and would start several years after the tunnel had been opened up to traffic. It was the largest investment ever made by the bank. In order to meet the United Kingdom's demands, the loan was guaranteed not by the Member States but by the commercial banks that supported the project. The EIB would thus be the main individual source of credit, while nearly two hundred other banks would together provide 6.6 billion ecus. The major commitment made by the EIB, preceding as it did that of the commercial banks, encouraged the latter to come on board.

Three years later, Eurotunnel was forced to scale up its estimated costs. The EIB therefore stated that it was prepared to increase its commitment by 457 million ecus if the commercial banks committed themselves to some 3 billion more. In taking the initiative, the EIB was thus once again leading the way. The parallel line of credit was guaranteed by Eurotunnel's assets and earnings, meaning that the involvement of the Member States was avoided once again.

On 6 May 1994, Elizabeth II and François Mitterrand officially opened the Channel Tunnel. Very quickly, however, it seemed that operating the tunnel was less profitable than hoped, and Eurotunnel was faltering under the weight of its huge debts. The EIB was thus required to play a part in the financial restructuring of the company in 1998, 2000 and 2007.

In addition to its aid for the construction of the tunnel itself, in 1998 and 2003 the EIB granted loans to finance the construction of the rail link between the tunnel's UK entrance and London. This shortened the Paris-London journey by 35 minutes as from the end of 2007.

*Arthe Van Laer*

<sup>81</sup> EIB archives, minutes of the meeting of the board of directors of 12 May 1987, CA/215/87.

European Council of Essen in December 1994, where 14 major priority TEN projects were adopted<sup>82</sup>. The bank carried out a technical, economic and financial appraisal of the majority of the projects, several of which were launched with its assistance from the end of 1994: the Brenner high-speed line, the TGV Paris-Cologne-Amsterdam-London link, the Milan Airport link, the Ireland-United Kingdom-Benelux link, and motorways and gas pipelines in the Mediterranean.

Owing to their often exceptional size such investments required tailor-made funding. The bank fulfilled this requirement by creating a 'special TENs window' in 1994 in order to adapt the monitoring and financing methods to the characteristics of each project: for example long-term loans with deferred repayments or even deferred interest payments, and financing adjusted in line with the progress of the projects<sup>83</sup>. At the end of 1996 the EIB found itself involved in financing nine of the fourteen projects laid down in Essen, while the finance for five others was in the process of being raised<sup>84</sup>.

The Council gave fresh impetus to investment in the major networks from 1997. The idea was to continue with the effort to provide facilities that had been undertaken for several years within the Union, but also to extend the networks to the candidate countries of Central and Eastern Europe. From this point of view the constraints weighing upon the Member States' public finances and the

need for a sufficient return on investment made the development of public-private partnerships necessary. These partnerships were promoted following the work done by a working group chaired by Commissioner Neil Kinnock, in which the EIB participated<sup>85</sup>. The launch of European Action for Growth, on the initiative of the Council of December 2003, resulted in a further boost to the major networks<sup>86</sup>. In 2006 the EIB made a further commitment by granting up to 75 billion in loans for the TENs for the period 2004-2013. The first loan, for a fifty-year term, was granted for the funding of the Rhône-Rhine high-speed line<sup>87</sup>.

This increased effort was accompanied by in-depth discussions on the choices to be made regarding the TENs and on the methods to be adopted for their implementation. The colloquium on the TEN-Ts organised by the bank in Strasbourg in February 2001 confirmed their priority status for it. Investment in this area had to be designed, however, by taking the best of the infrastructure in place and of the technologies available – by relying on existing links, by implementing intelligent transport systems, by taking account of the environment, and by establishing public-private partnerships. Ewald Nowotny, the EIB's vice-president in charge of the TENs, in a way struck the balance sought by the bank in this matter when he stated that 'neither private sector investment nor recourse to innovative forms of financing can replace the participation of the public sector in TEN development. Nevertheless, the involvement of the

<sup>82</sup> See map 6, p. 234.

<sup>83</sup> EIB, *Annual report 1994, 1995*, p. 12.

<sup>84</sup> EIB, *Annual report 1996, 1997*, p. 27.

<sup>85</sup> EIB, *Annual report 1997, 1998*, pp. 16-19.

<sup>86</sup> EIB Group, *Annual report 2004*, vol. I, *Activity report*, 2005, pp. 22-24.

<sup>87</sup> EIB Group, *Annual report 2006*, vol. I, *Activity report*, 2007, pp. 28-29.



*The EIB was one of the main sources of finance for the modernisation and extension of Madrid Airport. It granted a series of loans totalling EUR 1.9 billion between 2001 and 2004.*

private sector will be decisive in helping the Union to achieve its priorities in this field<sup>88</sup>.

### **3.1.2.** **Energy and the environment**

The oil crisis of the 1970s determined the main thrust of Europe's energy policy priorities for

many years. Security of supply was the main objective, as illustrated by the guidelines laid down by the Council of 16 September 1986: limiting the Community's dependence on oil, reducing the proportion of hydrocarbons used in electricity generation, increasing energy efficiency and introducing new and renewable energies. The energy-related financing granted by the EIB

<sup>88</sup> EIB meeting on the development of the TENs, Strasbourg, 14 February 2001, conclusions' in EIB, *The EIB group in the year 2000, 2001*, p. 24.








Map 6

**Fourteen priority transport projects adopted at the European Council of Essen in December 1994 and receiving tailor-made funding from the EIB**



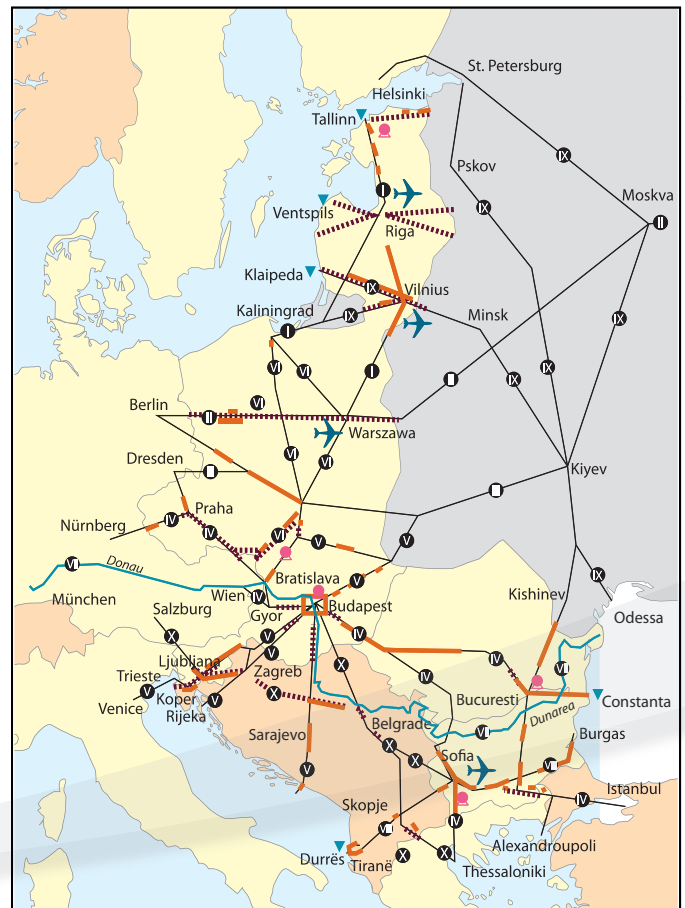
*EIB, Annual report 1994, 1995, p. 28.*

**Legend:**

-  High-speed & conventional train
-  Motorway or road
-  Priority Corridors
-  Airport
-  Fixed link rail-road (tunnel + bridge)
-  Port
-  Air traffic control

Map 7

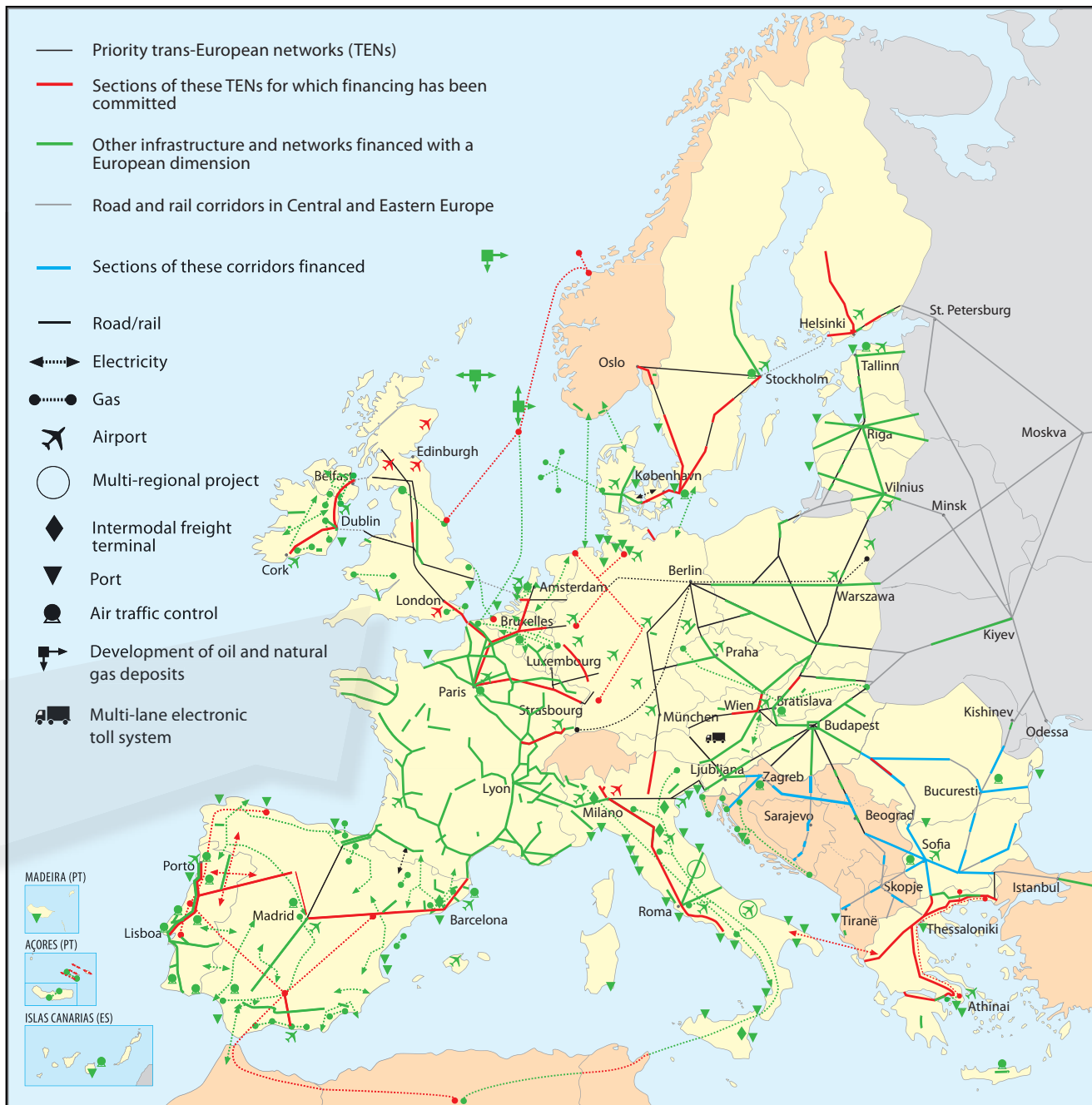
**Signed EIB loans for priority transport corridors in the candidate countries of Central Europe**



*EIB Group, Activity report 2001, [2002], p. 19*

Map 8

### EIB operations for the benefit of trans-European networks and corridors: 1993-2006



EIB Group, Annual report 2006, vol. 1, Activity report, 2007, p. 29.

during the 1970s and 1980s was part of this overall outlook. Between 1973 and 1990 20.2 billion ecus were devoted to energy, of which 7.4 billion were for hydrocarbons and natural gas, 6 billion for nuclear power, and 5.7 billion for other methods of electricity generation and for the financing of distribution networks. Investments in oil were focused on the North Sea and Italy and the bank financed gas pipelines between Algeria and Italy and between the USSR and Western Europe, as well as gas storage facilities in Italy and Germany (see map 9)<sup>89</sup>.

The impact of the 1986 oil 'rebound' led to a marked slowdown in investment, however. Between 1985 and 1990, financing for the energy sector fell from 2 882 million to just under 1 500 million, lending for the construction of nuclear power stations having been halted in 1988<sup>90</sup>. While subsequent years marked an upturn in funding – it reached 4 billion in 1996 – it was only temporary. This financing was mainly sustained by the continued strategy of diversifying supply, combined with the integration of the European gas networks. It involved the financing of gas pipelines, some of which came under the priority trans-European network programme, which was extended by financing in neighbouring countries: the Maghreb-Europe, Algeria-Tunisia-Italy and Berlin-Russia gas pipelines. This strategy also affected the electricity sector and made it possible both for the internal market in electricity to be implemented and for resources to be used more effectively across the Union. As the decade came to an end it was felt that the programme pertaining to the major energy networks and the main interconnections had generally been achieved.

At the turn of the century the new energy policy deployed by the Union henceforth focused on energy efficiency, thus supporting the objectives to which the Union subscribed at the Kyoto Conference in 1997<sup>91</sup>. Since 2000 particular emphasis has been placed on energy saving and renewable energy sources such as hydropower, wind power, geothermal energy and biomass. It is worth adding to these the projects aimed at regenerating and developing public transport, which also help to save energy. However, 2006 marked a return for the bank to a more specific policy aimed at 'combining the various facets of its activity in the energy sectors in order to promote it to a

Map 9

### EIB loans in the hydrocarbon sector (1973-1990)



*EIB, Annual report 1990, 1991, p. 32.*

<sup>89</sup> EIB, *Annual report 1990, 1991*, p. 31.

<sup>90</sup> EIB, *Annual report 1990, 1991*; idem, *Annual report 1992, 1993*.

<sup>91</sup> EIB, *Annual report 1997, 1998*, p. 20; idem, *Annual report 1999, 2000*, p. 25.

*The energy and environmental policies developed within the Union with the bank's support tend to be closely akin to each other, as the development of wind power demonstrates. This wind farm stands at Horns Rev, off the coast of Jutland (Denmark).*



strategic priority'. Against a backdrop of high prices this therefore represented a dramatic return of one of the greatest priorities of the 1970s, together with greater recognition than before of the environmental dimension of the problem. The aim was thus to ensure the long-term viability of a European economy threatened by the use of non-renewable resources and by CO<sub>2</sub> emissions. It was also a question of ensuring the economic competitiveness and security of supply of a Union threatened by an increased dependence on energy in a context of increasing political risks. Energy policy comes increasingly close in fact to the priority given to the environment by the bank since the 1980s.

Since 1984 the EIB has made the environment one of its priorities, in support of new approaches taken that same year by the Community to facilitate the adoption of standards applicable in all member countries<sup>92</sup>. For its part the bank acts by ensuring the 'strict application of national and Community laws', where they exist, and

by encouraging the adoption of the most environmentally friendly solutions where there are no rules. These principles are gradually imposed on new members before being integrated into projects financed outside the Community<sup>93</sup>. The bank's policy has therefore developed in two directions: integrating the environmental criterion into the evaluation of projects, and financing investment projects specifically devoted to environmental protection.

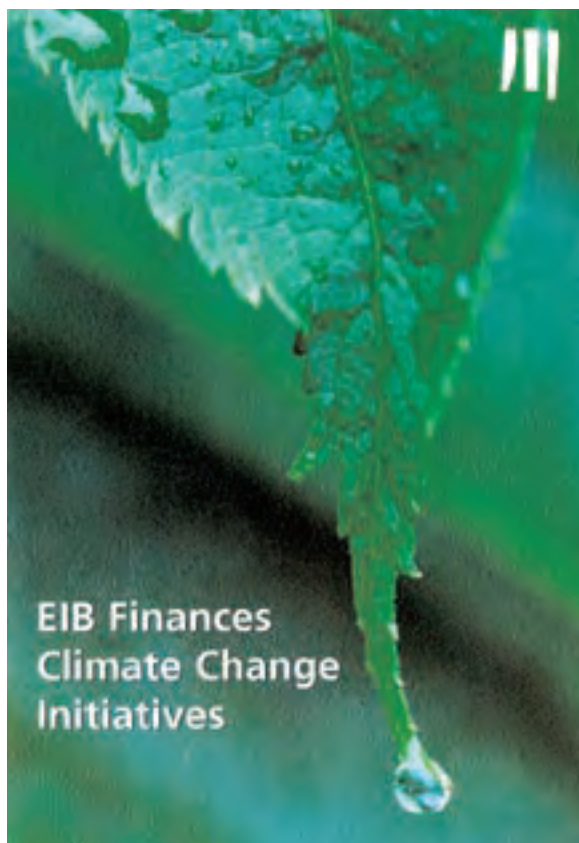
The areas taken into account have gradually expanded. In the beginning it was specific types of pollution: water, air, industrial and vehicle pollution<sup>94</sup>. At the end of the 1980s the bank concentrated its efforts on the urban environment, which was often affected by the deterioration of living conditions in town centres, the appearance of industrial wastelands and the spread of poorly equipped suburbs. The EIB therefore funded urban transport, with the regeneration schemes 'having a favourable impact on the environment and resource management'<sup>95</sup>. The outlook

<sup>92</sup> EIB, *Annual report 1985, 1986*, p. 18.

<sup>93</sup> EIB, *Annual report 1984, 1985*, pp. 22-23 and 32.

<sup>94</sup> EIB, *Annual report 1987, 1988*, p. 29.

<sup>95</sup> EIB, *Annual report 1988, 1989*, p. 16.



broadened even further in 1988 when the bank joined forces with the World Bank to implement an environmental programme in the Mediterranean that covered the area as a whole, incorporating member countries and non-member countries of the Community alike. This scheme was developed over subsequent years by means of action taken in four areas: water resources, waste management, marine pollution and coastal zones. The Mediterranean Environmental Technical Assistance

*Graphic showing the EIB's involvement in investments aimed at protecting the planet from the negative effects of climate change. These activities fit in with the European Union's efforts to limit greenhouse gas emissions, in line with the Kyoto Protocol, which it signed and which entered into force in February 2005. Since 2002, the bank and the Commission have chosen to coordinate their efforts in this field.*

Programme (METAP) was implemented within this context. Its aim was to help with the preparation of projects and the development of the institutional framework in which environmental policies could be conducted<sup>96</sup>. In 1991 around fifty projects were integrated into this framework<sup>97</sup>. Several were completed as from 1992, including the Cairo sewers, waste water treatment in the Po Valley and waste storage and treatment in Israel. The experiment conducted in the Mediterranean led to the EIB's involvement in new programmes

Table 11

### The EIB and the environment: projects financed in 2006 (individual loans)

	Total (in million of euros)
Climate change	2 158.7
Environment and health	2 334.5
Urban environment	4 058.1
Nature and biodiversity	473.8
Natural resources and waste management	624.4
<b>Total individual loans</b>	<b>9 650.0</b>

*EIB Group, Annual Report 2006, vol. 1, Activity Report, 2007, p. 22.*

<sup>96</sup> EIB, *Annual report 1989, 1990*, pp. 16-17.

<sup>97</sup> EIB, *Annual report 1991, 1992*, p. 20.





*Waste treatment plant in Amsterdam that was built with the help of an EIB loan in 2004. The plant's performance in terms of meeting environmental standards largely exceeds the standards in force in the Netherlands and the EU.*

for Northern Europe, including the environmental rehabilitation of the Baltic and of the Oder, Elbe and Danube basins.

This set of measures led to the publication in 1995 of a comprehensive document focusing on the EIB's environmental policy. The bank's objectives were defined from a global perspective. Henceforth, particular consideration had to be given in project appraisal to environmental risks and to compliance with legislation, including legislation in the process of being drafted. In order to apply this approach, in 1995 the bank created an 'environmental unit' within the projects directorate, whose tasks were gradually increased<sup>98</sup>. When, following the Kyoto

Conference, the European Union committed itself to a specific target to reduce the quantity of greenhouse gas emissions, the 'Kyoto strategy' was integrated into the bank's corporate operational plan, with the bank channelling even more of its financing into energy-saving methods such as public transport, heating/electricity cogeneration and the substitution of energy sources. The Innovation 2000 Initiative consolidated this approach in the field of research and development<sup>99</sup>. The memorandum of understanding signed between the EIB and the Commission in May 2002 saw the two institutions become more coordinated in the area of climate change, with EIB loans combined with EU budgetary funding and support provided for

<sup>98</sup> EIB, *Annual report 1995, 1996*, p. 22.

<sup>99</sup> EIB, *The EIB group in the year 2000, 2001*, p. 19.



*Sewage treatment network in St Petersburg which in 2003 received the first loan granted by the EIB in Russia. The construction of this plant was part of the programme for the environmental rehabilitation of the Baltic.*

*Sewage treatment network in Bursa, Turkey. The town, which is west of Ankara, has experienced very rapid development and its population is expected to rise to over two million in 2020. There are plans to develop new water treatment facilities to support this rapid urban growth. The EIB gave its support to this project with a EUR 80 million loan with a 3% interest subsidy, funded from the Community budget in 2000.*



the appraisal of projects. The EIB's environmental schemes thus extended to member countries, candidate countries, Russia, and Mediterranean and ACP countries.

### **3.1.3.** **New technologies and enterprises**

While the financing of corporates has remained a constant throughout the bank's work since its creation, the regeneration of Europe's industrial fabric and technological capability has taken on a new dimension since the 1980s. The defensive strategies of the 1970s were replaced by a new approach

to enable regeneration of the industrial fabric. Support for new technologies was thus the subject of a series of specific Community programmes symbolised by the Esprit programme, which was launched in 1983, then of general framework programmes. The bank immediately gave its support to this move. The initial impetus was given in 1984 when the board of governors decided that the EIB would endeavour to help finance projects aimed at the development of advanced technologies within the context of Community and national industrial policies, specifically by supporting cooperation between firms from several Member States. EIB financing specifically devoted

to advanced technologies therefore increased from 40 million in 1982 to 325 million in 1985. In 1986 over 570 million was raised for areas such as microelectronics, information technology and telecommunications, as well as chemicals and pharmaceuticals. A record of the individual loans granted to industry for the years 1985-1987 thus shows that the loans channelled towards classic technologies and advanced technologies were evenly balanced.

A further boost was given in this area at the beginning of the 2000s. The Innovation 2002 Initiative, or i2i, was the bank's contribution to the implementation of the strategy laid down by the Heads of State or Government in Lisbon in March 2000. The EIB had been involved upstream of the definition of this set of objectives, its contribution taking the form of a series of priorities, including human capital (training), research and development, information technology and telecommunications, the dissemination of innovation and venture capital. The original programme stipulated that the EIB would devote loans to this set of priorities amounting to between EUR 12 and 15 billion over a three-year period<sup>100</sup>. This objective was well and truly exceeded since i2i was renewed in 2003 with its main objectives intact under the name Innovation 2010 Initiative which aimed to raise 50 billion in loans for the knowledge-based economy by 2010<sup>101</sup>.

At the same time as the integration of new technologies was being stepped up, the regeneration

of the Union's industrial fabric was identified from the 1980s as applying especially to SMEs. In 1987 the bank spoke of the need to increase Europe's competitiveness 'by supporting the modernisation and dissemination of new technology among SME's'<sup>102</sup>. During the 1990s more than two thirds of the bank's loans to industry went to SMEs. For the most part these loans were channelled through global loans intended to finance SMEs that the bank was unable to reach directly. Specialised institutions well acquainted with the economic fabric of their area therefore redistributed the financing from the bank. In 1988 this represented 3 984 loans totalling 1 232 million ecus<sup>103</sup>. The slowdown in growth experienced by the Union from 1992 demanded a more purposeful measure, yet again for the benefit of SMEs. It was thus that under the Edinburgh Facility SMEs creating jobs were able to receive loans with interest subsidies, funded from the EU's budget and distributed by the bank. At the end of 1995, 4 400 enterprises were in receipt of these loans, which equated to 45 000 preserved jobs<sup>104</sup>.

The bank's policy for supporting SMEs was developed from 1997 within the framework of its 'SME window'. This initiative related to a set of mechanisms designed to enable innovative SMEs at development stage to access bank finance. They combined the granting of loans whose risk was shared with banks with the taking of equity in cooperation between the bank and the EIF as part of the European technology

<sup>100</sup> EIB, *The EIB group in the year 2000*, [2001], p. 11.

<sup>101</sup> EIB Group, *Activity report 2003, 2004*, pp. 4 and 14-16.

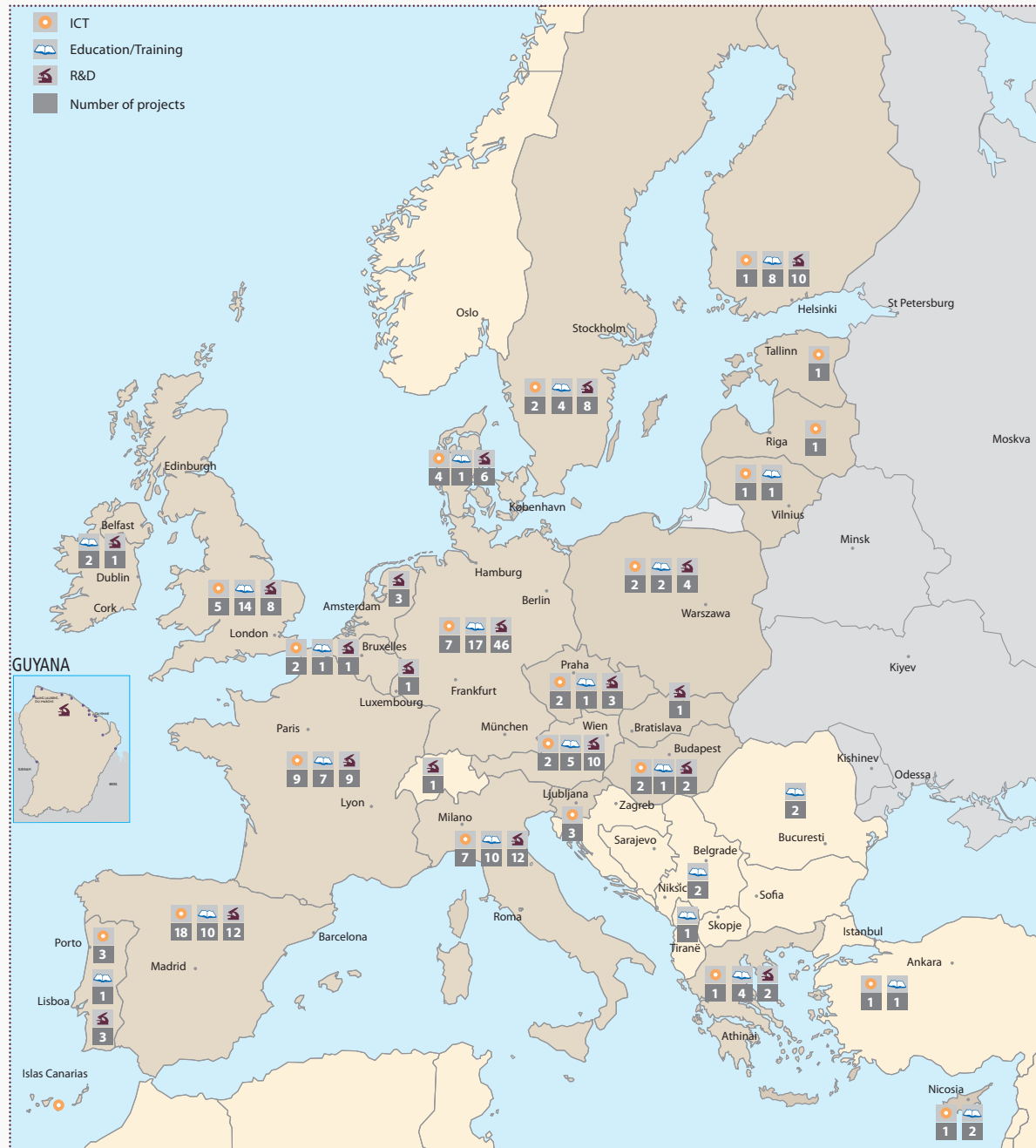
<sup>102</sup> EIB, *Annual report 1987, 1988*, p. 26.

<sup>103</sup> EIB, *Annual report 1988, 1989*, p. 28.

<sup>104</sup> EIB, *Annual report 1994, 1995*, pp. 17 and 24.

Map 10

**The EIB and the financing of innovation: projects signed in 2000-2006**



*Astra television broadcast satellite (Luxembourg), which received a loan of nearly 60 million ecus in 1992. The EIB lent 660 million ecus for the launch and operation of satellites between 1992 and 1996.*



facility (ETF)<sup>105</sup>. Cooperation between the EIF and the bank was institutionalised in 2000 with the creation of the EIB 'Group' within which the EIF led the venture capital operations while the bank refocused its action on lending operations. In 2000 half of the EUR 11.4 billion in global loans went to SMEs, two thirds of which employed fewer

than 100 people<sup>106</sup>. This trend was confirmed over subsequent years, during which the bank joined forces with medium-sized financial institutions very close to the ground and capable of channeling its loans towards the most relevant jobs<sup>107</sup>, an approach which strengthened global loans as a means of finance: 'without its credit lines granted

<sup>105</sup> EIB, *Annual report 1997, 1998*, p. 15; idem, *Annual report 1998, 1999*, p. 16.

<sup>106</sup> EIB, *The EIB group in the year 2000*, [2001], p. 21.

<sup>107</sup> EIB Group, *Activity report 2002, 2003*, p. 28.

to intermediaries, the bank would finance only large-scale projects'. In 2006 106 credit lines were granted to 118 intermediaries, enabling the bank to reach 30 000 SMEs<sup>108</sup>. The desire to reach the right targets through the right intermediaries was coupled with the diversification of those targets which has meant since 2004 the implementation of grouped loans for medium-sized enterprises, these loans being intended 'to fill the gap between global loans and individual direct loans for major projects'<sup>109</sup>. Normal global loans could also be used to finance micro-enterprises with fewer than 10 employees by loans of a few tens of thousand euros.

### 3.2. The EIB and EIF working together

When the European Investment Fund was founded its main task was to provide loan guarantees for trans-European networks. Between 1994 and 1999 the EIF signed 43 guarantee agreements in this area amounting to 2 175 million ecus. As planned, the majority (67%) of these guarantees were issued to EIB loans. During the same period the EIF also gave guarantees on loans for SMEs up to 2 121 million ecus. As mentioned above TENs loan guarantees, which were to become the core activity of the fund, developed on a much smaller scale than planned.

From 1996 the EIF was authorised to take holdings in SMEs. By the end of 1999 it had made 46 investments in SME-focused venture capital funds, amounting to 164 million ecus.

The same year the fund's major shareholders, the EIB and the Commission, entrusted it with its first mandates. From then on the EIF would manage venture capital instruments and loan guarantees for SMEs on their behalf. Its SME-related activities financed by the European Union's budget or by the bank were soon on a larger scale than those financed by own funds. Generally speaking, the eligibility criteria for mechanisms under its mandates were stricter and related to certain specific EU objectives. The Commission delegated to the EIF the management of 'Growth and environment' and of ELISE ('European Loan Insurance Scheme for Employment'), two mechanisms providing guarantees for investments in SMEs. As part of the Amsterdam mandate of 1998 the Commission entrusted the fund with the management of two new venture capital instruments intended for businesses at the cutting edge of technology (the European Technology Facility and its 'start-up' scheme), and of the SME Guarantee Facility.

With the 2000 reform the EIF henceforth focused exclusively on strengthening small and medium-sized enterprises by explicitly integrating its work into the Lisbon Strategy. The fund concentrated on SMEs at start-up stage and active in the field of new technologies. In this high-risk sector it sought to play the dual role of pioneer and catalyst. It aimed to attract private finance through acquisitions of minority holdings and loan guarantees for promising undertakings. While continuing to give priority to start-ups, halfway through 2003 the EIF expanded its field of activity to SMEs that were at development stage or

<sup>108</sup> EIB Group, *Annual report 2006*, vol. I, *Activity report*, 2007, p. 32.

<sup>109</sup> EIB Group, *Annual report 2004*, vol. I, *Activity report*, 2005, p. 27.

indeed, in the case of the smallest ones, those that had reached maturity. The aim of this change was to make it possible both to balance the risks and to support the development of companies that had already sampled their first success. It also enabled the fund to maintain a relatively even geographical distribution of its activities, even though in some new member countries the venture capital markets were much less developed than elsewhere in the Union.

The EIF's two main instruments of intervention are investments in venture capital funds and guarantees on loans. The EIF has become one of the European Union's most important 'funds of funds', in particular regarding technology firms in the start-up phase. The fund aims to develop the European venture capital market, which is still relatively small compared to the US market. It seeks to help balance this market by acting as a countercyclical operator in periods of low activity.

Together with 'classic' types of credit insurance, the EIF has deployed two new guarantee facilities: credit enhancement in the context of securitisation operations, and structured transactions. It issues an increasing number of guarantees to banks and financial leasing companies for portfolios of securitised loans. Thanks to its high credit rating the fund facilitates the transfer of their credit risks to the capital markets, which makes credit options available again to SMEs. Although the SME sector is still a relatively small segment of the European securitised market, the EIF is playing a significant role in its development. By means of structured transactions the EIF provides partial guarantees to establishments that finance investment funds supplying SMEs with loans or with 'mezzanine' finance. Since 2003 the fund has also offered advisory and technical assistance

services, in particular to national and regional authorities seeking to implement venture capital facilities. Its expertise has thus become a high added-value product.

The lion's share of the resources managed by the European investment fund continue to come from the EIB and the Community budget. The majority of the equity holdings are financed by the bank, through the European Technology Facilities 1 and 2 and the 'venture capital mandate', which the fund adopted in 2000. The Commission is also continuing and expanding its mandates to the EIF, which are henceforth grouped together in the 'Multiannual Programme for Enterprise' (2000-2006). One innovation in particular is the possibility of guaranteeing micro-credit. A new 'framework programme for innovation and competitiveness' will cover the Commission's mandates in the period 2007-2013. Not only will it provide the EIF with more resources, but it will also allow other funding options (such as securitisation), as well as intervention in candidate countries and in the western Balkans. Since 2007 the fund has also been in charge of managing JEREMIE, a joint initiative of the EIB group and the European Commission that enables the Member States and the regions to use part of their structural funds to build up a range of financial instruments designed to support small businesses. Alongside mandates from the EIB and the Commission, in 2003 the EIF received its first mandate from a non-shareholder: the German Ministry of the Economy gave it the task of implementing the 'European Recovery Programme (ERP)-EIF Dachfonds', a 'fund of funds' that invests in venture capital funds targeting new technology-based firms located in Germany.

The EIF's own funds are relatively modest when compared to all the external resources it receives



from the mandates. However, at the beginning of May 2007 the fund's general meeting approved a 50% increase in capital (up to EUR 3 billion), which represents a substantial rise in its own funds.

### 3.3. Dynamic of areas and 'new frontiers'

Since the 1980s Europe's borders have been constantly expanding as a result of successive enlargements. Thus, the bank's activity forms part of a dynamic of areas that extends far beyond the Union's borders.

#### 3.3.1. The underdeveloped regions

The bank had already been stepping up its work to promote regional development for thirty years when the revival of the European project through the Single European Act and the integration into the Community of Spain and Portugal called for a comprehensive discussion of the scope and the procedures to be given to this policy. The bank's 1984 annual report had already recorded persistent disparities in terms of per capita output, unemployment rates and standards of certain infrastructure and services<sup>110</sup>. However, the enlargement of January 1986 made the task to be accomplished even bigger: henceforth, more than 110 million Europeans resided in regions in which the GDP per inhabitant was less than 20% of the average Community GDP (see map 11).

Strengthening the competition principle that underpins the Single European Act could also tend to increase these disparities, and justified a relaunch of regional policy. This was the objective of the first 'Delors package', which was submitted to the Council of Ministers in February 1998 under the title 'Making a Success of the Single Act: a new frontier for Europe', and which appeared to be a response to this challenge. With its tasks confirmed by the Single European Act, the EIB found itself fully involved in this enhanced and redeployed priority<sup>111</sup>.

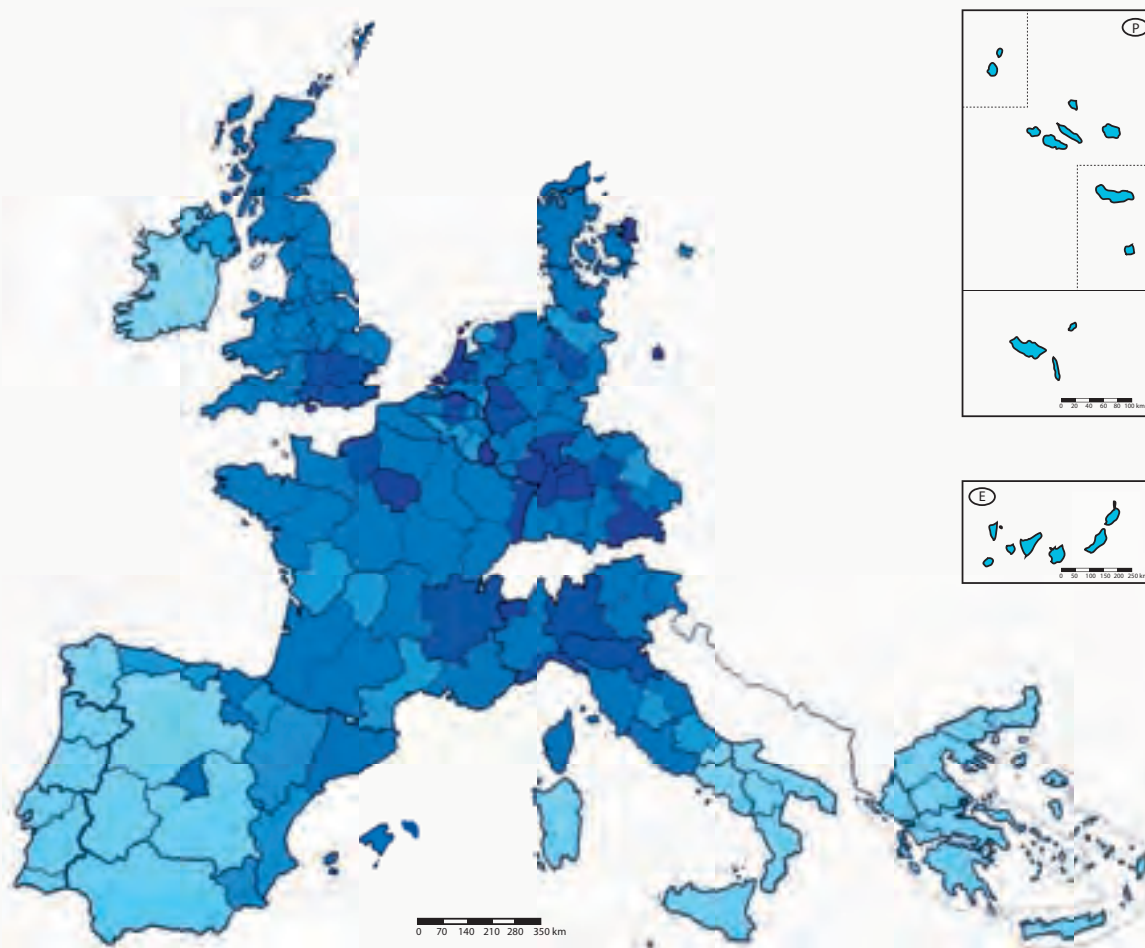
The main schemes carried out at the beginning of the 1980s were still clearly marked by the legacy of earlier years and focused on two priorities: the underdeveloped Mediterranean region and industrial conversion areas. The Integrated Mediterranean Programmes (IMPs) gave new life to this approach, however, by implementing a multi-year scheme focusing on a group of territories with common characteristics. The first IMP ran from 1986 to 1992 and concerned Greece, Italy and the south of France. It established specific cooperation between the EIB and the Commission, with the result that 40% of the financing granted within the framework of the IMPs took the form of loans<sup>112</sup>. The priorities laid down in 1987 as part of the reform of the Funds confirmed this focus on an enlarged Mediterranean area. The EIB's investments were heavily directed towards Portugal, Greece, Spain and Italy. In Portugal's case the EIB loans were very substantial: in 1987,

<sup>110</sup> EIB, *Annual report 1984*, 1985, p. 28.

<sup>111</sup> The Single European Act confirmed the missions of the EIB, which should 'promote the harmonious development of the entire Community' and 'reduce the gap between the various regions and the development gaps of the least advantaged regions'.

<sup>112</sup> EIB, *Annual report 1985*, 1986, p. 18.

Map 11

**GDP per capita by region (1986)**

100 = Community average



projects supported by the bank represented 11.3% of the overall investment in the country<sup>113</sup>.

Taken as a whole, financing granted by the bank for regional development up to the beginning of the 1990s was focused on the underdeveloped areas of the Mediterranean area and Ireland and on the industrial reconversion areas located further to the north. This polarisation was intentional, with the result that between 1987 and 1989 the outstanding loans in the least advantaged areas were growing faster than the bank's total activity<sup>114</sup>. Similarly, in 1991 the proportion of funding for the regions represented only a third or a quarter of the bank's operations in the Benelux countries but all of its operations in countries such as Portugal, Greece and Ireland<sup>115</sup>.

The Treaty on the European Union consolidated the EIB's missions in the field of regional development and their complementarity with budget funding. In 1992 the same logic prevailed as in 1987: the economic and monetary union, as an extension of the 'single market' and creator of increased competition, had to be supported by enhanced measures to help the underdeveloped regions. Also, in 1997, with the creation of the monetary union imminent, the bank took a stand by declaring that 'the EMU will not on its own reduce underlying regional disparities with the European Union or between countries

participating in the euro from the start and those adopting the single currency at a later stage'<sup>116</sup>.

Thus, the Delors II package was designed to support the EMU's implementation by further developing the Structural Funds' resources. The Edinburgh Council in December 1992 also decided on the implementation of the Cohesion Fund, which was intended to help Portugal, Greece, Ireland and Spain<sup>117</sup>. The majority of the bank's loans were therefore channelled year by year towards areas eligible for action under the Structural Funds, while joint financing with the Commission increased: between 1989 and 1992 20% of EIB loans were combined with a Community subsidy, a figure that rose to 31% in 1994 and to 39% in 1995<sup>118</sup>. An assessment of EIB interventions in favour of regional development which was carried out in 1999 established that 'since the 1989 reform of the Structural Funds, individual loans granted by the EIB for financing projects in regional development areas have amounted to 104.4 billion' and had seen average growth of 9% per annum, a rate higher than that for loan signatures overall (8% per year)<sup>119</sup>. Taking account of global loans, EIB funding for regional development reached 133 billion in 10 years.

Regional lending policy during the 1990s was a continuation of the priorities of the 1980s, but

<sup>113</sup> EIB, *Annual report 1987*, 1988, p. 24.

<sup>114</sup> EIB, *Annual report 1989*, 1990, p. 19.

<sup>115</sup> EIB, *Annual report 1991*, 1992, p. 27.

<sup>116</sup> EIB, *Annual report 1997*, 1998, p. 11.

<sup>117</sup> EIB, *Annual report 1992*, 1993, p. 19; *idem*, *Annual report 1993*, 1994, p. 19.

<sup>118</sup> EIB, *Annual report 1995*, 1996, p. 24.

<sup>119</sup> EIB, *Annual report 1999*, 2000, p. 13.

with a significant development: the dual focus on the Mediterranean countries and the industrial reconversion areas of Northern Europe was gradually compromised by the funding granted to Germany's eastern Länder, the amount of which rapidly increased to 340 million in 1991, and to 1 202 million as from 1993<sup>120</sup>. In 2001 it became apparent that there was a dual focus on two main areas: the cohesion countries and the Mezzogiorno on one hand and Germany's eastern Länder and the candidate countries on the other. This new polarisation became far more evident on the eve of the enlargement in 2003: taking into account the individual loans granted in underdeveloped regions, which amounted to 16.1 billion, nearly 80% was shared between cohesion countries, the Mezzogiorno and the eastern Länder<sup>121</sup>. This new geography within the Union thus formed part of an overall dynamic of which preparation for enlargement to the East was a major element.

### 3.3.2. Integrating Central and Eastern Europe

While the bank granted its first loans to Poland and Hungary from 1990, it was the decision taken by the European Council of Luxembourg of December 1997 to start accession talks with 10 new countries that prompted the accelerated growth in the bank's interventions in Eastern Europe until 2004. The bank thus received a general mandate covering the entire region, with the amount of its loans fixed at 3 520 million for the period January 1997-January 2000. Added to this mandate was the implementation of a pre-accession mechanism

set up by the bank without a Community guarantee, for an equivalent amount and expiring on the same date<sup>122</sup>. These two arrangements were renewed in 2000 through a new European Union mandate amounting to 8.7 billion, covering the period 2000-2007. At the same time the bank raised the amount of its previous pre-accession mechanism to 8.5 billion for the period 2000-2003. As a result the EIB became the principal source of finance for all candidate countries and its loans, the annual sum of which was just under 1 billion until 1996, subsequently increased at a steady rate, reaching EUR 4.5 billion in 2003. Twenty-five billion in total was lent to Central and Eastern Europe between 1990 and 2004. This financing supported the work of European Union programmes such as PHARE and ISPA. In line with a policy that was constantly developed during this period co-financing between the EIB and these programmes increased, while cooperation with the EBRD and the other international financial institutions also developed in the pre-accession years. Overall, the bank's financing effort focused primarily on transport and telecommunications, the environment, energy, human resources, industry – through foreign investment support – and SMEs. In reality, as accession neared the financing earmarked for the area became closer in structure to that of all of the EU countries, while from 2002 the bank applied the same objectives and criteria to the projects of the new Member States as it did to the operations carried out by the Fifteen<sup>123</sup>.

However, the integration of 10 new members in 2004 by no means meant the end of the bank's

<sup>120</sup> EIB, *Annual report 1993, 1994*, p. 41.

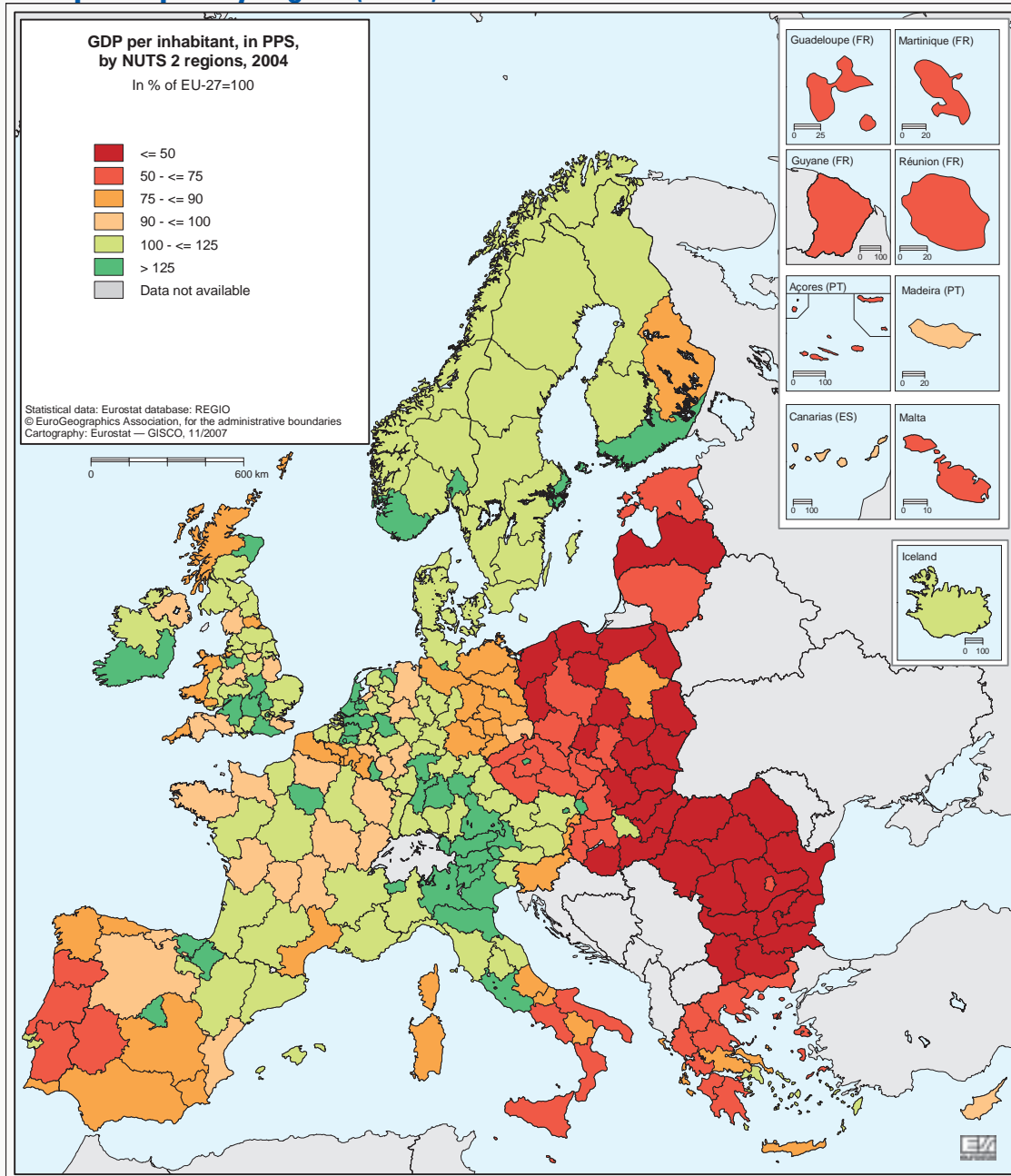
<sup>121</sup> EIB Group, *Activity report 2001, 2002*, p. 11; *idem, Activity report 2003, 2004*, p. 11.

<sup>122</sup> EIB, *Annual report 1997, 1998*, p. 35.

<sup>123</sup> EIB Group, *Activity report 2002, 2003*, p. 24.

Map 12

**GDP per capita by region (2004)**





*Inauguration of the EIB's FEMIP (Facility for Euro-Mediterranean Investment and Partnership) in Barcelona on 18 October 2002, in the presence of the finance ministers of the 15 Member States and of the ministers for economic affairs and finance of the 12 Mediterranean partner countries. Shown in the photo, from left to right, are: Pedro Solbes, European commissioner, Jordi Pujol, president of the Generalitat de Catalunya, Rodrigo Rato, Spanish minister for economic affairs, and Philippe Maystadt, president of the EIB.*

operations to help the area they comprised: the EIB's activity in the underdeveloped regions of the Union henceforth concerned 190 million people, a figure to be compared to the 110 million at the end of the 1980s following the accession of Spain and Portugal<sup>124</sup>. Is it possible moreover to speak of a split between the current European Union and its extensions to the East? Until the point at which they became Member States, the bank developed the same instruments for Bulgaria and Romania as it had for the 10 previous acceding states. It continued this activity via increased funding granted to the candidate countries and the eastern Balkans in anticipation of their integration in the longer term. These activities also extended further east towards Russia, which received an initial loan in 2003, then towards Ukraine, Moldova, Belarus and, finally, towards the southern Caucasus region. In addition to environmental protection the aim was to create better links between the Union and these regions through the extension of major transport, telecommunication and above all energy networks<sup>125</sup>.

### 3.3.3. The Mediterranean

Having intervened in the Mediterranean since the second half of the 1970s, the bank has supported Community policies not only in the Maghreb and the Middle East, but also in Malta and Cyprus as well as in Yugoslavia, in particular with the aim of funding land-based transport infrastructure between Greece and the Community. It has also been operating in Turkey since the 1960s. It has developed its activities there through a series of financial protocols which are renegotiated periodically – from 1982 to 1987, and from 1988 to 1991, etc. The highest amount of aid went to the candidate countries Portugal and Spain, until their accession in 1986. Yugoslavia and Turkey were the two other main beneficiaries of the loans in the Mediterranean area: they grew from 288 million in 1982 to 525 million in 1985. The Maghreb and, in the Middle East, Egypt, increased in importance during the second half of the 1980s: between 1988 and 1992 they alone received 60% of a total of 1 606 million granted to the Mediterranean basin<sup>126</sup>.

<sup>124</sup> EIB Group, *Annual report 2006*, vol. I, *Activity report*, 2007, p. 16.

<sup>125</sup> EIB Group, *Annual report 2006*, vol. I, *Activity report*, 2007, pp. 38-47.

<sup>126</sup> EIB, *Annual report 1992, 1993*, p. 112.



*A 250-bedroom international-class hotel co-financed by the EIB in Bethlehem in 1998. Designed to accommodate travellers visiting the Holy Land, the hotel is the first facility in this category in Palestine.*

## Investing in peace: the EIB in Palestine

When the Oslo Agreements relaunched the Israeli-Palestinian peace process at the end of 1993, the European Union decided to increase its aid for the development of the Palestinian economy in order to support this progress. Community funding took the form of non-repayable grants taken from the Community budget and of EIB loans.

In October 1995, the bank concluded a 'support agreement' with the Palestine Liberation Organisation (PLO). From then until 1999 it granted 19 loans amounting to EUR 230 million to the autonomous territories of Gaza and the West Bank. These loans were used for infrastructure works, SMEs and tourist projects. In 2000, following the second intifada, the collapse of the Palestinian economy forced the EIB to suspend its operations.

Five years later, following the Israeli withdrawal from the Gaza Strip and the implementation of the Wolfensohn action plan, the EIB resumed its activities in Gaza and the West Bank. Particular emphasis was placed on SMEs, which occupy a prominent position in the Palestinian private sector. Working alongside KfW and the European Commission, the bank thus helped to set up the Euro-Palestinian Credit Guarantee Fund (2005), with the aim of providing subsidies, loans and technical assistance to Palestinian SMEs. Economic activity in Palestine and the possibilities of assistance from the EIB remain largely dependent today on the development of the political situation and of security conditions.

*Arthe Van Laer*



*In 1998, the EIB helped fund the Lesotho Highland Water project, the aim of which was to build a series of large facilities (dams) designed to transfer water from the mountains of Lesotho to industrial regions of the South African Republic experiencing water shortages. The project was one of the largest infrastructure facilities built in Africa at the end of the 1990s. The EIB contributed up to 99 million euros, thus covering nearly 11% of the cost of the project.*

In 1992 a reformed Mediterranean policy was introduced combining a series of bilateral protocols signed with the various partner countries and designed to support the productive sector and economic reforms with a 'non-protocol' section devoted to horizontal cooperation through regional projects in the transport, energy and telecommunications sectors or relating to the environment<sup>127</sup>. The bank's financing activities for the Mediterranean basin were restarted by the Euro-Mediterranean Conference of Barcelona in November 1995. The Union's objective was to support the Middle East peace process by promoting dialogue and regional development under the aegis of a broad Euro-Mediterranean partnership. The long-term aim was to implement a large free trade zone in this area by 2010<sup>128</sup>. Although this project may have seemed very ambitious, it was not subsequently neglected and indeed prompted an increase in investment from the bank in this field. The bank devoted EUR 5 890 million to the Mediterranean area between 1998 and 2002, with the money being shared between Turkey (1 628), the Maghreb (2 551) and the Middle East (1 711). In October 2002 the bank brought

together the finance ministers of the EU countries and their Mediterranean partners in order to restart the cooperation process. The meeting resulted in the creation of FEMIP (Facility for Euro-Mediterranean Investment and Partnership), which was part of the extension of the Barcelona process. The main aim of the new facility was to strengthen the private sector through support for local initiatives and assistance for direct foreign investment, on the basis of methods similar to those used in Central Europe at that time. This approach put particular emphasis on businesses, infrastructure, human resources and the environment. It was developed through a combination of loans, in particular via local financial intermediaries, and venture capital financing. From 2002 to 2006 more than EUR 6 682 million was mobilised in this way, of which 2 791 million went to the Maghreb, 2 292 to Egypt, and 1 609 to the other countries of the Middle East<sup>129</sup>. The mandate which the Council entrusted to the bank for the period 2007-2013 should enable a doubling of in the funds channelled towards this region.

<sup>127</sup> EIB, *Annual report 1990, 1991*, pp. 48-49.

<sup>128</sup> EIB, *Annual report 1995, 1996*, p. 17.

<sup>129</sup> EIB Group, *Annual report 2006*, vol. III, *Statistical report, 2007*, p. 41.



### 3.3.4. From the ACP countries to Latin America and Asia: continuity and redeployment of measures

Beyond the Mediterranean, Africa faced a number of serious difficulties that made support from the EIB even more necessary. The implementation of the Lomé II Convention (1981-1985)<sup>130</sup> coincided with very serious difficulties for the region's countries: a reduction in the price of exported raw materials, a worsening of climatic conditions, a slowdown in economic growth and the excessive external debt of certain countries. The trend in the volume of loans – 207 million in 1981, 159 million in 1982 and 136 million in 1983 – shows the difficulty the bank had in financing projects corresponding to its criteria. This succession of loans was followed by a slow recovery, with 160 million granted in 1984, a year in which 'a limited number of investment opportunities'<sup>131</sup> was recorded, and 235 million granted the following year. Consequently, under Lomé II the bank was able to commit only 82% of the ceiling for loans from own resources (685 million).

A quarter of the financing for the period was also devoted to the renovation of industrial facilities that already existed but that were often shut down as a result of economic problems.' The Lomé III Convention (1986-1991) was an extension of the Lomé II measures, in particular with regard to the regeneration of production plants<sup>132</sup>. However, its implementation highlighted once again the difficulty in reaching the

authorised ceilings: in total the bank's aid amounted to 1 347 million, compared to 969 for Lomé II. Lomé IV, which covered the period 1991-2001, increased the amount of investment previously earmarked for the private sector, which was further extended by the Cotonou Agreements signed in 2003. The EIB found itself entrusted by the Council with a five-year task to implement a 2 200 million investment facility, operated as a revolving fund and supplemented by loans from the bank from its own resources amounting to 1 700 million. The majority of this was earmarked for small-scale private investments in the productive sector and in the fields of health and education. The bank expected returns from the operations of this investment facility, in order to balance the accounts and to ensure that it developed independently. This is why this quasi-fund was managed by an autonomous body within the bank, whose objective was to 'reinforce the EIB's role as the European development finance institution (EDFI) for refundable aid'<sup>133</sup>.

Developing the bank's activity in Asia and Latin America did not involve the same problems as in Africa, despite the fact that these regions had had their share of crises since the 1990s. The bank stepped up its efforts there from 1993, mainly by supporting the development of European business activities: the geographical distribution of the bank's loans was almost identical to that of European direct investment in these two continents (two thirds in Latin America and a third in Asia between 1993 and 2004, with loans amounting to EUR 3.5 billion)<sup>134</sup>.

<sup>130</sup> For the EIB's activities since the 1960s, review Chapter 3 of Parts 2 and 3 of this book.

<sup>131</sup> EIB, *Annual report 1984*, 1985, p. 71.

<sup>132</sup> EIB, *Annual report 1986*, 1987, p. 69.

<sup>133</sup> *Courier ACP-EU*, May-June 2003.

<sup>134</sup> *European Investment Bank loans in Asia and Latin America*, EIB, Luxembourg, 2005.

The bank's activity since the 1980s is therefore part of a dynamic of areas whose breakdown does not entirely coincide with the conventional classification of EU Member States, candidate countries and third countries. In fact it may be interpreted as having helped to promote an economic and social development model through a range of instruments that far exceeded mere financial support, including in particular cooperation with the Commission and other institutions. The

world according to the EIB therefore consists of an enlarged nucleus that is being enhanced by the economic and social model at the heart of the Union, of neighbouring areas to which the model tends to be distributed in necessarily specific forms, and of extensions overseas where the bank's action is more compartmentalised and is at times part of an increasingly specific approach.

*Éric Bussière with Arthe Van Laer*





# Part Five



The identity  
of an institution

# The problematic transfer of the EIB to the Grand Duchy



*Like a 'sentinel placed at the entrance to the bank headquarters' the giant chair by Magdalena Jetelova (Czech Republic), is also a tangible indication of the attention the bank pays to trends taking shape and flourishing in the artistic world. As a participant in the Art in Kirchberg initiative in which 'companies provide an opportunity to view their private art collections', the bank subscribes to the idea that 'art and life no longer belong to two different worlds. Art can be experienced day by day, and as such it should maybe not be confined to the special and private places'. The EIB collection is rooted in the second half of the 20th century, and is 'focused on the different EU countries, it represents [...] a retrospective of art in Europe'.*

On 2nd March 1965 the Council of Foreign Affairs Ministers from the six countries then constituting the European Community defined the arrangements governing the merger of the three executive bodies of the ECSC, the EEC and Euratom. The event was celebrated as a great success by supporters of increased integration, but among the vast majority of the EIB's staff the news was greeted with feelings which were mixed to say the least. In fact this is rather an understatement, because in reality, given that *inter alia* the Community foreign ministers had decided to shut down the EIB's Brussels offices and transfer them to the capital of the Grand Duchy, 'several senior executives and a high percentage of secretaries' immediately handed in their resignations. They frankly had no desire

whatsoever to undergo a relocation that they felt would harm either their subsequent professional career or their family situation. As for those who accepted either willingly or unwillingly to set out for Luxembourg, most of them had the feeling they were being banished. This is not an exaggeration, on the contrary it reflects the distressed state of personnel, who since the spring of 1958 had 'got down to work enthusiastically', striving to give this 'completely new type of financial institution', a quite distinct identity. They now feared that this emerging identity would be tarnished or even completely destroyed by the obligation to work in 'spiritual isolation' in a city not particularly renowned at that time for being open to the world at large<sup>2</sup>.

<sup>1</sup> Verhoeven, P., 'Art in Kirchberg: fostering corporate culture and creativity', *EIB Information*, no. 129, 2007-4, p. 18

<sup>2</sup> EIB archives, 31.0069, box 1, board of directors, '13 March 1968; Notiz für Meyer-Cording, 16 March 1965'; Articles 0142, 'La Banque européenne d'investissement', *L'Europe des Européens*, *ibid.*, no. 20, 1976.

### 1.1. Outcry against an unwanted move

In truth, the bank's staff feared the move would be a disaster. They 'judged they would be unable to work in satisfactory conditions in Luxembourg', owing in particular to the ending of their close proximity not only to the European Commission, but also to certain specialised institutions such as the European Agricultural Guidance and Guarantee Fund (EAGGF), the European Development Fund (EDF) and ad hoc bodies such as the association committees. Regular exchanges with the directors of the various Community bodies were of great importance.

If they were to be cut or become less frequent and less individualised 'harmonious functioning of the bank [would be] jeopardised.' As a result, 'moving from Brussels would also compromise relations [...] with the six [member] States via their permanent representatives'. During the first few years of the bank's existence the physical proximity of COREPER had considerably enhanced the preparation of dossiers, if only because direct access to the official delegations of Community member countries had relieved the bank's employees of the need to use methods that would have been costly in terms of both time and money<sup>3</sup>.



*The solidarity built up by EIB personnel during its ten year sojourn in Brussels is threatened by the departure for Luxembourg. – The canteen on Boulevard de Waterloo.*

<sup>3</sup> EIB archives, 31.0069, box 1, verbal note from Le Portz, 14 November 1963; 15.0008, Possible transfer of the EIB headquarters to Luxembourg, 4 February 1964.





*Most EIB employees saw the transfer to Luxembourg as banishment to one of the remotest corners of Europe. Left, Findel airport in the early sixties.*

Besides, the remark was valid, especially given the constantly increasing volume of loans contracted by Greece, Turkey, African states and Madagascar. All these countries had signed association treaties with the EEC and had accredited diplomatic missions to the Commission in Brussels. However they did not maintain any embassies or legations in the Grand Duchy. Management of routine business would therefore give rise to endless going back and forth, further complicated by the rather inconvenient road and rail links between the Belgian and Luxembourg capitals. As for means of transport, the Zaventem air terminal provided 'rapid connections in all directions, and has greatly facilitated the creation of a network of links, without

which [the EIB] would be diverted from its very purpose.' Would the landing strip at Findel offer timetables and a range of flights as good as Zaventem? President Paride Formentini refused to believe so. And this irritated him particularly because unlike other European civil servants, who were 'essentially sedentary', the senior managers of his institution were 'required to travel frequently'<sup>4</sup> especially to the Mediterranean region and sub-Saharan Africa. The embryonic state of air traffic at Luxembourg was threatening to complicate their lives unnecessarily.

Worse still, since 'any bank functions through the information it receives through daily contacts [...] by its personnel concerning trends in

<sup>4</sup> EIB archives, 31.0069, box 1, note on the disadvantages of a transfer to Luxembourg [...], 14 January 1964.

the financial markets, the prospects in different economic sectors, the possibilities for investment, etc.', the relocation could have resulted in the 'virtual paralysis' of vital communication flows. The EIB managers felt this ominous premonition was confirmed by the fact that the city of Luxembourg only possessed 'the characteristics of an international financial [and] banking market place in a superficial manner and to a limited extent'. In other words there was a risk that sooner or later it would become completely marginalised. In any case, in Luxembourg the bank would be deprived of two crucial sources of information: the Brussels offices of the Union of Industries in the European Community (UNICE) and the Banking Federation of the EEC. Thanks to the relations of mutual trust fostered with these powerful lobbies, the bank's managers had been able to complete identifying the range of indicators serving as a basis for their financial decisions. Obviously the secrets communicated in their private conversations with these elite groups from the business world often proved to be extremely useful. In addition, at the same time these informal meetings with pressure groups gravitating around the European Commission enabled senior EIB officers to carry out careful self-promotion, disseminating an extremely positive presentation of their institution to interested circles and targeting their interlocutors very precisely, since no third parties were present to act as a filter. According to them, it would be impossible to operate in a similar manner in the Grand Duchy. There was 'not even a journalist of any repute' who could be used for propaganda purposes<sup>5</sup>!

Finally, the hostility towards this transfer derived its strength from the bank's past experience. During its the seven-year life it had suffered on three occasions from the inconvenience of packing up and moving. After just a few months the bank had to leave its first domicile at the headquarters of the Belgian National Bank, Rue du Bois Sauvage, a stone's throw from Saint-Michel cathedral. The BNB wanted to regain possession of offices which had only been made available to the EIB on a temporary basis to help the institution launch its activities while the BNB waited to move into its own premises which were 'in the process of completion'<sup>6</sup>. This finally came to pass in October 1958 when the Belgian government handed over the keys to no. 11, Mont des Arts. The situation of the offices was truly ideal. They were in a strategic location opposite the Coudenberg esplanade and right next to the central railway station, just a few minutes walk from the main Brussels banks. In addition, by happy coincidence the services attached to the EEC Council of Ministers were housed in an adjacent building, which further increased the attractiveness of the site. This was only a first impression however, because living next to this famous neighbour soon proved to be a problem, not only because from the start the EIB had limited scope for expansion, but also because it was soon confronted by the needs of the Council secretariat. Owing to a lack of space to house its rising staff numbers, the Council asked the EIB to move out, so the bankers once more had to start looking for a new home. This time they chose a beautiful spacious building standing at the corner of

<sup>5</sup> EIB archives, 31.0069, box 1, verbal note from Le Portz, 14 November 1963 and Notiz für Meyer-Cording, 16 March 1965.

<sup>6</sup> EIB archives, 6.1446, minutes of the management committee meeting, 24 February 1958.

## Pietro Campilli's opinion concerning the subject of the Communities' headquarters in 1958

'The European Community must of course have a capital which should be its own capital, and by its geographical position and its structural and functional aspects should have all the necessary characteristics.

This is why I wish to see a European district created, characterised by a specific status, and with its own identity in relation to capitals of Member States. For various reasons so obvious as not to require listing, I feel that the European district should be positioned close to a major city capable of providing the necessary infrastructure in order to integrate the services vital to smooth operation of the Community's institutions. I would add that concerning the European Investment Bank, this city must provide all the facilities of a leading financial market place [...].'

*Extract from a letter from Pietro Campilli to Victor Larock, Belgian Minister of Foreign Affairs, in answer to a letter sent by the latter on 31 May 1958 asking him for his opinion on the subject of the Community headquarters, 19 June 1958, opinion of the presidents of the European Communities concerning the choice of the Community's headquarters, Council of the European Atomic Energy Community, 23 June 1958, 615f/58 ao.*

Boulevard de Waterloo and Place Jean Jacobs, near the Law Courts. The nine-storey structure – it had formerly housed an insurance company – was to become vacant at the beginning of February 1965 ..., i.e. just thirty days before the fateful decision of 2nd March by which the six governments ordered the EIB to move to Luxembourg!

It was hardly surprising that Paride Formentini and his deputies Yves Le Portz and Ulrich Meyer-Cording were so dismayed, given the circumstances. However the bitterness caused by the

need to put the bank's dossiers back into cases that had only just been unpacked was not the only reason. It went along with the despondency generated by a setback which the three members of the management committee found hard to accept. Ever since rumours about a possible move for the headquarters of their institution had intensified a year and a half previously, they had worked ceaselessly behind the scenes to find a way of countering plans for a potential transfer. First of all they tried to mobilise the bank's governors – the finance ministers of the Six member states<sup>7</sup> – by

<sup>7</sup> Concerning the EIB management bodies, refer to Chapter 2 'People and structures', pp. 289 et seq.

*After the years spent at Mont des Arts the bank moved to Boulevard de Waterloo, below the gigantic Law Courts building designed by Joseph Poelaert. A month later it learned that the decision had been made to transfer it to Luxembourg.*



drawing their attention to the 'extremely serious operating difficulties' that would be caused by an imprudent decision, then they literally besieged several high-ranking figures, including the head of the Quai d'Orsay, foreign minister Maurice Couve de Murville, his Dutch counterpart Joseph Luns, and the permanent representative of the Federal Republic of Germany to the Commission, Günther Harkort. In private these gentlemen always showed great understanding for the concerns of the EIB, but – with the exception of the Dutch minister, who for a time openly argued in favour of the status quo, before quickly revising his position – nobody took it upon themselves



*The Mont des Arts building was erected on the site of a public garden and was the subject of an architectural competition launched in 1937. It housed the Conference Centre and the Royal Library of Albert 1st and was built between 1954 and 1969. The bank's staff therefore overlooked a building site on a daily basis.*



to defend the interests of the EIB tooth and nail in the international negotiations<sup>8</sup>. The reason for this was fairly understandable: faced with the major political issues raised by such a complex and difficult question as the merger of the European executive bodies, the bank's desiderata simply did not count for much.

## 1.2. The involvement of high level European politics

The institutional transformation of a united Europe was the ultimate cause of the EIB's move to Luxembourg and was the result of a laborious

process. Things began at the end of 1959, when the Action Committee for a United States of Europe made two suggestions: (i) to substitute a single executive body for the ECSC High Authority and the two Commissions of the EEC and Euratom respectively; and (ii) to simultaneously merge into a single body the three councils of ministers that were functioning separately for each of the three Communities. Although the benefits of this 'face-lift'<sup>9</sup> lay more in the public relations domain than in a fundamental rationalisation of the various agencies, the concept of a merger was progressing. A year later the Parliamentary Assembly at Strasbourg tackled the subject. It not only declared itself in favour of the introduction of a 'joint High

<sup>8</sup> EIB archives, 6.1446, board of governors, 10 February 1964; *ibid.*, 6.892, board of directors, 13 March 1968; *ibid.*, 31.0069, box 1, handwritten note from a diplomat at Couve de Murville's office to Le Portz, 5 August 1964.

<sup>9</sup> Quote by the head of the French delegation to the Council of Ministers on 24-25 July 1961. Robert Schuman – Luxembourg Centre of European Studies and Research (CERE), Borschette Fund [hereinafter FB], note [from Borschette] on the merging of the Communities' Executives, 2nd September 1963.

Commission', but also demanded that this commission should be appointed by the Assembly's members. However, hopes of obtaining greater powers for the Assembly in this way came up against Charles de Gaulle, who on the contrary was looking to block any extension of the powers of Community institutions by means of an institutional reform that would guarantee the pre-eminence of a new Council of Heads of State and Government (Fouchet plan).

In the short term this increased politicisation of the issue suited the Luxembourg government headed by Pierre Werner. For as long as Paris refused to play ball with its partners, Luxembourg could take cover behind France to prevent a rearrangement of the European playing field, which they also did not want to see. Of course the reasons for their reluctance were quite different from those of de Gaulle. Unlike the president of the 5th Republic, they were not seeking to hinder the process of integration in itself. They were simply worried about the negative repercussions of an initiative which they knew would 'inevitably and unavoidably' lead to the disappearance of the High Authority, the jewel in the crown of the institutions created in the first Community by the Schuman plan which, as 'temporary place of work' chose to be located in Luxembourg in August 1952. While it was true that Werner and his colleagues - first and foremost his foreign minister Eugène Schaus, and Albert Borschette, the permanent representative to the Communities - were aware that the executive of the ECSC 'has seen its power and prestige successively reduced'<sup>10</sup>, nevertheless

its elimination in favour of a single Commission established in Brussels would constitute a tremendous loss for their country.

How should we understand this apparently contradictory position? Until the early fifties the world did not pay much attention to Luxembourg. Foreign ambassadors accredited there could be counted on the fingers of one hand and the correspondents of the major international daily newspapers who found their way there were hardly more numerous. The institution of the coal and steel pool completely changed this situation. Suddenly the name of the Grand Duchy was to be found in the most illustrious press outlets. Its capital saw the arrival of a succession of diplomatic missions, parliamentary delegations, trade union representatives, etc. All of them came running to discover this laboratory for European construction, and thereby the country that had welcomed the most important of these new institutions. A national of a large country may perhaps find it difficult to fully appreciate the rewards to be gained from such publicity. On the other hand, in a small country constantly obliged to assert and reassert its existence, the quest for recognition plays a crucial role. This is why Werner and his compatriots attached such a high value to the preservation, come what may, of the equation derived from a formula once put forward by Jean Monnet: Luxembourg = 'crossroads of Europe'<sup>11</sup>.

The spectre of being reduced again to insignificance was furthermore accompanied by a much more concrete and imminent danger. The absorption of the High Authority into a single executive

<sup>10</sup> CERE, FB, handwritten memo [from Borschette]; *ibid.*, Borschette to Schaus, 15 February 1964.

<sup>11</sup> Monnet, J., *Mémoires*, Fayard, Paris, 1976, p. 434. See also Schirtz-Croisé, E., 'La bataille des sièges (1950-1958)', *Le Luxembourg face à la construction européenne. Luxembourg und die europäische Einigung*, Robert Schuman Centre for European Studies and Research, Luxembourg, 1996, pp. 67-104.



*'Eugene on the Dragon Rock' – Eugène Schaus defends fortress Luxembourg and its 'European treasure' against both the French Republic, which refuses to accept the transfer of the Parliament to Strasbourg, and Brussels, which threatens to become the main winner in the merger of the executives, at the expense of the Grand Duchy.*

would undoubtedly lead to a haemorrhage of civil servants, required willingly or unwillingly to go to Belgium. This would concern roughly two thirds of the European civil servants resident in the Grand Duchy. Together with their families they represented roughly 4,000 consumers, whose strong purchasing power had come to make them a clientele very much appreciated by local commerce. Thanks to their presence, cultural life had visibly become livelier. Cosmopolitan and forward-looking, they had also stimulated a certain openness which was at last starting to bring the country out of its torpor. Were all these benefits to disappear into thin air? Was the 'city of Luxembourg going to become a miniature capital and a provincial town

once more'? The prime minister and his cabinet did not want to wait for the answers to these distressing questions to confirm their worst fears. Faced with the danger of a diminishing of their country's position 'both from a political and an economic viewpoint', they were determined to 'defend [their] national interests with frankness and no ambiguity'<sup>12</sup>.

This struggle intensified considerably in the autumn of 1963 owing to two parallel developments. On the one hand Paris had just changed its position. General de Gaulle was now prepared to negotiate the merger, subject to certain conditions. On the other hand, the Élysée's about turn gave partisans

<sup>12</sup> CERÉ, FB, permanent representatives' report, 18 December 1963; *ibid.*, Borschette to Schaus, 21 October 1963.

*In the early 1960s, by redeveloping the Kirchberg, the Grand Duchy of Luxembourg invested considerable sums of money in the development of community infrastructure. Obviously ministers Schaus and Werner were planning from the outset to get the best return from their efforts by attracting as many European civil servants as possible to their country.*

of a united Europe a fillip. After the difficulties of the previous months (failure of the Fouchet plan, French veto of British membership, etc.), more than ever they wanted to use the 'psychological advantages' of the institutional reorganisation to orchestrate 'a community revival'. This led to a notable weakening of the Grand Duchy's position. Schaus, Borschette and Werner found themselves with a mountain to climb. They were completely isolated, and the only weapon remaining to them was their capacity to 'annoy'<sup>13</sup> the others in order to obtain as many concessions as possible.

The means deployed were therefore above suspicion. The same applied to the ends to be achieved. From the very beginning the Luxembourg representatives informed COREPER, which in the meantime had been asked to carry out a study of the question, that it would be absolutely essential to plan for a prestigious replacement and material compensation. In short, they demanded that a political body should be installed in Luxembourg, able to have an equal impact to that of the High Authority to be sacrificed on the altar of the reform, and in parallel, community services whose staff numbers would to some extent offset the number of ECSC civil servants leaving for Brussels as a result of the changes. In the meantime, while Borschette recommended that a wait-and-see approach be adopted for tactical reasons, Schaus 'went on the offensive'. 'Tormented [by] the possibility that the problem of the headquarters might become a major theme of the election campaign' in the general elections scheduled in the Grand Duchy for June 1964, the foreign minister proclaimed to all and sundry that in future the

plenary sessions of the European Parliament should be held in Luxembourg!

This headstrong behaviour had serious consequences. It led straight to a dead end because it very quickly became clear that de Gaulle would never give up Strasbourg, while the Belgians, Dutch, Italians and Germans did not dare defy France since they were afraid of inconveniencing General de Gaulle for the sake of the 'little' Grand Duchy. Werner, who felt 'personally involved up to his neck in this business' because he had authorised his minister's actions, then took his responsibilities. The day after the elections – Schaus and his party were now in opposition – Werner formed a new cabinet in which, apart from the presidency and the finance portfolio, he also assigned himself responsibility for international relations for the duration of negotiations on the headquarters. His political skills would now consist in putting the finishing touches to the 'magic formula' which would enable Luxembourg to get out of this mess without losing face<sup>14</sup>. It was in precisely this context that the European Investment Bank was suddenly propelled into the forefront as a key component in the bargaining process aiming to renew a dialogue between the Six that had completely lost its way.

In conversations behind the scenes at COREPER the EIB had indeed been mentioned for the first time in October 1963. Apparently the idea of using it as a bargaining counter to appease the Grand Duchy was put forward by permanent representative Harkort! As for Borschette, initially he was not very enthusiastic. 'Objectively' – told his German

<sup>13</sup> Dixit Borschette. CERE, FB, unofficial interview at private home at Spierenburg, 7 December 1963.

<sup>14</sup> Werner, P., *Itinéraires luxembourgeois et européens*, t. II, ISP, Luxembourg, 1991, pp. 50 and 52; CERE, FB, Borschette to Wellenstein, 28 January 1964.





counterpart – ‘I think there are doubts about the appropriateness of such a step; Luxembourg is not a financial market’<sup>15</sup>. In addition the European credit institution would in any case be considered as a purely material compensation, although its 120 civil servants would not count for much. Little by little the initial objections nevertheless became transformed into a resolutely positive approach. The recent introduction of *interest equalization tax* in the United States and the subsequent blossoming of the euro-markets certainly contributed to this change. Borschette and Werner immediately saw the potential here for developing the Luxembourg financial sector. Seen from this angle,

control of the EIB might prove to be an excellent thing. Would it not be an ideal ‘locomotive’, capable of attracting other banks?

In addition to the need to accelerate the country’s economic diversification, strategic considerations also played a role. Indeed, after ruling out a move for the Assembly France had to produce an alternative solution. Couve de Murville was considering holding a number of Councils of ministers in the Grand Duchy’s capital. This ‘would enable Luxembourg to have its place in the limelight and for this city [...] would represent an advantage compared to the flickering and wavering light of the European

<sup>15</sup> CERÉ, FB, Borschette to Schaus, 21 October 1963.



*The two opponents in the 'headquarters battle':  
Paride Formentini and Pierre Werner.*

Coal and Steel Community'<sup>16</sup>. Even if it was necessary to ratify the Quai d'Orsay's suggestion at a later date, for the time being Werner said he was not satisfied. There were two reasons for this rejection. First he had to try to increase the stakes in order to fend off the attacks of Schaus, who in the meantime had started to launch bitter attacks against the government, accusing it of 'capitulating' to the powerful and selfish French neighbour<sup>17</sup>. Then the prime minister protested against COREPER's manoeuvring. Some were trying to neutralise the

Grand Duchy's opposition by granting it phantom organisations that only existed in draft form, or a hotchpotch of administrative departments that would be taken away from Luxembourg at the earliest opportunity, using as an excuse the need to rationalise the work of the single Commission. Werner wanted solid promises. The problem was how to reconcile this series of requirements, which were *sine qua non* conditions, without which his government could not and would not withdraw the '*non possumus*'<sup>18</sup> opposing the merger.

<sup>16</sup> Dixit Jean-Marc Boegner, French Coreper delegate. CERÉ, FB, Borschette to Werner, 15 January 1965.

<sup>17</sup> See different articles of the *Letzeburger Journal*, among others of 30 January, 26 February and 6 March 1965 respectively.

<sup>18</sup> CERÉ, FB, Werner's speech to the Chamber of Deputies, 24 February 1965.

It was Borschette who discovered the much sought-after way out of this predicament. He was the first to realise 'that the transfer of the European Investment Bank to Luxembourg is a factor that can facilitate agreement on an overall solution, owing to the nature of this institution.' His plan was based on the idea that it would be sufficient to group together services creating 'related units with defined missions' – in this case in the financial and monetary field – in order to create a 'pole of attraction' (another term used was 'pivot') around which other activities of the same type would crystallise. The advantages of the approach were obvious.

Firstly, by creating an organic link between the EIB at the centre and institutions pursuing similar activities in a broad sense, this would ipso facto introduce a certain 'role that Luxembourg could play in the community institutions as a whole'<sup>19</sup>. The vocation of the country's capital as a European headquarters would thereby be strengthened.

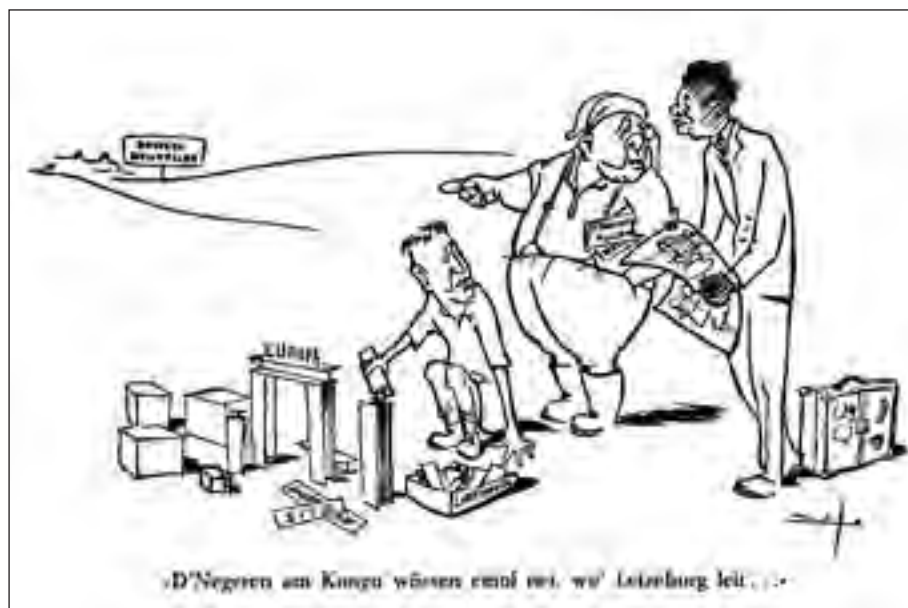
Secondly, the basic principle invented by Borschette could easily be transposed, e.g. to the legal domain. Just as the bank would represent the financial sector, the European Court of Justice, which it was planned to maintain in Luxembourg, could thereby become the core around which judicial and parajudicial bodies such as the competition regulation office would gravitate. Instead of an 'arbitrary' compromise born of chance, in this way the compensatory measures granted to the Grand Duchy would create a coherent ensemble, which would be easy to define since it would function 'autonomously', outside the single executive in Brussels.

Thirdly, in line with their definition, the pivots would be 'dynamic units likely to evolve in the future.' Werner was very confident about this aspect. His intention to transform the EIB into a kind of war horse to conquer the new European world installed in Luxembourg was inspired by his firm conviction that in the future the common market would be dominated by 'closer monetary cooperation'. This is why he momentarily set his sights on attaching the European Development Fund to the bank, or even creating an independent 'financial directorate general' that would be in charge of managing the three community funds: EDF, European Social Fund (ESF) and EAGGF, the last of which had been growing strongly since the launch of the Common Agricultural Policy. The prime minister's plans concerning the Monetary Committee followed roughly similar lines. He wanted to prevent at any price 'as part of a future development of monetary policy, institutions from being set up anywhere other than the bank's location, thereby leading to the possible creation of a European monetary reserve institution which our bank is not, and which would therefore reduce its potential to develop'<sup>20</sup>.

The technique adopted by the head of government to exploit to the full the Five's reluctance to treat the smallest member of the EEC too brutally by imposing a 'diktat', caused Walter Hallstein to react in the strongest terms. Until then the president of the Commission had shown the utmost restraint. But Werner's excessive appetite obliged him to drop his reserve. He opposed the planned transaction

<sup>19</sup> CERE, FB, note from permanent representatives, 12 October 1964; *ibid.*, Draft memorandum, early 1965; *ibid.*, ECSC 95 / EC 158, O.J.II 4, vol. 1131, 2 February 1965.

<sup>20</sup> CERE, FB, restricted meetings of the Councils from 10 to 12 November 1964; *ibid.*, Borschette to Werner, 8 October 1964; *ibid.*, Restricted meeting of the Council on 2 February 1965; *ibid.*, "Monetary committee" memorandum.



*'D'Negeren am Kongo wössens emol net, wo' Letzeburg leit...' 'The negroes in the Congo don't even know where Luxembourg is ...' – One of the arguments put forward against Werner's idea to attach the EDF to the EIB was 'the unease created concerning this subject in African circles in Brussels.'*

because he considered that attaching the accounting of rural aid and the EDF to the EIB was tantamount to scuppering Sicco Mansholt's department on the one hand and diverting the 'blood that flows in the veins of the overseas directorate general' on the other hand.

On the banks of the Seine the French took advantage of the situation to balk at the Grand Duchy's demand to include in the official texts a formal section indicating that all organisations whose 'activities correspond to those defined in article 130 of the treaty instituting the EEC' should henceforth be grouped together in Luxembourg. Paris preferred to keep to the '*de facto* situation'. Under no circumstances would its diplomats be prepared to 'commit themselves to vague demands concerning situations that may arise in the future.' At COREPER

nobody was fooled. In reality, Gaullist France was concerned that one day the paragraph in question might provide the Commission with a ploy to bring new institutions into being that would broaden the Community's powers<sup>21</sup>!

After more than eighteen months of 'manoeuvring that was annoying for our partners and rather humiliating for us', war-weary Werner and Borschette finally gave up. At the decisive meeting with their European colleagues on 2nd March 1965 they approved a perfectly respectable arrangement. Apart from the council of ministers – which held its sessions in Luxembourg in April, June and October and which it was assumed would put the country in the headlines of the world press several times a year – they also succeeded in keeping the ECSC's investment and levying departments in the

<sup>21</sup> CERÉ, FB, Borschette to Werner, 22 July 1964; *ibid.*, Words reported by the Belgian permanent representative; *ibid.*, Reactions to (Luxembourg's) memorandum ..., late February 1965.

Grand Duchy, attracting the Monetary Committee (shared with Brussels) and obtaining a vague promise concerning 'other community organisations and departments, particularly in the financial field'<sup>22</sup>. This was a wonderful consolidation of the concept of a European banking and financial pillar. In view of the three advantages listed above, the EIB's excellent growth prospects naturally led to the identification of a crucial asset: within a short time, 'the European Investment Bank will represent not only a material compensation, but also a political compensation'<sup>23</sup>! The prime minister was delighted. What could be better to swell his compatriots' national pride ..., and to cut off at source the criticisms of his former foreign minister?

### 1.3. Only the temporary is lasting

The political importance – both internal and external – acquired by the EIB issue during the final phase of the negotiations between the Six drove Werner quite logically to insist that the decisions made on March 2nd should be implemented quickly. Since the prime minister wanted 'to provide the bank with a building worthy of such an international banking institution', he invited president Formentini to consult with him as a matter of urgency. Several fundamental issues remained to be resolved. Because the Luxembourg authorities preferred to erect a new building immediately, it was necessary to agree as quickly as possible on the site. At the same time it would also be necessary

to discuss the adaptations needed to the building that would serve as the temporary bank residence, because Werner 'had no intention of allowing the EIB to invoke completion of construction of the new building [...] in Luxembourg, as a reason to delay its arrival'<sup>24</sup>. The Grand Duchy's haste was in complete contrast to the inertia shown by the bank's management committee. Its delaying tactics, facilitated by the EEC's 'empty chair' crisis, enabled it to obtain a respite lasting almost three years. But this delay was more of a Pyrrhic victory. In September 1968, when Formentini and his colleagues no longer had any choice but to obey instructions, it became clear that the only result of their last-ditch fight had been to needlessly prolong the time during which their employees would have to occupy temporary premises.

The patience of bank's employees was indeed sorely tested. As soon as they arrived in the Grand Duchy staff were confronted with an impossible situation dominated by lack of space and the need to improvise. Notwithstanding its impressive outward appearance, the main building allocated by the national authorities left a lot to be desired. Number 2, Place de Metz had previously been home to the ECSC High Authority and hardly met the needs of a modern financial institution. Behind a Belle Époque façade, the 'general appearance [of the interior ... was] rather forbidding. The corridors were narrow and high, pipes ran along the walls, the floor covering was ceramic blocks, and the lighting was insufficient'<sup>25</sup>. In addition, the original building

<sup>22</sup> CERÉ, FB, Borschette to Werner, 23 November 1964; *ibid.*, Borschette to Schaus, 20 November 1963; *ibid.*, Article 10 of the 'Decision by representatives of Member State governments concerning temporary installation of certain institutions ...'. Appendix to the merger treaty of 8 April 1965.

<sup>23</sup> CERÉ, FB, Borschette to Schaus, 15 February 1964, *op. cit.*

<sup>24</sup> EIB archives, 31.0069, box 1, note [from Lenaert] to the management committee, 31 January 1966.

<sup>25</sup> EIB archives, 31.0069, box 1, note for the management committee, January 1968.

designed for the needs of a railway executive did not have appropriate conference rooms. Also, with its 117 offices the building was initially too small to house all the departments. So it was necessary to find extra space. At first this problem was solved by renting a building on Rue Goethe. But the twenty or so additional rooms in this building were filled in no time, and so successive leases were taken out in the same street for a second, third, fourth and fifth house. Apart from numbers 19 and 21, none of these buildings was contiguous, so if you wanted to go from one department to another you had to put on your raincoat if it was raining or your coat if it was cold. On the other hand, the five addresses at least had the double advantage of being close to each other and a stone's throw from the bank's headquarters opposite the Pont Adolphe.

Meanwhile it was becoming increasingly difficult to keep the departments close to each other. With a 7% average annual increase in the work force and the arrival of a group of fifty recruits from the UK, Ireland and Denmark following the first enlargement of the European Communities, the EIB now had over 300 employees. The swelling of the ranks immediately led to an increased dispersion of the offices away from the buildings and streets already mentioned, in two residences on Boulevard de la Pétrusse, a few square metres rented at 14 Avenue de la Gare, and several flats occupied on Rue Bourbon. This difficult period even led the management committee to seriously consider the possibility of erecting 'a prefabricated structure in the courtyard of the Place de Metz building'<sup>26</sup>, taking the form of containers, which would solve the most pressing problems by providing space for 80 employees! In other words, the working conditions were starting

to become frankly catastrophic. The internal cohesion of the bank was under threat. Add to this the purely technical difficulties of coordination and communication between the different departments scattered all over the railway station district, and it was obviously increasingly difficult to foster a sense of team spirit between employees who rarely met each other. This meant that everyone was awaiting the inauguration of the brand-new building on the Kirchberg plateau with great impatience.

Six months before leaving Brussels the bank's management had expressed a preference for it to be located in the European district which was expanding on the north-eastern edge of the Grand Duchy's capital. Accordingly a group of envoys had half-heartedly begun preliminary discussions to broach the details of purchasing a site. But the process was suspended after a year. At that time what appeared to be a very attractive alternative suddenly presented itself: the Kredietbank Luxembourg was toying with the idea of parting with a building it owned right in the city centre. The EIB was on the alert. It immediately took out an 'exclusive' purchase option<sup>27</sup>.

The operation was particularly attractive because of the building's situation. It was next to the former Casino which Schuman Plan civil servants had used as a mess, and whose owner – the Luxembourg state – had offered it to the bankers anyway in case they did not want to move to Kirchberg. After discreet investigations it was apparent that other neighbours would be willing to sell in turn, and so the 'horizons' seemed to be most promising. The EIB would be in a position to acquire the whole of the block located between Boulevard Roosevelt

<sup>26</sup> EIB archives, 6.1447, note for the management committee, 18 October 1971.

<sup>27</sup> EIB archives, 15.C4 R/8, for the management committee, 13 February 1976.

*One major headache for the bank staff and management was where to park. Parking spaces around the headquarters on Place de Metz were hard to come by, and this was an additional argument in favour of moving to Kirchberg.*





and Rue Notre-Dame and extending from Boulevard Royal to Rue Philippe II, representing an area some 100 m long and 15 m wide. By building a seven-storey building here it would be possible to create enough space for 400 employees comfortably.

What was the bank to do in this situation? The management hesitated for a long time. A downtown location would of course be much more 'prestigious'. It would also have a number of benefits in terms of visitor access, due for example to the proximity of the railway station and the capital's hotels and restaurants. To top it all it would meet the wishes of most of the employees consulted on this issue. They were undoubtedly in favour of the Roosevelt project, which gave most of them 'the feeling of being part of city life', whereas a transfer to Kirchberg, which at the time was still rather deserted, aroused fears of 'isolation'. However, on the president's recommendation, the EIB's board of directors decided in December 1970 not to keep the bank in the city centre.

This choice took into account not only the opinion of 'several staff members with children attending school [and who] prefer Kirchberg due to its proximity to the [future] European school'; above all it was justified by three practical considerations. Rather than urban traffic jams, the directors preferred the 'fluid traffic' to and from the new European district, where in addition it would be possible to build car parks as required. This was a convincing argument at a time when the individual car represented the ultimate symbol of success in society. In addition the areas available at Kirchberg were extensive. They offered 'tremendous possibilities for expansion' at any time if the bank's work force was to continue to increase. Finally, the difference in cost proved to be considerable. One reason for this was that construction in the open countryside was less expensive because it eliminated a number of costs such as prior demolition of existing structures, and the difficulties of organising building sites in a densely populated urban environment<sup>28</sup>. This last factor was undoubtedly decisive.

<sup>28</sup> EIB archives, 6.1445, Comparison of advantages and disadvantages of each site, late 1970; *ibid.*, 31.0069, box 1, New EIB. First estimates, 22 October 1970; *ibid.*, Report on the choice of site, 7 December 1970.



*In 1970, as part of the 'Roosevelt' project the EIB purchased the house to the left of the former Casino. For several years this building was used as a staff training centre. The bank also held its official receptions here, pending the completion of the new headquarters.*

However this return to the initial project was not without difficulties and unforeseen expense. First of all the Urban Development Fund for the Kirchberg plateau had an unpleasant surprise in store for Formentini. Whereas the president and his colleagues had assumed the Luxembourg government would make the land required for the new building 'available to the bank free of charge', as was normal practice for buildings erected for the benefit of international organisations, the Fund underlined that it had had to buy the plot of land from private owners expropriated in the public interest. It was therefore obliged to balance its books and accordingly demand reimbursement. This incident was made more tiresome by the fact that the diplomat Guy de Muysers on the committee for coordination of installation of European institutions in Luxembourg and Pierre Guill, the director of the State savings bank and alternate director of the EIB (Werner had appointed him to deal with 'the practical details of problems' raised by the bank's arrival), had both given the bank to understand something else entirely. In their conversations with Formentini, and then from September 1970 onwards with his successor Yves Le Portz, they had 'confirmed' that the plot of land would be transferred for a 'symbolic' sum at most.

To unravel the misunderstandings caused by contradictory communications with the various Luxembourgers a summit meeting was necessary, with the participation of the prime minister and his minister for public works. Werner tried to calm everyone down. On the one hand he once more confirmed

'his agreement to exonerate the European Investment Bank from all fiscal obligations and charges due by virtue of the acquisition, construction or ownership of a building', in conformity with the privileges and immunities granted in the EEC Treaty. On the other hand, to reconcile the Fund's accounting requirements with the bankers' expectations, he suggested that 'the EIB could choose between buying the land on the basis of 15 million Luxembourg francs per hectare or having use of the land (perpetual lease) in return for payment of a rent.' The bank went for the first option. Its preference can be explained by another decision concerning the building to be erected, because instead of contenting itself with being the tenant of a building constructed by the Grand Duchy's government the EIB was determined to become the owner of premises built at its own expense. Since it would then be the owner of the building in its own right, it wanted to be the owner of the land on which its headquarters were to be built. In any case it was not running any risks since its leaders had protected themselves with a buyback guarantee by Luxembourg in the event that 'due to a political decision, the EIB were to be transferred' to another country. It is worth noting that the real price of the 2.5 hectares purchased in the autumn of 1972<sup>29</sup> was exceptionally attractive. After 'tight negotiations', the bank succeeded in ensuring that the already very low price proposed by Werner would only apply to the 'hectare that will house the buildings and immediate surroundings', while the remaining 1.5 hectares would change ownership on the land register for just 5 million<sup>30</sup>!

<sup>29</sup> Later the bank acquired other plots to enlarge its property.

<sup>30</sup> EIB archives, 6.892, Formentini to Werner. Draft, 14 February 1968; *ibid.*, 2.150, Formentini to Werner, 29th May 1968; *ibid.* 21.108, note to the management committee, 3 October 1969; *ibid.*, summary of an interview with Werner and Büchler, 19 May 1971; *ibid.*, note to Rosania, 12 October 1971; *ibid.*, Definitive agreement between the Kirchberg Urban Development Fund and the EIB, 13 October 1972.

*In their natural surroundings, the four wings of the building designed by Lasdun meet the requirement of establishing direct contact between Man and his environment.*



The delays accumulated in formalising the title deeds for acquisition of the plot went hand in hand with the vagaries of the construction project. The initial idea was to organise a short list of twenty-five architects 'according to their achievements in terms of buildings for offices, banks and international institutions, as well as their reputation. These architects must represent different architectural trends or schools.' However the results of the competition were disappointing. Only four participants submitted projects that could be considered valid. Even then the jury of experts consisting of the Swiss Paul Waltenspühl, the Dane Jørgen Bo, and the American Marcel Breuer were far from truly 'convinced'.

They invited the candidates to modify their drawings 'taking account of a number of remarks and considerations.' The four architects accordingly went back to work, making sometimes considerable changes to their original designs. Unfortunately none of the resulting projects was 'judged worthy [...] of being proposed for implementation'<sup>31</sup>. For the bank, the ruling of the three specialists meant that another year had been wasted without any palpable result.

Not entirely. At least one positive outcome from the unsuccessful first tender was that it enabled the bankers to define more clearly their vision for the

<sup>31</sup> EIB archives, extract from minutes of the management committee meeting 21 February 1968, CD-SG-7/68,; *ibid.*, 6.892, board of directors in London, 30 October 1973; *ibid.*, 15.0008, advisory committee's report, 8 July 1972.

future headquarters and the criteria the structure would have to satisfy. They realised that construction in several successive stages would entail such huge disadvantages that it would be more reasonable to envisage a fairly spacious building from the outset. The critical mass from the architectural point of view corresponded to a building designed for roughly 800 to 850 people, i.e. roughly two and a half times the current work force (in early 1973). Therefore it would be necessary to compensate for the problem of only using half the available space by temporarily letting some of the office space, in particular to the neighbouring Court of Justice whose recently inaugurated building was already proving to be too cramped<sup>32</sup>. Although the management committee was less than delighted with the prospect of having to put up with the presence of third party personnel in its own headquarters 'for a relatively large number of years', they were nevertheless quick to subordinate this reluctance to the ideal of suitable dimensions. Aesthetic considerations also brought about a change in their attitude to parking. Instead of the easy solution which would have been to park the cars on a square of asphalt outside the building, they now preferred to conceal them in an underground car park. This made it possible to integrate the surface made available into the greenery surrounding two sides of the triangular plot of land: to the north the wooded flank overlooking Val des Bons Malades; to the west a small forest belonging to the city of Luxembourg. At the same time, thanks to the disappearance of the car park, the view of the building from Boulevard Konrad Adenauer to the south-east would be completely uninterrupted. In this way Yves Le Portz would get his 'very fine prestigious entrance'

that he wanted to be the only opulent aspect of the building. 'All the other sections must be as functional as possible [and] unostentatious.' If this desire for sobriety, even a certain austerity, symbolising sound financial management were not to be respected – he continued as president – this 'would give a bad image of the bank'<sup>33</sup>.

There remained the problem of identifying the man capable of making the bank's dreams come true on the ground. In this respect the first enlargement of the EEC happened at just the right time. Whereas the bank's representatives had been focusing on architects from the six founding countries of the Community, they could now consult the Royal Institute of British Architects. The honourable club suggested three names. The EIB was particularly interested in Denys Lasdun & Partners. The head partner of this architectural firm had made a name for himself ever since he designed the National Theatre in London and the University of East Anglia in Norwich. At the end of October 1973 he presented his first draft design. It aroused 'very positive' reactions from the management committee. So it was that Lasdun was given the go-ahead to continue designing. In October 1975 he finally handed over a more detailed scale model.

The bank had presented the Briton with quite a challenge, to reconcile the 'apparent contradiction' between 'the main 'virtues'' of the EIB; i.e. 'a certain conception of security, balance and harmony' on the one hand, and on the other hand 'looking towards the future, to building the society of tomorrow, implying a certain pioneer spirit and daring'. Lasdun proposed to divide up the total floor area

<sup>32</sup> Contrary to the initial projects, it was the secretariat of the European Parliament rather than the Court of Justice that eventually occupied a number of offices in the EIB's new building, as a temporary tenant.

<sup>33</sup> EIB archives, 31.0069, box 3/1, board of directors, 30 April 1975; *ibid.*, box 4, note from Yves Le Portz, 22 July 1974.



*The Kirchberg building site was quite an achievement by the workers. Sometimes they worked day and night to catch up on the huge delays.*

of 36,000 square metres into a subtle 'cross shape with the four branches containing the standardised offices.' Each wing was to be 'dedicated to a specific bank activity', and each would also have its 'own character', accentuating the horizontal distribution of the layers of offices. A 'central core' would stand at the meeting point of the different wings of the structure. It would be used for vertical circulation between the four to seven floors, located according to the slope of the ground. The basic structure laid out in the four directions and surrounded by gardens arranged as a recreational area was intended to represent a 'junction' with both the outside world, which represented the bank's field of intervention, and the natural environment within which people live. Ecological concerns ahead of their time

(we are in the mid-seventies) combined with rejection of any kind of waste, were certainly omnipresent. This was expressed not only by the choice of materials that were occasionally basic in their simplicity (many exposed concrete walls and ceilings), but also through the sparing use of energy. In this last respect the building can legitimately claim to be exemplary. It 'has been designed so as to increase thermal inertia and exploit it in a rational way [...], in other words, to use the concrete mass to cool the building at night and release this cold during the day. This system [...] has made it possible to avoid installing air-conditioning consuming large quantities of energy. [...] Provision has been made for several lighting levels to reduce electricity consumption, particularly during maintenance periods'<sup>34</sup>.

<sup>34</sup> EIB archives, 31.0069, box 1, note [from Faudon], 19 December 1967; *ibid.*, 1.496, General data..., 24 February 1976; *ibid.*, 3.321, Visit to the building site, 25 July 1978. See also, Curtis, J.R., *Denys Lasdun. Architecture, City, Landscape*, Phaidon Press, London, 1994, p. 169.

In addition there was a desire to give the individual a pleasant and healthy environment in which to work. We should point out in this context that the professionals and support staff were involved in the planning process from beginning to end. Their representatives (*personnes de confiance*) were not just tokens, as is often the case. On the contrary they energetically defended the interests of the people they were representing. The disagreement about the average area of office space for each staff member is an excellent illustration of this. The architect suggested 15.5 square metres, which most of the members of the board of directors found 'so fantastic' compared to the norms practised in the public sector of their respective countries that they recommended that management should reduce it drastically. Nothing of the sort happened. The staff representatives successfully opposed this recommendation by producing from the archives a survey made of their European colleagues at the Court of Justice and the Commission, who had 16 square metres at their disposal. The disputes between the vast majority of employees and top management about cafeteria facilities, restaurant, recreational areas and especially the swimming pool ended each time in a victory for the staff. Although Le Portz was afraid that the 'luxury' represented by these facilities might cause people outside the bank to raise objections, he proved to be accommodating<sup>35</sup>. He gave in. Perhaps by doing this he wanted to calm down underlings increasingly annoyed on a daily basis by the seemingly endless construction work?

The construction phase itself proved to be an utter nightmare. 580 days behind schedule! Only 60 could be attributed to bad weather; the rest was

mainly Lasdun's responsibility. Driven by 'professional pride' and excessive 'perfectionism', the architect could not accept the ancillary elements developed by the engineering firms participating in the project. His 'scorn for the work of others' also meant that 'everything goes via him or comes from him, whether timely or untimely.' As a result 'no detailed drawings had been produced' by the end of the summer of 1976<sup>36</sup>. Meanwhile, to catch up on at least some of the delay, the bank decided it would launch the tender on the basis of a rather incomplete and approximate set of specifications. That was a big mistake. It was true that this manoeuvre made it possible to start work on September 1st, just a few days after the precise instructions for the workers had been received. But in the long run the rush to get through the steps in the procedure left a bitter after-taste. It caused countless unforeseen problems, for which the main contractor, Philippe Holzmann AG from Koblenz, naturally intended to be paid in addition to the agreed amounts. Taking everything into account, the original estimate was exceeded by approximately 30%. Here again, in the final analysis most of the increased costs were brought about by the architect. He modified the plans on several occasions without having the slightest consideration for the bank's opinion.

Confronted by this mess which was threatening to take on unacceptable proportions, Le Portz rang the alarm bells. Initially he considered simply getting rid of the architect, but finally opted for an intermediate solution that virtually put Lasdun under supervision: responsibility for management of the building contract was transferred from him to a firm of construction managers. Thanks to this

<sup>35</sup> EIB archives, 1.496, document XI, 30 April 1975; board of directors, 30 April 1975, op. cit.

<sup>36</sup> EIB archives, 31.0069, box 1, report [by Breuer] on visits to London [...], 28 May 1973; *ibid.*, box 3/2, note to Lenaert. Appendix, 27 October 1978; *ibid.*, box 2, AG/GT/76-1808, note to the working group, 17 November 1976.

*Grand Duke Jean of Luxembourg and his wife Joséphine-Charlotte during an official visit to the bank (August 1980).*



*August 1980: the banquet organised for the opening of the new headquarters. – The architect Denys Lasdun (in the centre) between the EIB vice-president Horst-Otto Steffe (on the right) and Henri Lenaert, secretary general, the person at the bank with chief responsibility for the construction project between.*



*Before launching themselves into the Kircheng adventure, the EIB management had been warned by a German colleague: construction of a building 'is always more expensive than you expect; it's never completed on time; when it's finished nobody is really happy with it; and above all, nobody takes responsibility for the mistakes made.' The fifth and last rule was that almost as soon as the building was finished 'it would prove to be too small!' – Thirty years after Lasdun, the architects Ingenhoven Overdiek & Partners designed a new structure next to the existing headquarters in order to satisfy the increasing demand for offices in a constantly expanding bank. How long before it will be necessary to replace this building with another one, even bigger ...?*



energetic action by the president it was possible to complete the work in much less turbulent circumstances.

In August 1980 the great moment at last arrived. After ten years of a nomadic existence in Brussels and twelve years wandering around the railway station district in Luxembourg, the long series of temporary solutions came to an end with the move to the new headquarters. It would seem that the staff and the bank quite liked the building. After all the country had changed considerably since the bank had moved to Luxembourg. Following the arrival of the first euro-banks in the late sixties, its capital had become one of the most important financial

markets in Europe. The EIB's presence had certainly played a role in this transformation, and in return the blossoming banking environment was stimulating the activities of the institution responsible for managing European investment resources. This state of affairs can certainly be described as a 'win-win' situation. In its way it confirms the convictions held by Eugène Schaus, Albert Borschette and Pierre Werner. With hindsight, their stubborn political struggle to achieve an integrated Europe that would respect rights and interests, in this case those of small member countries, has proved to be a resounding success.

*Charles Barthel*





The identity  
of an institution



## People and structures

An institution only thrives thanks to the men and women who embody it. They make it change, and these changes reflect the institution's adaptation to actual conditions and to the development plans that are made.

### 2.1. Up to the early 1970s

When the bank was officially created in January 1958, as with the other new European institutions, all that existed was a blueprint.

#### 2.1.1. 'Keep a light structure'

During the months between the signing of the treaties and the setting up of the new institutions, known as the interim period, one of the concerns expressed was the appointment of the EIB president and the men and women that would give substance to the decision-making bodies and the setting up of the institution.

Appointment of the president was not a simple formality. As Jean Monnet wrote to Chancellor Adenauer in December 1957: 'It is very important to consider together the presidents who are going to be appointed to the High Authority, the Common Market Commission, the Atomic Commission and the European Investment Bank, because if we are to have dynamic executive bodies we must have presidents who are competent and determined to take action, and also because in fact these presidents will

be required to conduct action in common'<sup>37</sup>. But these considerations, constituting an ideal, were not the only elements to be taken into account. In fact, the foreign affairs ministers were required to make a total of thirty-six appointments prior to the treaties coming into effect. These appointments included the bank's president and vice-presidents. In each member country the governing bodies engaged in a kind of alchemy combining political and diplomatic factors, not forgetting the question of the location of the new institutions' headquarters. For the bank the reasoning went as follows. If – once the question of the presidency of the EEC Commission and Euratom has been settled – the presidency of the ESCS High Authority is awarded to a German, and an Italian is made president of the Court of Justice, then the bank can be headed by a Dutchman or a Belgian<sup>38</sup>. But this was not what happened. The presidency of the bank was Italy's by right, and Italy made it perfectly clear to its partners that it did not intend to be deprived of this post<sup>39</sup>. Germany, which from the start had announced its interest<sup>40</sup>, and France, for good measure, each obtained a vice-presidency.

The appointments to these three posts became effective on 13th February 1958. In March the institution began its activities on the basis of recruitment deliberately restricted to 'a few people'<sup>41</sup>. The personnel were mainly quite young, with excellent qualifications, including the typist secretaries who had to be at least bilingual. By the end of 1958 a total of 66 people had been hired. Until the early nineties the tendency remained loyal to the original

<sup>37</sup> Bundesarchiv, Koblenz, Walter Hallstein Nachlass, 1276, letter from Jean Monnet to Walter Hallstein, 7 December 1957.

<sup>38</sup> Ibid., 1092, note from Carsten for the meeting of the German cabinet on 11 December 1957, Bonn, 9 December 1957, p. 4.

<sup>39</sup> Ibid., 1432, letter from Walter Hallstein to Konrad Adenauer, Alpach in Tirol, 30 December 1957.

<sup>40</sup> Ibid., 1092, note from Loens for Adenauer and Hallstein, 9 December 1957.

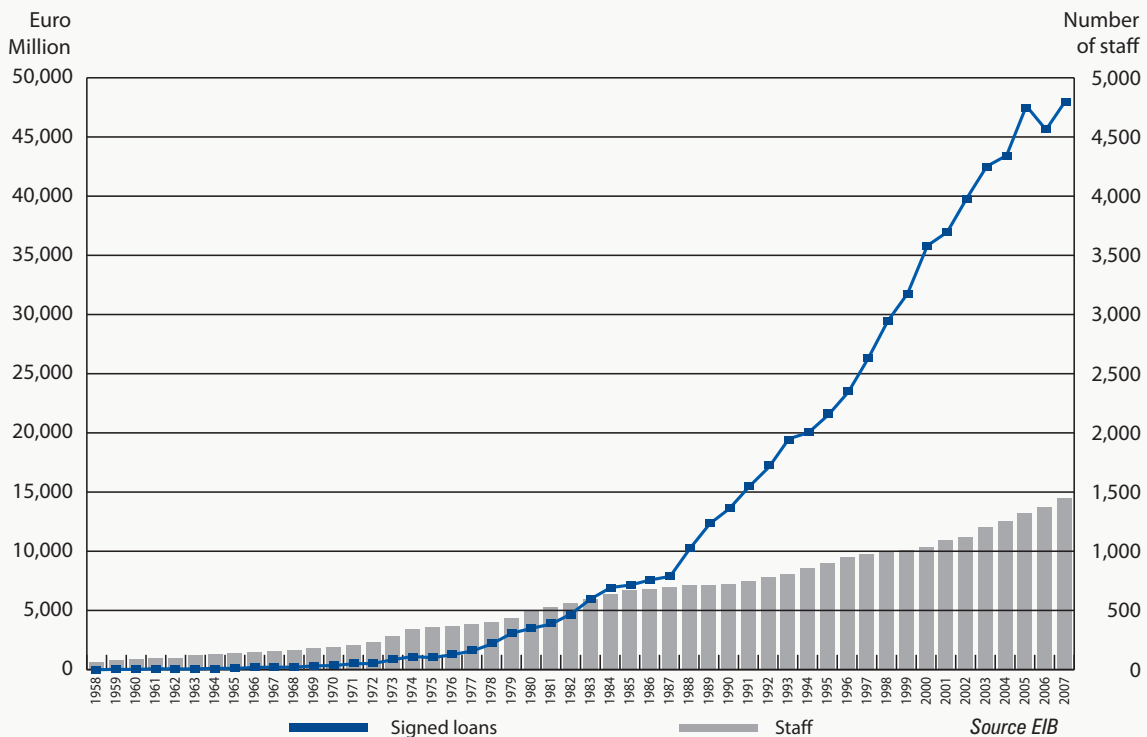
<sup>41</sup> EIB archives, minutes of the EIB management committee meeting on 20 March 1958, PV CD/PE/4/58.

watchword repeated once more in 1970: 'Keep a light structure for the bank [and] avoid increasing the number of staff, as far as possible'<sup>42</sup>. This line of conduct was backed up by another very important stipulation. In 1959 the secretary general wrote 'Also the number of lower-graded posts should not be too high. [...] By its nature, an organisation such as the EIB will always have a high number of intellectuals in relation to the number of support staff'<sup>43</sup>.

The staff were either professionals or support staff. Initially, as had been the case when the other new institutions had been set up, there were not a huge number of candidates for positions of responsibility, because 'to go and hole up in Brussels was of no interest whatsoever for people who wanted to have a successful career'<sup>44</sup>. Among the office staff Belgians were inevitably the most numerous. But in both categories it should be underlined that Germans occupied important

Graph 7

### Staff numbers increasing more slowly than lending amounts



<sup>42</sup> EIB archives, minutes of the EIB management committee meeting on 14 September 1970, PV CD/24/70.

<sup>43</sup> EIB archives, human resources department, unlisted file, draft note from J. Frère to the board of directors, 16 September 1959.

<sup>44</sup> Interview with Jacques Silvain, 12 December 2007.

positions, as if Bonn's sustained support since 1955 for the project for a fund and then a bank had encouraged Germany to make sure the project was subsequently properly followed up.

The administrative structure was simple. It consisted of the general secretariat headed by a Belgian, Jean Frère, and four departments: loans, finance and cash, research and legal affairs. A technical adviser was attached to the loans department. This department was quickly split into two; one in charge of loans in member countries, the other in associated countries<sup>45</sup>.

With the start of activity it was also necessary to set up the decision-making bodies stipulated by the treaty. The institution's governing bodies were the board of governors, the board of directors, the management committee consisting of the president and the two vice-presidents, and the audit committee.

Without there being any written rule, the board of governors was strikingly similar to a meeting of finance ministers – or the treasury minister in the case of Italy – from Member States. But the composition of national governments, which in certain countries sometimes changed quite frequently, had an immediate impact on the composition of the board of governors. No fewer than forty ministers were members of the board between 1958 and 1972. Among them the president of the Luxembourg government, Pierre Werner, could legitimately claim to represent continuity since he was on the board without interruption throughout this period. Four other ministers returned to the board owing to changes in the government of their

respective countries: the Dutchmen Zijlstra and Witteveen, the Frenchman Giscard d'Estaing and the Italian Colombo.

### 2.1.2. The board of directors

Until the first enlargement the board of directors was made up of twelve people (three for the large countries, two for Benelux and one for the EEC Commission), plus an equal number of alternates. The board of directors was seen as 'a command point for technicians coming from every corner of the European banking scene'<sup>46</sup>. The board did not have any permanent directors, and from 1958 until the end of 1972 a total of 33 people served, plus 35 alternates, 6 of whom became full directors.

These figures show that stability was the aim.

The EEC Commission was represented by the controversial Franco Bobba and Ugo Mosca, the two director generals who succeeded each other at the helm of economic and financial affairs, apart from a few months in 1958 when Jean Rey's chief of staff, Pierre Lucion, occupied the position. The alternates were mainly French, making representation of the EEC Commission a Franco-Italian affair. One of the alternates was Alain Prate, a future vice-president of the bank.

The three Benelux countries showed great wisdom, illustrating the old saying 'to live happily, live in hiding.' One of the two seats they held was occupied by a Belgian, Raymond Denucé, who was a director from 1958 to 1976. The second seat was

<sup>45</sup> This point is covered in greater detail in Chapter 3 of Part Two, pp. 98-99.

<sup>46</sup> *Entreprise*, no. 325, 25 November 1961, p. 29.

## Board of governors: composition and powers



*Board of governors meeting in 2004.*

The board of governors comprises the ministers nominated by each of the twenty-seven Member States, who are usually the finance ministers. It lays down credit policy guidelines, approves the annual accounts and balance sheets and decides on the bank's participation in financing operations outside the European Union and as well as on capital increases. It appoints the members of the board of directors, the management committee and the audit committee.

*EIB website consulted on 30th March 2008.*

allocated to the Dutch. Four people occupied it in succession, two of whom had previously been alternates. One of the two alternate posts filled by agreement between the Benelux countries was occupied by a Dutch nominee until 1970, then by a Belgian. The other post went to a Luxembourger. After the 1973 enlargement the Benelux countries were entitled to three director posts and one alternate.

The stability of German representation is also remarkable. Although there were eight alternates in succession, only six directors held the position, two of whom were still on the board in 1972: Herbert Martini and the Staatssekretär Alfred Müller-Armack, who played an important role in implementing his country's European policy.

The seven alternates and eight full directors representing Italy also demonstrate Rome's clear determination to maintain a durable Italian presence on the bank's board of directors which, while hasty conclusions should not be drawn, is in stark contrast with the French representation. Ten alternates and eleven full directors represented France, giving an impression of instability which is not the case among the other countries. But this impression should be corrected: while two Dutchmen and one Italian were alternates before becoming directors, this was also the case for three Frenchmen including Maurice Pérouse, an alternate from January 1958 to September 1961 and then a director until July 1982, in other words nearly a quarter of a century on the board!

The board was initially influenced by the membership of civil servants and diplomats who had been very

closely involved in negotiating the treaties of Rome, and treaties directly related to the Bank itself (Louis Duquesne de la Vinelle, Giuseppe Di Nardi, Roberto Ducci, Alfred Müller-Armack, Franco Bobba). It then became 'a place where national administrations frequently met', contributing according to André de Lattre, to the networking of national representatives in a context of 'unprecedented strengthening of personal relationships between the people responsible [...] for implementing the policies in question'<sup>47</sup>.

Who were these national representatives?

In many cases the French directors and alternates originally came from the 'Inspection des Finances', something they had in common with some of the Frenchmen who represented the EEC Commission. Needless to say, these men usually belonged to the generation born in the years preceding the First World War, knew each other well and tended to meet up even after a temporary or definitive change in their professional career. So it was that Jean Sadrin, an EIB director from 1961 to 1962, was French delegate to the EEC's Monetary Committee, the secretary of which was Alain Prate, an alternate on the bank's board from 1962 to 1966<sup>48</sup>.

In addition to this *esprit de corps*, certain individuals held one or more positions in a ministerial office or even as chief of staff, such as the illustrious Pierre Esteva from 1968 to 1971. Although nobody seems to have come from the business world, several decided to build a career in business, such as François Bloch-Lainé who was president of Crédit Lyonnais from 1967 to 1974, or Pierre Millet, deputy

<sup>47</sup> Lattre, A. de, 'La coopération monétaire internationale. Comités et réseaux', *Le rôle des ministères des finances et de l'économie dans la construction européenne (1957-1978)*, volume I. op. cit., pp. 199-200. André de Lattre was an EIB director from 1962 to 1966 and from 1974 to 1982.

<sup>48</sup> Prate, A., *Quelle Europe ?*, op. cit., p. 80.

vice-president of the chemical industries and then director general of SEITA. Other career paths in international institutions are also of interest. René Larre was to become a director of the IMF before taking on the position of general manager of the Bank for International Settlements (BIS). In this way, whether they had a career in the French administration, particularly at the Treasury, in the private sector or in international institutions, these directors, who usually spent several years on the bank's board, were likely to become useful contacts in the relevant spheres. This is not to mention the bank's senior executives, who in addition to maintaining contact with colleagues who had remained in the home country, also renewed their contacts with old acquaintances at the EEC Commission, as was particularly the case for those who after working overseas now specialised in development, at the bank and in the Commission's DG VIII<sup>49</sup> respectively.

These very general remarks concerning the French are equally valid for the other nationalities. In every case, including that of the Belgian Raymond Denucé, managing director of Crédit Communal de Belgique, the positions held by the directors in their respective countries were directly linked to State bodies (ministries of finance or the economy) or to public institutions such as IMI, IRI and Finsider in the Italian case, while the Ministry of Foreign Affairs was represented by a figure such as Roberto Ducci.

### 2.1.3.

#### The management committee

In fifty years the bank has only had six presidents and Pietro Campilli, the first president, only served

for less than a year and a half. This longevity, which guarantees stability and in a small institution makes it possible for the president to say 'every dossier starts and ends in the president's office'<sup>50</sup>, brings with it the risk of routine habits becoming established. For this reason, as early as 1958 the board of governors recognised the need to ensure 'a certain rotation' in the nationalities of the president and vice-presidents when the committee was to be renewed. Although this principle was confirmed once more in May 1961, and the Member States devoted several deliberations to the subject in 1964 following decisions of the board of governors and eventually created a working group to examine the issue, in practice the situation hardly changed until 1970. On October 15th of that year the representatives of the Member State governments signed a treaty modifying article 13, section 1 of the 1957 protocol, in order to create a position of third vice-president.

This treaty was signed in the aftermath of the appointments to the management committee, made a few weeks previously. In September 1970, the Frenchman Yves Le Portz, vice-president since 1962, was appointed as president to replace the Italian Paride Formentini. The German vice-president, Ulrich Meyer-Cording, remained at his post. As the Benelux countries were the only countries not to have been represented on the committee since it was created, they were given the other vice-president's mandate. The Dutchman Sjoerd Boomstra was duly appointed. He came from the Ministry of Finance at The Hague and had followed the 'perfect career path': alternate in 1958-59, director from 1959 to September 1970, and then vice-president until 1976.

<sup>49</sup> Interview with Jacques Silvain, 12 December 2007.

<sup>50</sup> Interview with Rémy Jacob, 14 March 2008.



## Advantages and disadvantages of the composition of the EIB's board of directors

'[...] Above and beyond the required official relationships, personal relationships of understanding and esteem are fostered, favouring the resolution of any possible conflicts. What's more there is no doubt that if someone is a member of both the European Investment Bank and a national credit institution, they are obliged to make an effort to rid themselves of a solely national point of view, to move closer to the community's way of seeing things. They can also persuade their government more easily to accept and implement decisions taken by the European Investment Bank. However we must be clear there are dangers due to this technical expertise of the members. They essentially concern possible conflicts with the policies of the EEC.'

*Entreprise, n° 325, 25th November 1961, p. 29.*



*The bank management committee between June 1959 and July 1962. The management committee chaired by Paride Formentini (in the middle), with the Frenchman Claude Tixier on his left and the German Hans-Karl von Mangoldt-Reiboldt on his right.*

By putting into action the principle of a 'certain rotation' repeated many times over the previous decade, the governors incurred the wrath of their Italian colleague, even though on July 2nd an Italian, Franco Maria Malfatti had been appointed to preside the European Commission. Rightly or wrongly, Rome no doubt considered that the absence of an Italian from the management committee represented a potential loss of influence in an institution that had proved so important for Italian regional development. Therefore it was an Italian, in this case Luca Rosania, who was appointed as the third vice-president in application of the 1970 treaty. But the issue of rotation and enlargement would soon raise its head once more with the approach of 1 January 1973, the date when three more States would become part of the Community.

#### **2.1.4.** **The audit committee**

In addition to the three decision-making bodies the EEC Treaty instituted an audit committee. Its three members, appointed for three years by the board of governors, formed an independent body which when first created was an innovation compared to the French concept of the auditor, and above all was quite different from practice at the IBRD where members of the audit committee were appointed by the board of directors. Until the first enlargement of the Community one auditor was German, another was French and the third came from a Benelux country: the Netherlands first, then Luxembourg.

#### **2.1.5.** **'No irremovable civil servants'**

Between the end of 1958 and the end of 1972 the bank's work force increased from 66 to 230, remaining a small structure. Unlike the other community institutions, instead of having the status of European civil servants its personnel are bank employees recruited by the EIB by means of contracts, as laid down in the staff regulations which came into force on 1 July 1960.

The status issue is far from unimportant, because the principles behind it also form the basis for the staff's identity. 'When reading the bank's Statute', declared Horst-Otto Steffe in June 1970 upon the departure of president Formentini, 'it is clear that their authors did not greatly concern themselves with us, our functions, our competences. One of the only provisions to be found is one which places us under the president's authority, and according to which it is the president who hires us and dismisses us, if need be. Yet it is thanks to this relative silence in the texts, and therefore to this freedom given to the bank's management, free of any external pressures, to create this organisation called 'the services' – and also because of the predominant position conferred on the president – that we have become what we are today: a small but effective organisation<sup>51</sup>!

This desire for autonomy was deliberate. The central idea was that the 'status of the EIB personnel cannot be the same as that of the Communities because the Bank derives its resources from its own operations,

<sup>51</sup> EIB archives, dossier 1.6.22: representatives, 'Farewell address given by M. H.-O. Steffe at the reception organised by M. Formentini for the bank staff, 29 June 1970'. Horst-Otto Steffe, from the European Commission, and was director of studies in 1967. He would become bank vice-president from May 1972 to July 1984.

whereas the Communities are remunerated by budgetary funds allocated to them by the different States<sup>52</sup>. The management committee decided that the provisions of article 212 of the treaty concerning the position of civil servant and employee and their status were not applicable to the bank<sup>53</sup>, and while considering that regulations applicable to personnel must be 'based on the general principles common to the six member countries in terms of labour law [...] and that no provision [...] must be contrary to legislation in the six countries'<sup>54</sup>, indicated that they must be 'as flexible as possible' based on 'methods used in the private sector, rather than those applicable in the state sector', so as to enable 'the bank to make as few commitments as possible in the long term'<sup>55</sup>. To be clear, the secretary general explained 'that we must remain free to dismiss certain people if necessary without incurring huge charges, and in the same vein we must ensure our personnel do not hang on to their positions at the bank, particularly by using political pressure because our pension scheme is too advantageous'<sup>56</sup>. By avoiding the creation of an 'irremovable civil servant' status, the managers knew they were creating a status that was 'much less favourable to personnel than the status personnel of the Communities will enjoy – State civil servant. Security of employment is reduced to a minimum, the pensions scheme is less favourable and the fringe benefits are

virtually non-existent.' So the personnel would have to find compensation 'in the form of higher salaries and possibly in the form of bonuses, if permitted by the bank's financial position'<sup>57</sup>.

However the bank's desire for autonomy, especially concerning personnel status, inevitably raised difficulties in the area of tax. The EIB and its representatives benefited from tax breaks granted to the EEC. This meant they were exempt from national taxes on remunerations, salaries and emoluments paid by the Community<sup>58</sup> but paid tax according to the community tax regulations. On this basis, for many years the bank transferred its personnel's taxes to its balance sheet, until in 1987 the Court of Justice ruled that the income from these taxes should be transferred to the budget of the European Communities.

Despite the extremely flexible personnel status and the concern not to take on long-term commitments, in circumstances as exceptional as the move from Brussels to Luxembourg the bank acted towards its personnel in a manner that can certainly be described as generous: whether it was paying the rent of a dwelling in Luxembourg pending the date when it would be possible to leave Brussels<sup>59</sup>, or introducing a system of building loans in Luxembourg<sup>60</sup>. Nevertheless, despite these

<sup>52</sup> EIB archives, human resources department, unlisted dossier, draft note from J. Frère to the management committee, 16 September 1959.

<sup>53</sup> EIB archives, minutes of the EIB management committee meeting on 2 March 1960, PV CD/PE/76/60.

<sup>54</sup> *Idem*.

<sup>55</sup> EIB archives, human resources department, unlisted dossier, draft note from J. Frère to the management committee, 16 September 1959.

<sup>56</sup> *Ibid.*, note from J. Frère to A. Rietz, head of personnel, 30 December 1958.

<sup>57</sup> *Idem*.

<sup>58</sup> Bécane, J.-C., *Marché commun et investissements. La banque européenne d'investissement*, Arcades copies, Toulouse, 1963, p. 56.

<sup>59</sup> EIB archives, dossier 1.6.22, 'personnes de confiance', minutes of the information meeting between H. Lenaert and the representatives, 6th March 1968.

<sup>60</sup> *Ibid.*, minutes of the EIB board of directors meeting on 30 July 1968, PV CA/67/68.



*The bank's staff gather in the EIB gardens for games to mark the Bank's 50th anniversary (July 2008).*

efforts in 1968 around thirty people left the bank or announced their intention to do so. Yet because the move to Luxembourg caused 'personal problems that were often difficult and sometimes painful'<sup>61</sup>, it no doubt also contributed to forging the identity of an

'organism' searching for its own profile to distinguish it from an 'apparatus' or 'a machine'<sup>62</sup>. In its quest for legitimacy, the institution that some observers in the sixties called a 'European public service'<sup>63</sup> asserted immediately it was set up that there was 'a need to see itself not as a

<sup>61</sup> EIB archives, dossier 1.6.22, 'personnes de confiance', minutes of the EIB board of directors meeting on 30 July 1968, PVCA/67/68.

<sup>62</sup> Ibid., file 1.6.22, entrusted persons, 'Discours d'adieu prononcé par H.-O. Steffe à l'occasion de la réception donnée par P. Formentini au personnel de la banque', on 29 June 1970.

<sup>63</sup> Bécane, J. -C., *Marché commun et investissements*, op. cit., p. 126.

superstructure' but as an addition to the banking system in Community countries to operate in close and cordial collaboration with the banking and financial institutions of the Member States'<sup>64</sup>. At the same time, the bank was contacting ministries and state-owned credit institutions to find out how it 'could possibly participate in existing development plans' in order to contribute in certain economic fields 'to harmonisation that would favour development of the European economy'<sup>65</sup>, thereby engendering a 'philosophy of the interface' before it had been devised. Starting with the first enlargement, this philosophy would lead to increasing sophistication of conceptions and methods, which inevitably raised the question of balance between the private/public sector approaches.

## 2.2. Successive enlargements

The bank's adaptation to the change in the number of Member States from six to twelve between 1973 and 1986 raised questions not only about structure but also about management.

From the point of view of structures, the composition of the board of governors naturally reflected that of the Community. However, the structure of the board of directors evolved from eighteen directors and ten alternates in 1973 to twenty-two directors and twelve alternates in 1986. Although these adaptations do not seem to have caused any

great difficulty, the increase in the number of vice-presidents was a sensitive issue, on a political level and from the point of view of internal governance.

### 2.2.1.

#### An overcrowded management committee?

With the upcoming first enlargement a fourth vice-president was created 'by virtue of the principle that the United Kingdom would play the same role in the management of community institutions as Germany, France and Italy.' But the other candidate countries demanded a fifth 'based on concerns identical to those that determined the future composition of the EEC Commission'<sup>66</sup>. People within the bank, 'who consider this tendency to increase excessively the membership of the management committee is dangerous'<sup>67</sup>, felt above all that this constituted 'a hasty identification between the two institutions'<sup>68</sup>. On that basis 'although it may be considered normal that owing to the importance of the British financial market a new member should be added to the present management committee in order to facilitate the bank's operations, particularly in the London market, it seems doubtful that the presence of an extra person on the management committee would facilitate the bank's lending operations. In any case the bank's role the in new member countries should be above all to lend, due to the needs of regions such as northern Norway or western Ireland for example, and we have just noted that the bank authority concerning loans is

<sup>64</sup> EIB archives, Outgoing correspondence – April 1958, letter from P. Campilli to a long list of private banks.

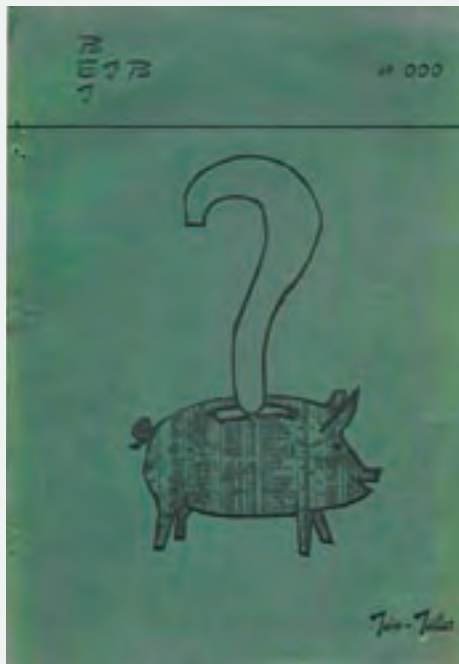
<sup>65</sup> EIB archives, appendix to the minutes of the board of directors meeting on 4 July 1958, PV CA/4/1958, point 3.

<sup>66</sup> EIB archives, Dossier 6.0255, 'Composition of the management committee', management committee note, 21 September 1971.

<sup>67</sup> 'Analyse des problèmes posés par la composition du comité de direction de la banque européenne dans la Communauté élargie', *Bulletin quotidien de l'agence Europe*, 7 October 1971.

<sup>68</sup> EIB archives, Dossier 6.0255, 'Composition of the management committee', management committee note, 21 September 1971.

## 'Piggy Bank', 'Sparschwein' or the 'petit cochon banque'...



*The cover of number 0 of La Tirelire in June-July 1974 shows a pig covered in New York stock market listings, with an enormous question mark hanging over it.*

*La Tirelire* was the first in-house journal, created above all by François Hyenne, Christopher Bearne and Martin Thiebaut from the linguistics department. It 'was a periodical published at very irregular intervals, similar to the fanzines of the time. The spirit of 1968 was still present and it was forbidden to forbid. Indeed, the management never censored us and were not concerned with the content. They simply [...] sent us the essential information for the pages devoted to personnel affairs.'

*Hyenne, F. 'La Tirelire', Journal - BEI – Journal, October-November 2002.*

the board of directors<sup>69</sup>. In addition, since the bank was operating with a small staff it was important to avoid superimposing a disproportionately large management committee. But in addition to these considerations there was one institutional issue which certainly raised a question of principle, the ramifications of which were only too clear. This issue was that no national of a member country can systematically be refused access to a community body! While protecting itself behind a prudent expression ('ensure in the future that the situation can be reviewed in the light of circumstances at the time'), solutions designed to respond to the concerns of the small new Member States were put forward: adding an extra member to the audit committee, or taking into account the distribution of capital in conformity 'with current practice in several member countries to determine the number of directors of public limited liability companies'<sup>70</sup>.

### 2.2.2.

#### The EIB 'is no longer a small family business'

Prior to the first enlargement, while at the same time starting to recruit extra staff from the new member countries without taking measures to reduce the number of executive staff – which would not be the case in 1985 when the management committee was authorised to set up an early retirement system to facilitate recruitment of Spanish and Portuguese staff – the bank was also re-examining its management practices. In 1973 an internal study was conducted by World Bank experts seconded to Luxembourg in order to provide a diagnosis. They identified many

qualities: well-established structures and procedures, motivated, highly experienced and competent staff, ability to adapt to increases in the volume of activities and the instability of financial markets. But the bank also needed to prepare for major changes (creation of a Regional Development Fund, unfavourable international financial conditions, increase in the number of associated countries). In this regard the results of the analysis were not very encouraging. No doubt the management committee wanted to 'devote more time to general questions relating to the bank's policy'<sup>71</sup>. This approach concealed a reality which needed to be put under the spotlight. The bank was 'continuing to operate in many respects like a small family business.' But while the bank, which 'is no longer small' was continuing to grow in size and ambitions, it was important to take certain measures, namely:

- '- Conserve top managers' time for selected critical tasks and issues;
- Introduce essential systems to assure that important matters (e.g., the size of the budget, staff training and internal communication) are not decided by default or neglected;
- Maintain and increase efficiency through continuing review of organisation, methods and procedures'<sup>72</sup>.

Without overestimating the impact a study can have, it should be noted that in 1973 the management committee allocated the workload between the president and the vice-presidents, which it stressed were 'light'. The decision was fairly timid, consisting in associating two of them to work on the

<sup>69</sup> EIB archives, Dossier 6.0255, 'Composition of the management committee', management committee note, 21 September 1971.

<sup>70</sup> Ibidem.

<sup>71</sup> EIB archives, minutes of the management committee meeting on 6, 7 and 8 February 1973, PV CD/16/SG 6/73.

<sup>72</sup> EIB archives, J.C. Peter Richardson and H. Richardson, Discussion outline – a preliminary diagnostic review of EIB Management – some alternatives for consideration, 4 July 1973.

same task, and certainly did not affect the principle of collegiality in the management of everyday affairs, but it constituted a step towards better use of people and their abilities. For its part, the board of governors instituted working groups consisting of an expert nominated by each of them and an expert delegated by the management committee in order to solve technical problems, but also in January 1976, to consider 'the outlook for bank activity outside the Community.' In the first category we should mention the working groups 'Contribution of new Member States to the bank's own resources' (18 May 1973), 'Unit of account, conversion into national currencies and maintenance of capital value' (27 June 1973) and 'Capital adjustment methods' (26 June 1977). This bank presence '*extra muros*' also led to the creation in 1978 of an EIB liaison office in the United Kingdom, which became a permanent establishment two years later.

### 2.2.3. The bank 'outside'

Until this period the bank had a 'representation office' in Brussels and a 'detached office' in Rome. In both cases they were the consequence of the bank's move to Luxembourg. But because of their very nature, in a way they created the distinction that still applies today between the concept of an EIB local office and an EIB operational department.

The Brussels office, staffed by just one person assisted by a secretariat, made the necessary contacts with Community organisations, the permanent

representations of the member countries and the missions from associated countries and the press. But it goes without saying that contacts between the bank and the Commission did not rely solely on this office, since the services in Brussels and Luxembourg maintained direct relations.

The Rome office was set up as a consequence of the move and also for other reasons. Since follow-up of the activities of the bank's Italian clients required frequent direct contact with the Italian administration owing to procedural complexities, the move to Luxembourg was going to lengthen travel times and was seen as creating 'inextricable difficulties'. All the more so since 'experience having shown that it has become difficult to recruit competent Italian deputy directors or to keep them in Brussels [...], the transfer to Luxembourg will make things even more difficult'<sup>73</sup>.

In view of these considerations, and given that 'the remuneration paid by the bank, when it includes the expatriation allowance or an equivalent compensatory amount, gives a very substantial salary compared to the remunerations paid in Italy, and is perfectly competitive'<sup>74</sup>, the management committee ratified the decision to set up an office in Rome from 1 November 1968 housing the staff of the member countries lending department responsible for loans granted in Italy<sup>75</sup>. A good number of loan officers alternating between job positions in Rome and Luxembourg created a specific network of 'Rome old boys', clearly illustrating the link that had been created between the development of what was quantitatively the bank's largest market and the

<sup>73</sup> EIB archives, Dossier 6.1206, in-house note from Yves Le Portz, 8 June 1967.

<sup>74</sup> Ibidem.

<sup>75</sup> EIB archives, minutes of the management committee meeting on 31 July 1968, PV CD/PE/33/68.



## The diagnosis by World Bank experts in 1973

'In general, we find important improvement opportunities in four broad respects:

1. Use of CD [comité de direction – management committee] members' time seems inefficient and in some ways ineffective
2. Imbalances exist
  - CTs are too powerful, not managed [Conseillers techniques]
  - Staffing is top heavy – 23 people of Deputy Director level or higher, roughly 80 other Group I and II staff. Many senior men properly do operational work, but also have to do junior level work
3. Documents lack focus, selectivity, duplicate each other, are not keyed to decision-makers' needs
4. 'Management' systems hardly exist
  - Strategic planning – identification of alternative responses to likely conditions, ascertainment of priorities and setting of targets – minimal
  - Scheduling minimal
  - Budgeting almost accidental
  - Definition of authorities and responsibilities often vague and inconsistent – many PM [Pays membres – Member country lending] staff have wide discretion when they travel, little in Luxembourg
  - Internal communication poor
  - Few staff meetings
  - CD minutes filter down 'under the table'
  - Operating policies largely uncodified
  - Orientation of new staff (I & II) not handled systematically
  - Operations evaluation minor'

*EIB archives, J.C. Peter Richardson and H. Richardson,  
Discussion outline – a preliminary diagnostic review of EIB management  
– some alternatives for consideration, 4 July 1973.*

## The 'old boy network'

'The relative success of EIB operations in the UK and Ireland since 1974 is to a large extent a result of the prior integration of its senior staff in this 'old boy network' especially in the provinces, where many important decisions are made without reference to London. This network is constantly changing, with transfers and retirements of some key people and their replacement by others. As time elapses, it becomes increasingly difficult to maintain the necessary network of relevant contacts from Luxembourg. The indifferent international telephone system and poor air communications, frequently interrupted by bad weather, do not help. The EIB staff responsible for such operations thus tend to become increasingly remote from the new decision-makers in the UK.'

*EIB archives, note from Romeo dalla Chiesa to the management committee,  
18 January 1980.*

first office that was opened to facilitate access to and monitoring of this market<sup>76</sup>.

Ten years later the project to set up the London office was aiming for a function above that of the Brussels office and below that of the Rome office. Since loan applications continued to be processed in Luxembourg, the main role of the 'EIB United Kingdom liaison office' was to canvass and make contacts to prepare loan applications in the United Kingdom, but not in Ireland<sup>77</sup>.

The creation of this office was far from painless and its existence remained in the balance for several years. Those keenest to see the opening of an operational office were the same people who hoped that

one of the British directors to be appointed would be an expert in the London market, and they did not hesitate to emphasise their desire for a director or alternate to have direct links with the private sector<sup>78</sup>. They also pointed out, concerning the office, that an 'old boys network' existed, which as it was not in Luxembourg would quite quickly deprive the bank of contacts with the new decision makers in the United Kingdom. Their opponents put forward three arguments. First of all they pointed out there would be a 'splitting up of the bank's services [...] because by multiplying the number of offices in various capitals, we will end up with a European bank that is British, Italian, French, German, etc.' This risk would be even greater 'if the EIB, when new members such as Greece, then Spain and Portugal joined,

<sup>76</sup> Interview with Jean-Philippe Birckel by Arthe Van Laer, 27 July 2007.

<sup>77</sup> EIB archives, minutes of the management committee meeting on 13 and 14 September 1978, PV CD/113/SG/31/78.

<sup>78</sup> National Archives (UK), T 355/113, account by G. R. Bell of his discussions with the EIB president, 16 October 1972.



*Inauguration of the EIB office for Southern Africa and the Indian Ocean. On 24th October 2005, vice-president Torsten Gersfelt (on the right) inaugurated the EIB office at Tshwane (Pretoria) accompanied by Tomaz Salomao, executive secretary of the Southern African Development Community. The palm tree in the middle of the photo was planted on this occasion, symbolising the fact that 'financial means alone are not sufficient' if you are aiming for 'true sustainable economic growth.' The era of disagreements about the usefulness of the bank's regional offices now seems to be over for good.*

had not just one but two or even more peripheral departments, [since] it would be subjected to very strong pressure to further increase the number of such departments'<sup>79</sup>. Secondly, leading on from the first factor, was the argument that 'it will be impossible to create an atmosphere similar to that at the Luxembourg headquarters in each of the operational (or regional) offices'<sup>80</sup>. Finally, was there not a risk that the Luxembourg authorities might react

negatively to what could be seen as a relocation of activities at a time when completion of the bank's new building was at last in sight?

Since the idea of an operational office had been 'rejected for political reasons, including the decision taken by the Member States in 1965 to transfer the bank to Luxembourg and to perform all its activities there', a 'liaison office' comprising

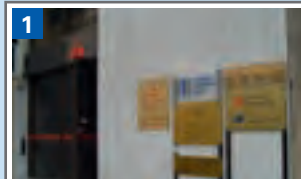
<sup>79</sup> EIB archives, Dossier 6.1208, note from H. Lenaert to the management committee, 2 February 1978.

<sup>80</sup> Ibidem.

# The external offices of the EIB, 1968-2008

The offices of the EIB are identified by their current name, the city and the country as well as the inauguration date. The photos are not necessarily those of the original buildings.

Source EIB



## Brussels office

Bruxelles, Belgium  
(1 September 1968)



## Istanbul office

Istanbul, Turkey  
(24 October 2008)



## Ankara office

Ankara, Turkey  
(24 October 2008)



## ACP regional representation for the Pacific

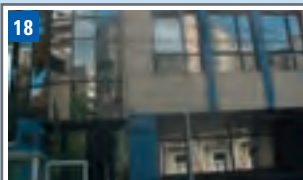
Sydney, Australia

(21 November 2007)



## Helsinki office

Helsinki, Finland  
(10 September 2007)



## Bucarest office and regional Jaspers representation

Bucharest, Romania  
(7 June 2007)



## ACP regional representation for the Caribbean

Fort-de-France, Martinique  
(21 May 2007)



## Warsaw office and regional Jaspers representation

Warsaw, Poland  
(12 January 2007)



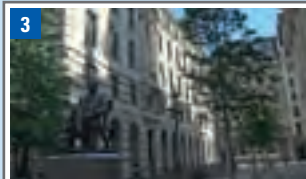
## ACP regional representation for East Africa and the India Ocean

Pretoria, South Africa  
(24 October 2005)



**Rome office**

Rome, Italy  
(1 November 1968)



**London office**

London, United Kingdom  
(1978)



**Athens office**

Athens, Greece  
(16 April 1984)



**Lisbon office**

Lisbon, Portugal  
(27 November 1986)



**Madrid office**

Madrid, Spain  
(May 1989)



**EIB head office**

Luxembourg,  
Luxembourg



**Berlin office**

Berlin, Germany  
(25 May 2000)



**EIB regional office for the Middle East**

Cairo, Egypt  
(1 October 2003)



**Vienna office and regional Jaspers representation**

Vienna, Austria  
(April 2006)



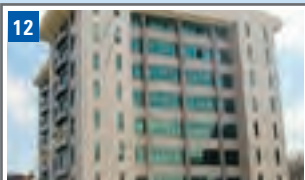
**EIB representation office in Morocco**

Rabat, Morocco  
(17 June 2005)



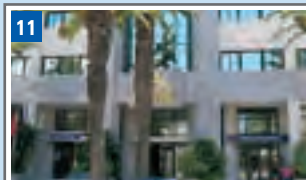
**ACP regional representation for West Africa and the Sahel**

Dakar, Senegal  
(30 June 2005)



**ACP regional representation for Central and East Africa**

Nairobi, Kenya  
(30 May 2005)



**EIB representation office in Tunisia**

Tunis, Tunisia  
(9 December 2004)



**Paris office**

Paris, France  
(15 January 2004)

one official and one or two secretaries was opened for a period of one year<sup>81</sup>. The temporary was to become permanent, although some people still had to speak out to defend the usefulness of a presence in the United Kingdom<sup>82</sup>.

#### 2.2.4. The changes continue

The question of peripheral offices was not the only divisive issue. The technical advisers who had been the subject of scrutiny in the 1973 were also the subject of many discussions. They had originally been attached to the loans department, but then transferred to the research department. Given the volume of activity, in 1970 they formed the technical advisers' department, which seven years later changed its name to a 'corps'. Responsible for evaluating the technical justification for investment projects, they were therefore in a separate department from the economists, who were evaluating the same projects using their own criteria. Those in favour of maintaining this separation held that 'if you hear one bell, you only hear one sound'; in other words the creation of a single technical and economic department would deprive the decision-makers of hearing both sides of the story, i.e. the technical aspects on the one hand, and 'the market problems which are always a delicate matter, but essential when preparing a project on the other'<sup>83</sup>. It was not until 1995 that the engineers and economists, originating from the former 'economic and financial research' and 'technical advisers'

departments were brought together in a new departments called 'projects' headed by Herbert Christie, who ever since the eighties had made a considerable contribution to the change in thinking about how the bank should be managed.

When Yves Le Portz was replaced as president by Ernst-Günther Bröder in 1984 it coincided not only with the start of a considerable reinforcement of control activities – 1985 was the first year of full activity of the internal audit unit – and evaluation – the first series of ex-post evaluation studies of operations outside the Community was carried out in 1986 – but also with other observations associated with the very nature of the bank's activities. It was in the spring of 1983, a year before his departure, that Le Portz noted 'differences of opinion about certain aspects of the bank's activity (among other things the dimensions and limits of our operations linked to industrial modernisation, recourse to variable-rate borrowing and lending, the criteria for competitive tendering and for the environment) have been expressed [...] meaning that the consensus characterising the functioning of the bank until recently no longer always applies'<sup>84</sup>. This observation by a man who was charismatic and constructive but found dialogue difficult and therefore did not always explain his strategy very clearly<sup>85</sup> is symptomatic of a new stage in the bank's development.

In a situation where the average age of the bank's senior managers was increasing and where at the

<sup>81</sup> EIB archives, 3.0004, note from R. dalla Chiesa to the management committee, 18 January 1980.

<sup>82</sup> E.g. see *ibid.*, G.M. Baird to Kirby, 10 February 1984.

<sup>83</sup> EIB archives, dossier 3.133, note from A. Bellec to the management committee, 5 September 1973.

<sup>84</sup> *Ibid.*, minutes of the EIB board of directors meeting on 3 May 1983, PV CA/178/83.

<sup>85</sup> Interview with Rémy Jacob, 14 March 2008.

same time a merit-based remuneration system was introduced in 1988 instead of a seniority-based system, there was a tendency for the bank's original mission to move towards more specialised borrowing and lending. Whereas until then the bank's traditional function had been to aid development, the change in generation in a context in which the world of finance was typified by the '*golden boys*' led to a change in course embracing 'new products'. This was reflected in recruitment policy, now taking on more specialists from the banking world whose main motivation was not always the same as certain pioneers inspired by the European ideal.

For the bank, the important thing was to remain small – 'the more discreet we are, the better it is' president Bröder used to say<sup>86</sup> – and to achieve excellence. Because of the attention the German president 'a very orthodox banker, jealous of his mandate'<sup>87</sup> paid to internal problems, his remoteness from the Commission – he never once officially met Jacques Delors – and the culturally very significant impact of the Court of Justice ruling concerning community tax described above, the bank became somewhat distanced from European preoccupations. This tends to be illustrated by the missed opportunity constituted by the bank's strategic absence from the creation of the EBRD. Although Bröder declared before the Wall fell that the EIB 'would one day work in Eastern Europe'<sup>88</sup>, he and the bank limited themselves to taking a share in its capital and in contributing at the appropriate time to the

creation of the new institution's administrative services. Bröder worked in the projects department of the World Bank and then enjoyed a twenty-year career within the Kreditanstalt für Wiederaufbau. While he was indeed an EIB director from 1980 to 1984, he can doubtless be counted among those who had a different vision from that of Le Portz.

Bröder's successor Sir Brian Unwin also represented what might be termed a distancing from the European project. He was fully familiar with European questions and considered that the EIB, for which his strategy consisted in more quality and less volume, was first and foremost a bank before being a European institution and that the ideal or pinnacle of success would no doubt be privatisation. Philippe Maystadt took over after Sir Brian Unwin and immediately adopted a quite different approach, emphasising the fact that the EIB was an institution serving the political objectives of the European Union.

### 2.2.5. Decision-making and management structure

From Bröder to Unwin, the question of decision-making and management structure rose to the surface once more. The study commissioned in 1989 from the consultancy firm Coopers and Lybrand concerning the management structure, personnel policy, departmental responsibilities, inter-departmental coordination, information management system and ex-post evaluation led to

<sup>86</sup> Interview with Rémy Jacob, 14 March 2008.

<sup>87</sup> Interview with Jacques Silvain, 12 December 2007.

<sup>88</sup> Interview with Rémy Jacob, 14 March 2008.



*A meeting between the EIB, the NGOs and the CSOs in Berlin on 26 October 2006. In 2001 the EIB inaugurated a series of meetings held about twice a year with interested NGOs and CSOs in order to develop a dialogue between the bank and civil society. Subjects dealt with at the Berlin meeting were corporate responsibility, the environment and climate change as well as the role of energy in the latter. In 2005 the bank set up a 'civil society' unit to coordinate responses to enquiries from NGOs and CSOs.*

the production of a mass of internal documents, reforms and also endless discussions. As proof of this, ten years later the board of directors submitted to the board of governors a report on the bank's management structure which it described as interim.

During those ten years important and revealing changes had taken place. Since we cannot examine them all let us mention those that affected the computer system, causing a huge furore within the institution in 1993. As in other companies, whether private or public, the question sooner or later arose of how to change from a computer system organised around a central mainframe, to information management based on the client/server relation, i.e. personal computer networks. The technical discussion, which raised personnel

management problems, obviously did not only cover this point. The dividing line between proponents and opponents of the two systems within the bank revealed a change in generation and through this a conceptual difference in terms of management of the bank itself. The research department, equipped with personal computers, in a way represented the social modernity of the new generation in a highly hierarchical institution where, apart from a few exceptions, transparency and mobility were contemplated but not put into practice.

More generally, the decision-making structures and operating methods inherited from the founding texts and from usual practice were considered obsolete both in practical terms – the board of directors, because of the increase in the number



## From 'personnes de confiance' to 'staff representatives'

The stir caused by the debate on such themes as centralisation or decentralisation of internal decision-making, and accentuation or lessening of the spirit and methods inspired by the private sector did not lead to any industrial action, as would doubtless have been the case in many other institutions. No strike has ever hit the bank since it was founded in 1958. By exaggerating a little, you could say that for many years the ceremony of New Year Wishes represented the opportunity for the personnel to express their grievances (Bruno Turbang). Since there were no trade unions at the bank, there were no 'collective agreements' either. Problems were sorted out 'within the family' by means of a specific agreement, because 'for a long time the bank saw itself as a separate community on its own.' (Remy Jacob). Originally a college of eight 'personnes de confiance', a term taken from German vocabulary and abandoned because it was too old-fashioned and replaced by 'staff representatives' in 1981, was the interlocutor for the management committee, although their role, the statutory recognition of their powers and responsibilities and even the consultation procedures were not clearly defined. But the increase in the work force and the change in generation bringing with it the departure of 'pioneers' in particular, led to the change that occurred in 1981 together with the change in vocabulary.

*Michel Dumoulin*

of members 'does not read all the loan applications'<sup>89</sup>– and by the spirit of the time. Reduced state intervention in the economy and finance led to a discrepancy between reality in the field and the bank's decision-making structures. It was underlined at the end of the eighties that this gap was destined to grow wider given the prospects for the wider market. In this environment market forces would be more vigorous and would act over a wider area. The EIB would therefore have

to achieve a quicker and more effective response to demand than it was currently capable of providing. In other words the board of directors, which had become too unwieldy– twenty-two directors and twelve alternates in 1989 – was perhaps no longer the appropriate place to take decisions about interest rates or individual loan applications. But at the same time, was the management committee being used effectively? Did its seven members exercising 'light responsibilities' apart from daily

<sup>89</sup> EIB archives, dossier 31.0142, note from H. Christie for the management committee, 14 July 1989.

management have enough work within and outside the bank to justify their holding a full-time mandate? Certain vice-presidents were particularly unhappy. Half-way through their career they were champing at the bit waiting to pick up a top level position in an environment other than the bank, which was not using them in the best way<sup>90</sup>.

In such conditions, reform had to come either from outside, i.e. from consultants, or from inside the bank. Whatever path was chosen, reforms had to be introduced because the board of governors, duly informed by certain directors, was demanding change.

#### **2.2.6.**

##### **The 1990s marked by ferment**

The ferment detected between the 1980s and 1990s opened the way broadly speaking to a decade of maturing change, which began to gather speed at the start of the new millennium.

Once again the international environment played a decisive role. The 'great light to the East' and the enlargement of 1995 meant that radical reforms were implemented.

The last time the board of governors examined issues concerning the bank's decision-making structures was in 1992. Two decisions were taken. Firstly, 'increased individual responsibilities should be given to members of the management committee, under which they would have greater responsibility.' In addition, 'the role of the president in

relation to the selection of future vice-presidents should be strengthened'<sup>91</sup>. Seven years later the ministers noted that although the first decision had been implemented, the second had not been put into effect, because 'the decision-making concerning candidatures still lies in the last resort with the governments who presented them'<sup>92</sup>. Without this important question being resolved, the transition to a Union of fifteen and even more of twenty-five, once again raised the problem of the composition of the management committee and the board of directors. While including in the balance of nationalities the composition of the audit committee which kept three members but was enlarged by the addition of an observer in 1996 and two more in June 2003 – which was also in response to the considerable increase in workload – the 'shareholder States' noted there was a risk that the increase in the number of members of entities whose composition could be revised might make the bank ungovernable, despite the existence of a written procedure for the board of directors since 1995. It was difficult to imagine how the board's meetings, on average bringing together between twenty-six and thirty people at the end of the nineties out of a total of twenty-five directors and thirteen alternates, would be able to function with a membership consisting of thirty-six and nineteen participants respectively if the rules were not revised.

The solution adopted, as has been and remains the case in the building of Europe, was the result of subtle negotiations. In this particular case, they led to each country being attributed a post, and

<sup>90</sup> EIB archives, dossier 31.0142, note from H. Christie for the management committee, 14 July 1989.

<sup>91</sup> EIB archives, minutes of the EIB board of directors meeting, Interim Report to the board of governors on the Bank's management structure, 99/11, 23 March 1999

<sup>92</sup> Ditto.

as for the alternates, in accordance with practice from the very origins of the bank, to an alternate being appointed for a group of countries, not without introducing three experts and three alternate experts. In all, no less than fifty-two people now attend board meetings under the authority of the bank president.

Concerning the management committee, the board of governors, whose monthly Ecofin meetings are an opportunity 'if need be to informally discuss [...] issues concerning the bank', subscribed to the principle whereby its composition, eight people in 1995, could not be increased to eleven. Therefore, since 'to dispense with nationality considerations entirely' was not on the cards, discussion focused on the issue of whether more weight should be attached to specific professional or technical skills, which could enable the vice-presidents to assume more direct executive [...] responsibilities'<sup>93</sup>. Although it was not decided to go down this path which could 'have implications for the relationship between members of the management committee [...] and the senior professional managers [...] who are the line managers in charge of the different directorates'<sup>94</sup> the solution adopted was an acceleration of the rotation of vice-presidents on the basis of the choice made, as for the board of directors' alternates, on the basis of what the in-house terminology called 'constituencies'. In these conditions, the management committee now has nine members in the Europe of twenty-seven countries.

In parallel the bank substantially adapted its organisational structure to the rapid changes in

demand and in its strategic choices, on the basis of the first strategic plan and first operational plan for the bank adopted in 1998, four years after the creation of the EIF which is discussed below<sup>95</sup>.

The bank is further reinforcing internal control and evaluation measures introduced in the mid-eighties, and has also drawn up a code of conduct first of all for personnel (1997) then for the governing bodies (1999), the board of directors and the audit committee. One of the most significant decisions taken was to make financial control independent from the finance department in 1999.

### 2.2.7. A corporate citizen of Europe

Ethics and control go hand in hand with a concern for greater transparency (2001). Indeed, in terms of corporate responsibility, the bank's objective is to engage in a perpetual search for balance between its identities as a financial institution and as a European body working to implement the policies of the European Union. In addition to the aspects mentioned above this approach to governance means that a dialogue must be instituted with civil society as the institution is publicly owned. In this sense, although this approach is essential it is nonetheless courageous and useful and requires an effort to educate citizens for whom, as a rule, the EIB is not a very clearly identified agency of the community. But this educational effort is no doubt also

<sup>93</sup> EIB archives, minutes of the EIB board of directors meeting, Interim Report to the board of governors on the Bank's management structure, 99/11, 23 March 1999

<sup>94</sup> Idem.

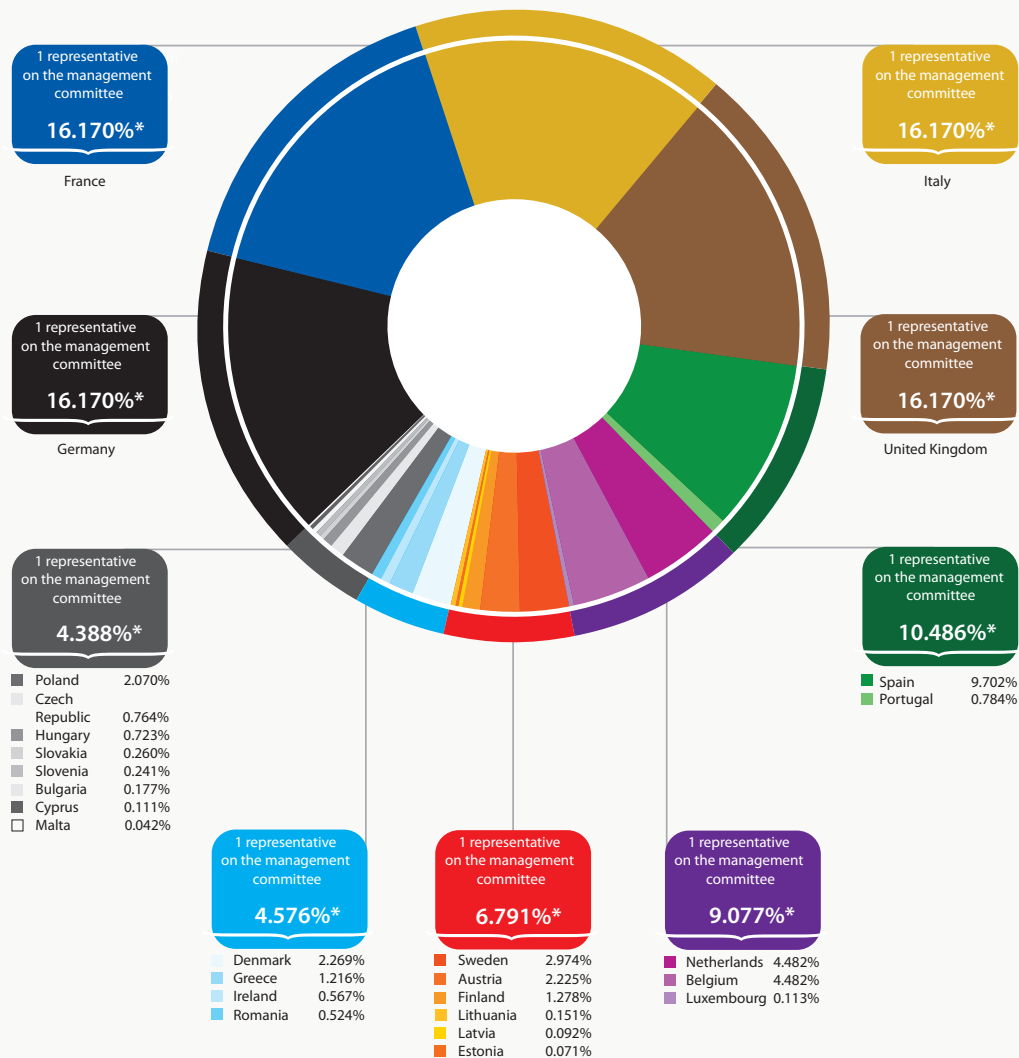
<sup>95</sup> See Chapter 2 of Part Four, p. 222 et seq.

Graph 8

### Representation of Member States in the bank's governing bodies (2008)

The share of each Member State in the bank's capital is calculated on the basis of its economic weight (in GDP terms) in the European Union at the time of its accession.

Furthermore, each Member State has one representative on the board of governors, and one representative on the board of directors. Membership of the management committee is determined on a constituency of countries basis.



\* Breakdown by groups of countries (then, if applicable, by countries) in their share of the capital

## Philippe Maystadt



*President Philippe Maystadt at the European Parliament  
(5 February 2002)*

Philippe Maystadt is a doctor of law and has been president of the EIB since 1 January 2000. He has lengthy experience of parliamentary assemblies since he has been a member of the Chamber of Representatives (1977-1991 and 1998-1999) and the Belgian Senate (1991-1995). As secretary of state, minister and vice-prime minister between 1979 and 1998, he acquired solid knowledge of international finance, in particular as chair of the IMF interim committee from 1993 to 1998. As a university professor, a function to which he attaches great importance, president Maystadt has considerable educational skills. During a plenary session of the European Parliament on 14 February 2001, for the first time the bank president was heard to answer questions raised in the report on the monitoring of the EIB annual report for 1999. On 5 February 2002 he once again fulfilled his obligations concerning the report for 2000, the first year in which he exercised his mandate.

*Michel Dumoulin*

vital within the bank whose staff, which is characterised by very low turnover, has constantly increased despite outsourcing of lower-skilled functions since the mid-nineties and the recourse to consultants to perform non-permanent tasks in the legal, engineering and computer science fields in particular<sup>96</sup>. The EIB is a 'bank of professionals' with high staff productivity, and is legitimately focused on its core business. But since it is a product of the public sector that during its history has

been tempted to move towards the private sector, it runs the risk of both being seen as indifferent to the European *res publica* and of hiding behind what some call 'technician's arrogance'. At the same time, the concern to modernise the institution and optimise its working methods demonstrates that its objectives for the future coincide and indeed are occasionally in advance of those set for the Union by the Lisbon Treaty of 13 December 2007. Although the bank is not

## Encouraging academic research into investment

Although the EIB has always invested in a solid internal research department, it also seeks to promote research on investment and its financing in the academic world.

Every year since 1978, the EIB has awarded three grants to third cycle students from the Florence University Institute, called 'Campilli-Formentini bursaries' in honour of the first presidents of the bank. In 1990 the 'Erling Jørgensen' research grant was added, administered by the Economics and Statistics Institute of Copenhagen University in memory of the former EIB vice-president. On the occasion of the bank's twenty-fifth anniversary in 1983, an 'EIB prize' was created. It was originally created to reward a doctorate thesis in the field of investment every two years, but subsequently it has also been awarded for other types of research.

In 2006 the EIB replaced all these actions with a new 'EIB-Universities Research Action'. This initiative consists of a programme of subsidies to university research centres, a financing programme targeted on young researchers and a sponsoring mechanism for university networks.

*Arthe Van Laer*

<sup>96</sup> Relating to the change in staff numbers, see appendix 2, table 9, p. 354.

*Just as the composition of the bank's decision-making bodies has changed with each enlargement, the personnel reflects the cosmopolitan nature of the institution. In this respect, the increase in the number of member countries from fifteen to twenty-five and then to twenty-seven has had a significant impact.*



one of the institutions forming the Union's institutional framework<sup>97</sup>, it nevertheless shares a vision characterised by the determination 'to ensure coherence, effectiveness and continuity' of its activity in areas whose scope is constantly

becoming more diverse: from sustainable development to scientific research.

*Michel Dumoulin*

<sup>97</sup> EU Council, consolidated versions of the European Union treaty and treaty on the functioning of the European Union, 15 April 2008, article 13, 6655/08 fr.





The identity  
of an institution



## Tomorrow is nourished by the experience of yesterday

*The authors would like to express their gratitude to participants in the seminar organised in Luxembourg on 17 March 2008 concerning the bank's past, present and future. By bringing together the bank participants (Messrs. Philippe Maystadt, President of the EIB Group, Thomas Hackett, Director General, Directorate for Operations in the European Union and Candidate Countries, John A. Holloway, Director, Investments, EIF, Rémy Jacob, Director General, Strategy and Corporate Centre, Jean-Christophe Laloux, Director (from 1 January 2009), South-East Europe Department, Directorate for Operations in the European Union and Candidate Countries, Alfonso Querejeta, Secretary General and General Counsel, Eric Perée, Associate Director, Economic and Financial Studies, Strategy and Corporate Centre, & Peter Munro, Head of Division, Investor Relations and Marketing, Finance Directorate) and the authors, this event enabled the latter to clarify the meaning of certain decisions and directions taken by the institution. It goes without saying that they assume entire responsibility for the interpretation of their words.*

The history of the EIB cannot be dissociated from the more general history of European integration. It is part and parcel of this process and the recent period of growth for the bank since the 1980s cannot be separated from the institutional developments which led to creation of the single market and monetary union, the enlargement process and responsibilities which the European Union has taken on owing to its increasing importance in the world. It is inseparable from the transformations driven by globalisation which mean that issues affecting Europe must increasingly be placed in a broader perspective, whether this relates to economic growth, technology or the environment. But the international political context in which Europe operates, and indeed the tensions and conflicts within the old continent, themselves constitute a set of circumstances which the bank's activities take into account. Recent developments in the EIB's work in the Balkans and the Middle East as well as the emphasis placed on issues to do with research, energy and the environment demonstrate the interactions that exist between its activities and their European or worldwide context.

The changes in the bank do more than reflect a simple adaptation to the political and economic context. In the past it has demonstrated its capacity not only to support but also to anticipate policies that the European Union was not always in a position to implement itself. Thus the history of the bank since the beginning has been one of tension between its Statute representing the institutional framework within which it operates, and the realities of its activities which constantly aim to stretch this framework in order to enable the bank to adapt its activities to changing realities in the world. The EIB can therefore be seen as one of the players transforming the European region and asserting the European model throughout the world.

One can look at the process for disseminating this model as moving from the centre to the periphery. Under-developed regions within the initial core benefited from capital transfers from the EIB, aiming to integrate them more effectively into the first circle represented by the Europe of Six. The subsequent enlargements caused an expansion of the European space, whether these

peripheries were located within old Europe, such as the old industrial regions undergoing redevelopment in the United Kingdom, or on its edges such as Greece in the early 1980s. The enlargement of 2004 created a new periphery in the proper sense of the word within Europe itself. These peripheries move little by little and the development of the Union gradually generates new ones. The bank therefore contributes to the gradual enlargement of a Europe that is becoming progressively more homogeneous, as demonstrated by the transformations accomplished in its eastern regions over the last twenty years.

However the transfer of the standards constituting the European model raises the question of what limits there are to this process. This applies particularly to the Mediterranean region, an area which, though peripheral in some respects, also represents in many ways the very foundations of European civilisation. Since the 1960s European policies and the bank's actions have tended to consider it as a single entity, e.g. for environmental data. The traditional distinctions governing the bank's actions within and outside the European Union are therefore tending to fade away and even lose their meaning. This means that the eternal question about Europe's boundaries and its relations with the rest of the world comes to the fore once more, a question which is relevant to the role of the EIB itself. In many respects the bank's activity in Latin America can be seen as a projection of Europe overseas, using specific and historic channels. But the same can probably not be said of Asia, and certainly not of sub-Saharan Africa despite the relations maintained until recently between colonised Africa and the home countries in the north. So in the latter cases it seems that the limits of the bank's ability to contribute to a transfer of the European model have been reached. The question of the

Mediterranean is more difficult to resolve. It is doubtless intertwined with political considerations in countries on both the northern and southern shores: what is the future of the Mediterranean area? What political and economic links should it have with Europe? This raises the question of whether an 'EIB model' created for Europe can be adapted and made applicable to adjacent regions. To act in the future using more appropriate methods it may be necessary to take specific forms of action or use structures compatible with the increasing diversification of the bank's methods of action. But to answer such questions is to assume that the bank's shareholders want to answer them. Is the question of extending the bank's action really relevant when we bear in mind that for certain shareholders the EIB should focus on the European Union, candidate countries and potential candidates, while others would like it to become a true development bank, and yet others would prefer it to support the expansion of European businesses throughout the world?

Also, the question of adapting the 'EIB model' does not only concern regions that are peripheral or in the process of integration. The bank's history is characterised by a succession of fundamentally different models within the heart of Europe. Initially the system was tightly controlled, and for many years the key issue was the mobilisation of savings to support public policies. This model held sway until the early 1980s and represented a structure and operating mode resulting from the immediate post-war period, characterised by the importance of the public sector's role in economic life. For a long time public bodies were effective partners for the bank, which relied quite heavily on their support to develop its activities. Although national specificities did exist, the area dealt with by the bank at that time was relatively homogeneous, making it

possible to implement procedures that were fairly uniform. This situation enabled the bank to adopt a structure that was both centralised, light and inexpensive in terms of its functioning.

The model was transformed in the 1980s with the transition to a much more liberalised economy where the public sector lost its influence and its ability to transform economic structures. The partners the EIB had been working with in the national economies lost their impact and the bank became interested in financing new ones: from then on the term 'client' became more current.

This change in the type of target, which began in the early 1980s, has resulted more recently in a strategy that is less centred than before on the volume of the financing granted. Along with this evolutionary change there has been a movement towards a more decentralised approach and the search for more diversified partnerships.

The bank now has to work in a much more fragmented market. It has become more concerned with SMEs at the expense of large businesses, and the process of regionalisation has required the EIB to work with partners who are geographically dispersed. The needs of the bank's new clientele are therefore more diverse, combining financing with the provision of technical support and expertise. Nowadays a single project brings together many different partners from the private and public sectors, using complementary techniques. The bank's added value has become a more fundamental and sophisticated concept than in the past. Its content will be increasingly adaptable, since the bank must adapt to needs that are also changing.

To what extent have the transformations caused by changes in the economic environment

modified the 'EIB model'? In reality this model has been in a state of virtually constant flux since the economic crisis in the 1970s which saw the increasing importance of new fields of action: energy, the environment, business and most of all SMEs. The transformation has accelerated since the period between 1980 and 1990. Nevertheless, it would seem that the bank took some time to become aware of the implications of these real changes in its activity, so that the initial impact on its corporate culture only took place at a later stage. The model of a wholesale bank seeking part of its effectiveness through the volume of its financing operations was consolidated during the period of strong growth in the 1990s, even though the relevance of a such a model was already being questioned. However it is true that instructions from the Council may have encouraged the bank to pursue this volume-centred culture. The emphasis placed on the 'triple A' rating and on the role played by the EIB in the markets demonstrate this culture's permanence. But the bank has also undergone pressure in the opposite direction since then: slowing of growth by certain States, promotion of subsidiarity. More than in the past the bank has to target its action towards sectors that have fewer resources and which only find the financing sources they need with difficulty and unfavourable terms, and towards projects that are economically justified but are financially fragile in terms of revenues. In addition, this work with more scattered targets which do not have the kind of guarantees the bank was able to obtain more easily in the past results in greater risk-taking which has to be paid for, plus higher costs for expert analysis and follow-up which can have an impact on its long-term results and development. Also, since the partnerships have to be more diversified with local bodies and major partners, there is

an increasing tendency to delegate and decentralise decision-making. The promotion of the 'EIB group' concept bears witness to this reality in the form of the creation of the EIF, and also to the bank's own future prospects.

In reality these changes represent an ongoing modification of the 'EIB culture' and 'model'. Increasingly the bank is going to have to combine models that were previously contradictory or related to very different kinds of players: on the one hand the model of public financial institutions operating on a high volume basis combined with a total State guarantee and often following politically determined strategies; on the other hand a model similar to an investment bank acting independently, seeking to support the growth of more fragile entities in their early stages and accepting higher risks. The ongoing synthesis of these two models represents a fundamental change: the EIB is a public bank reacting to major political decisions, but using the working methods of private financing institutions close to the market. A new corporate culture is being introduced and clearly it will be a long time before the balance is found.

The new environment in which the bank is operating raises a series of questions about the means at its disposal to implement its activity. On the one hand there is the political impetus from shareholders and therefore from the Council. On the other hand there are the proposals of and the vital work with the Commission. Finally, and increasingly, there are the bank's relations with European citizens represented by the Parliament. All this is taking place in a constantly changing economic world. The issue at stake here is the balance that needs to be found between integrating the bank's priorities into the

Union's policies, and the autonomy that it needs. In addition we should take into account the proposals generated by dialogue with its institutional partners.

An ability to respond to the impetus given by the Member States is one of the determining factors in the bank's future development. Its ability to contribute significantly to supporting the overall economic activity of the Europe of Twenty-Seven is obviously limited. The bank's participation in this kind of initiative should above all be seen as a political signal. But the situation is not the same if we are looking at the bank's impact in the context of specifically targeted areas or sectors. In this case it must be increasingly capable of proving that its action is relevant and effective. In what way do its initiatives contribute to changing the situation in a given region or sector? The concept of added value is therefore more than ever at the heart of the bank's decisions: the EIB is required to constantly examine this concept, its effective application and how it develops. But it cannot be examined in isolation: the ability to combine the bank's means and methods of intervention with the other means at the disposal of the European Union, in particular the Structural Funds, plus more and more the contributions from other partners, will increasingly be at the centre of its concerns.

The amount of capital available to the bank is one of the main components of its ability to play its role. The important aspect here is not so much its volume as the bank's ability to adapt it to its developing needs: since it is clear that capital increases will not give rise to any effective payment from Member States in the foreseeable future, the definition of the necessary level of capital will be determined by a dialectic ratio

between the level of risk taken by the bank and its ability to cover these risks and generate the profits it needs for its development. The amount of its own resources is therefore one of the elements in the pre-defined equation between the ability to adapt to the needs of the economy and inclusion in the Union's policies.

The challenges that confront and will continue to confront the bank in future years can be summed up in an apparent paradox as its ability to adapt to the environment in which it

operates while contributing to this environment's transformation. After the relative stability of the 1960s a different model has now taken over, both more dynamic and unstable, within which the bank must meet more loosely defined needs. Its ability to analyse and make proposals will determine its capacity to help to define its own future and the relevance of its action. The bank is in a position to contribute to structuring the European space using much more diverse means than in the past: it is no longer just a question of simply financing infrastructure in under-developed regions, but also



*The silver coin (925 thousandths) issued by the Luxembourg central bank on the occasion of the fiftieth anniversary of the EIB is the last in a series of seven collector's items relating to European institutions. The obverse of the coin shows the bank's East building. This new building, in reality and as shown on the coin, was designed to express transparency, modernity, particularly in its ecological aspects, but also continuity. The reverse bears the portrait of Grand-Duke Henri de Luxembourg, referring to the country in which the bank is located.*

of disseminating standards in the environmental field, structuring emerging financial markets, etc. The bank is also called upon to contribute via its actions to defining economic relations between the Union, neighbouring regions and the rest of the world, using suitable and inevitably diverse methods.

All this implies that the bank's corporate culture will have an internal dynamic based on responsibility and independence, a process that

has already begun. It also remains to determine the bank's ability to communicate about a project that is continually being refocused, so as to attract expertise around a concept based on the common interest, the assessment of market data and performance.

*Éric Bussière, Michel Dumoulin and Émilie Willaert*







# Appendices



## 1. Timeline

### 1.1. European Investment Bank

<b>1949</b>	
29 October	proposal made by Maurice Petsche to the OEEC Council for the creation of a European Investment Bank
<b>1950</b>	
15 June	presentation of the Stikker plan to the OEEC, with a major role for a European investment fund
28 June	submission of the Pella plan to the OEEC, providing for the creation of a European investment fund
<b>1955</b>	
21 July	first meeting of the Messina Committee's investment sub-committee

### 1.2. Europe: from six to twenty-seven

<b>1948</b>	
16 April	signing of the Treaty of Paris creating the OEEC
7-11 May	European Movement Congress in The Hague
<b>1949</b>	
5 May	signing of the Treaty of London, instituting the Council of Europe
<b>1950</b>	
8 May	statement by Robert Schuman proposing the creation of a coal and steel pool
24 October	presentation of the Plevin plan for a European Defence Community (EDC)
<b>1951</b>	
18 April	signing of the ECSC Treaty in Paris
<b>1952</b>	
27 May	signing of the EDC Treaty in Paris
10 August	start of operations of the High Authority of the ECSC
<b>1953</b>	
9 March	draft treaty for a European political community adopted by the Ad Hoc Assembly
<b>1954</b>	
30 August	EDC rejected by the French National Assembly
<b>1955</b>	
1-3 June	Messina Conference
9 July	start of the work of the Spaak Committee

<b>1956</b>		<b>1956</b>	
8 October	first meeting of the ad hoc group for the Investment Fund of the intergovernmental conference for the Common Market and Euratom	29-30 May	Conference of Venice: adoption of the Spaak report
<b>1958</b>		<b>1957</b>	
1 January	establishment of the EIB	25 March	signing in Rome of the treaties creating the EEC and EAEC
25 January	first meeting of the board of governors	<b>1958</b>	
13 February	appointment of the members of the first management committee; start of Pietro Campilli's term of office as President	1 January	entry into force of the Rome treaties
March	beginning of recruitment	7 January	installation of the Hallstein Commission
4 December	board of governors' directive on the bank's credit policy; appointment of the first members of the audit committee	3-11 July	Stresa Conference on the common agricultural policy
<b>1959</b>			
1 June	start of the presidency of Paride Formentini		
<b>1960</b>		<b>1960</b>	
1 April	authorisation to grant financing in West Berlin	4 January	signing in Stockholm of the agreement creating the EFTA
1 July	adoption of staff regulations	5 September	political union proposed by General de Gaulle
<b>1961</b>		<b>1961</b>	
30 March	launch of first EIB borrowing operation	9 July	signing of an association agreement with Greece
		9 August	United Kingdom application for membership
		2 November	presentation of the Fouchet plan for a European Political Community (EPC)

## European Investment Bank

1962	
25 February	authorisation to grant financing outside the Community (associated countries, (AAMS), overseas countries and territories and French overseas departments)
27 May	creation of the special section for operations under management

1965	
2 March	decision to transfer the EIB from Brussels to Luxembourg

## Europe: from six to twenty-seven

1962	
14 January	creation of the European Agricultural Guidance and Guarantee Fund (EAGGF)
17 April	failure of political union (Fouchet plan)
1963	
14 January	General de Gaulle's first 'veto' to British membership
20 July	signing of the Yaoundé Convention between the Six and seventeen African states and Madagascar
12 September	signing of an association agreement with Turkey
1964	
4 May	opening of trade talks within the GATT (Kennedy Round)
1965	
8 April	signing of the treaty merging the executive bodies of the three Communities
1 July	beginning of the 'empty chair' crisis
1966	
28-30 January	Luxembourg compromise putting an end to the 'empty chair' crisis
1967	
11 May	UK application for membership
1 July	entry into force of the treaty merging the executive bodies of the three Communities
6 July	installation of the Single Commission under the presidency of Jean Rey
27 November	General de Gaulle's second 'veto' to UK membership

**1968**

- 30 July adoption of the global loan facility for SME financing
- 1 September installation of the bank in Luxembourg
- 1 November opening of the first external office (Rome), apart from the Brussels office

**1970**

- 10 September start of the presidency of Yves Le Portz
- 15 October creation of a third vice-president post

**1971**

- 26 April first capital increase

**1968**

- 1 July completion of Customs Union among the Six

**1969**

- 1-2 December The Hague Summit: revival of European construction

**1970**

- 18 March presentation of the Colonna memorandum on the common industrial policy
- 30 June start of negotiations for the expansion of the EEC
- 2 July installation of the Malfatti Commission
- 17 October publication of the Werner report on Economic and Monetary Union
- 27 October adoption of the Davignon report on European political cooperation

**1972**

- 22 January signing of accession treaties with the United Kingdom, Ireland, Denmark and Norway
- 22 March installation of the Mansholt Commission; Commission's first announcement of a Community environmental policy
- 24 April creation of the European monetary 'snake'
- 22 September rejection of Norway membership by referendum
- 19-21 October Paris Summit: project for European Union

## European Investment Bank

### 1973

- 1 January entry of new Member States; creation of a fourth vice-president post
- 20 September issue of the first borrowing operation in eurco

### 1975

- 10 July capital increase
- 6 November first borrowing operation on the American market
- 14 December first borrowing operation on the Japanese market

### 1976

- 27 July approval of first risk capital operations under the Lomé Convention

### 1977

- 4 August extension of the special section to the financing of nuclear installations from Euratom resources

### 1978

- 14 May EEC mandate for the management of the first tranche of the NCI operation
- 19 June capital increase

## Europe: from six to twenty-seven

### 1973

- 1 January first expansion of the Community: entry of the United Kingdom, Ireland and Denmark
- 6 January installation of the Ortolí Commission
- 14-15 December Copenhagen Summit: agreement on the establishment of a common energy policy

### 1974

- 9-10 December Paris Summit defining new areas for community action

### 1975

- 28 February signing of the Lomé Convention with ACP states
- 18 March creation of the European Regional Development Fund (ERDF)

### 1977

- 6 January installation of the Jenkins Commission

### 1978

- 6-7 July European Council of Bremen: adoption of the principle of the European Monetary System
- 16 October creation of a new community borrowing and lending instrument (NCI)





## European Investment Bank

1986	
1 January	capital increase
1988	
1 January	introduction of a staff remuneration system taking greater account of merit
3 March	Court of Justice ruling on the bank staff's liability to Community tax
1989	
17 March	tripartite agreement involving the Commission, the Court of Auditors and the EIB
29 November	decision to finance projects in Poland and Hungary
1990	
14 March	granting of the first 'European' global loan
20 April	launch of the Mediterranean European Technical Assistance Programme (METAP), with the World Bank
29 May	participation as founding member of the EBRD
3 October	start of the application of the Statute to the extended territory of the Federal Republic of Germany
1991	
1 January	capital increase
25 February	extension of the bank's activity to the Czech and Slovak Federal Republic, Bulgaria and Romania

## Europe: from six to twenty-seven

1986	
1 January	accession of Spain and Portugal
17 & 28 February	signing of the Single European Act
1987	
14 April	Turkey applies for membership
1 July	entry into force of the Single European Act
1988	
11-13 February	European Council of Brussels: adoption of the Delors I package
1989	
1 January	reform of the structural funds
12 April	presentation of the Delors report on Economic and Monetary Union (EMU)
15 December	signing of the Lomé IV Convention
1990	
29 May	signing of the agreement to set up the European Bank for Reconstruction and Development (EBRD)
19 June	signing of the Schengen Agreement
1 July	start of the first stage of EMU
3 October	German reunification
1991	
16 December	signing of the 'European Agreements' with Poland, Hungary and the Czech Republic

**1992**

- 11-12 December European Council of Edinburgh: endorsement of the idea of a European Investment Fund, designation of Luxembourg as the bank's permanent headquarters and decision to create the 'Edinburgh facility' and a guarantee fund to cover loans outside the Communities
- 31 December creation of a fund for general banking risks

**1993**

- 10 February creation of the Edinburgh facility managed by the bank for infrastructure projects
- 22 February extension of the bank's activity to Latin American and Asian countries
- 1 April start of the presidency of Sir Brian Unwin
- 7 June extension of the bank's activity to Baltic countries (Estonia, Latvia and Lithuania)
- 21-22 June European Council of Copenhagen: decision to increase the resources of the Edinburgh facility and extend it to low-interest loans for SMEs

**1994**

- 1 January start of the mandate for the management of the financial facility of the European Economic Area
- 19 April extension of the Edinburgh facility to low-interest loans for SMEs
- 14 June establishment of the European Investment Fund
- 31 October creation of the new Guarantee Fund for activity outside the Communities, managed by the EIB
- 30 November authorisation for operations in Gaza and the West Bank of Jordan
- 9-10 December European Council of Essen: announcement of the creation of a special section for the financing of trans-European networks

**1992**

- 7 February signing of the Maastricht Treaty
- 2 May signing of the Porto Treaty creating the European Economic Area (EEA)
- 11-12 December European Council of Edinburgh: adoption of the Delors II package

**1993**

- 1 January entry into force of the Single European Market
- 1 November entry into force of the Treaty of Maastricht: birth of the EU
- 5 December the Commission adopts the White Paper on 'Growth, Competitiveness and Employment'

**1994**

- 1 January start of the second stage of EMU; entry into force of the EEA Treaty
- 16 May creation of the Cohesion Fund

## European Investment Bank

### 1995

1 January	capital increase
16 January	creation of a seventh vice-president post
19 June	authorisation for operations in South Africa

### 1996

3 June	creation of an observer's post on the audit committee
18 June	extension of EIF activity to equity participations
18 July	first borrowing operation in a currency of Central and Eastern Europe (Czech crown)

### 1997

29 January	first 'euro-tributary' bond issue
12 February	first borrowing operation in euros
16-17 June	European Council of Amsterdam: the EIB is asked to develop venture capital financing for high-tech SMEs, operate in the fields of education, health and the urban environment, and increase financing for trans-European networks
22 July	adoption of the Amsterdam Special Action Programme (ASAP)

### 1998

28 January	launch of the pre-accession facility for the countries of Central and Eastern Europe and Cyprus
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## Europe: from six to twenty-seven

### 1995

1 January	accession of Austria, Finland and Sweden
25 January	installation of the Santer Commission
26 March	entry into force of the Schengen Agreement
27-28 November	Euro-Mediterranean conference in Barcelona

### 1996

13-14 December	European Council of Dublin: agreement on the Stability and Growth Pact
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### 1997

2 October	signing of the Amsterdam Treaty
1-10 December	International Conference on Climate Change in Kyoto

### 1998

1 June	establishment of the European Central Bank (ECB) in Frankfurt
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1999		1999	
1 January	capital increase; use of the euro in EIB accounting	1 January	official launch of the euro; the currency is adopted by eleven Member States
26 January	adoption of the first 'Corporate Operational Plan' by the board of directors	15 March	mass resignation of the Santer Commission
2 March	introduction of the framework contract for the issue of Euro Area Reference Notes (EARN)	1 May	entry into force of the Amsterdam Treaty
3-4 June	European Council of Cologne: the EIB is asked to support the European Pact for Employment	21 June	institution of the structural instrument for pre-accession (ISPA) and the pre- accession agricultural instrument (SAPARD)
10 June	co-signing by the EIB of the Stability Pact for South-Eastern Europe, marking the bank's commitment to develop its operations in the Balkans	17 September	installation of the Prodi Commission
2000		2000	
1 January	start of the presidency of Philippe Maystadt	23-24 March	European Council of Lisbon: defining of strategic objectives for the EU's economy up to 2010
23-24 March	European Council of Lisbon: call for increased support to high-tech SMEs	23 June	signing of the Cotonou Agreement with ACP states
5 June	creation of the EIB Group; adoption of the 'Innovation 2000 Initiative' (i2i)	7 December	proclamation of the Charter of Fundamental Rights of the EU
19 June	approval of the EIF reform by its General Meeting		
24 October	adoption of the Structured Finance Facility (SFF)		
2001		2001	
15 February	first resolution of the European Parliament on the monitoring of the bank's annual report	2 January	Greece adopts the euro
23-24 March	European Council of Stockholm: EIB given a mandate for operations in Russia in the field of the environment		
15-16 June	European Council of Gothenburg: the EIB is asked to promote the sustainable development strategy		

## European Investment Bank

### 2002

12 June signing of a framework agreement between the EIB and Russia

### 2003

1 January capital increase  
 2 June launch of the investment facility of the Cotonou Agreement  
 3 June approval of the 'Innovation 2010 Initiative'  
 10 July Court of Justice ruling concerning the cooperation with the European Anti-Fraud Office  
 16-17 October European Council of Brussels: as part of the European action to promote growth, the EIB is asked to increase its support to trans-European networks, R&D and innovation

### 2004

27 January set-up of the Climate Change Technical Assistance Facility (CCTAF)  
 1 May ten new Member States join the bank; creation of an eighth vice-president post  
 22 December EU mandate for operations in Russia, Belarus, Moldova and Ukraine

### 2005

1 January entry into force of the Climate Change Financing Facility (CCFF)  
 19 May first public consultation procedure (concerning the disclosure policy)  
 14 December resumption of operations in Gaza and the West Bank of Jordan

## Europe: from six to twenty-seven

### 2002

1 January introduction of euro notes and coins  
 28 February opening session of the Convention on the future of Europe  
 11 November creation of the Solidarity Fund

### 2003

1 February entry into force of the Treaty of Nice

### 2004

1 May accession of ten States: Cyprus, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Czech Republic, Slovakia and Slovenia  
 29 October signing of the Treaty instituting a European Constitution  
 22 November installation of the Barroso Commission

### 2005

29 May voters in France reject the Constitutional Treaty in a referendum  
 1 June voters in the Netherlands reject the Constitutional Treaty in a referendum  
 3 October opening of negotiations for the accession of Turkey and Croatia  
 17 December candidate status granted to the former Yugoslav Republic of Macedonia

**2006**

- 22 May agreement with the EBRD on the creation of a joint Carbon Fund
- 30 May signing of agreements concerning JASPERS, JEREMIE and JESSICA
- 26 June first bond issue across the euro zone (EPOS)
- 24 July publication of the first EIB report on corporate responsibility
- 13 December launch of the Multilateral Carbon Credit Fund (MCCF) with the EBRD
- 19 December EU mandate for operations in Eastern Europe, the Southern Caucasus and Russia

**2007**

- 1 January entry of Bulgaria and Romania into the capital of the bank
- 20 March launch of the Carbon Fund for Europe (CFE) with the World Bank
- 3 May launch of the EIB-KfW carbon programme
- 9 May EIF capital increase
- 29 May issue of the EPOS II 'green' bond
- 5 June set-up of the Risk Sharing Finance Facility (RSFF) to promote research and innovation; adoption of the facility for sustainable energy and safe energy supply
- 27 September launch of the Post-2012 Carbon Fund

**2008**

- 11 January creation of a loan guarantee instrument with the European Commission for trans-European transport networks
- 2 June inauguration of the EIB's new building

**2007**

- 1 January accession of Bulgaria and Romania; Slovenia adopts the euro
- 12 December signing of the Charter of Fundamental Rights of the EU
- 13 December signing of the Lisbon Treaty

**2008**

- 1 January Cyprus and Malta adopt the euro

## 2. Key figures of the EIB since 1958\* (Source EIB)

Table 1

### Loans signed by the EIB and their breakdown by geographical area (in EUR million)

Year	European Union	EFTA	Partner countries	Signed amount	Outstanding amount
1959	34			34	34
1960	25			25	60
1961	87			87	147
1962	66			66	212
1963	71			71	281
1964	120			120	395
1965	102		7	109	488
1966	121		76	197	610
1967	164		48	213	757
1968	173		42	214	905
1969	248		74	322	1 144
1970	339		16	354	1 449
1971	470		33	503	1 890
1972	504		21	524	2 287
1973	731		117	848	2 865
1974	949	24	146	1 119	3 760
1975	965		41	1 007	4 617
1976	1 177		97	1 274	5 809
1977	1 423	44	106	1 573	6 966
1978	2 017		162	2 179	8 353
1979	2 726		345	3 071	10 326
1980	3 084		394	3 478	13 173
1981	3 464		378	3 842	16 949
1982	4 441		255	4 695	20 740
1983	5 681		276	5 958	25 659
1984	6 458		445	6 903	31 167
1985	6 748		369	7 117	33 291
1986	7 085		459	7 545	36 960
1987	7 450		388	7 839	40 506
1988	9 591		589	10 181	47 627
1989	11 658		596	12 254	53 630
1990	12 988	90	463	13 541	61 945
1991	14 686	98	609	15 393	72 713
1992	16 388	71	573	17 032	84 273
1993	18 367	17	1 010	19 395	98 022
1994	18 405	97	1 422	19 924	106 447
1995	19 083	329	2 002	21 414	115 027
1996	22 112	64	1 141	23 316	127 013
1997	24 221	184	1 715	26 120	142 750
1998	27 217	32	2 045	29 294	155 680
1999	29 833	97	1 670	31 599	179 617
2000	32 846	321	2 449	35 617	200 209
2001	33 659	174	2 920	36 753	223 328
2002	36 784	300	2 536	39 620	236 007
2003	38 617	99	3 557	42 273	249 939
2004	39 409	346	3 433	43 188	268 207
2005	43 223		4 150	47 372	296 540
2006	40 250	310	5 038	45 598	313 728
2007	41 285	146	6 389	47 820	328 025
<b>Total</b>	<b>587 544</b>	<b>2 843</b>	<b>48 603</b>	<b>638 990</b>	

(\*) The amounts in this Annex are expressed in euro and result from conversions made at the applicable rate for the relevant period.



Table 2

**Loans signed by the EIB in favour of partner countries**

(in EUR million)

Year	Pre-accession countries	Russia, Eastern Europe, South Caucasus	Mediterranean countries	All ACP countries	All OCTs	South Africa	Central and South American countries	Asian countries	Total
1965	5			2					7
1966	62			15					76
1967	37			12					48
1968	19			22	1				42
1969	43			29	2				74
1970				16					16
1971	10			23					33
1972				21					21
1973	77			40					117
1974	96			50					146
1975	35			2	4				41
1976	6			84	7				97
1977	21			85					106
1978	27		3	132					162
1979	82		177	86					345
1980	179		69	138	8				394
1981	49		120	209	1				378
1982	67		28	156	4				255
1983	53		86	136	2				276
1984	83		201	160	1				445
1985			135	221	14				369
1986	19		231	209	0				459
1987	17		27	341	4				388
1988	115		172	291	12				589
1989	42		285	259	10				596
1990	157		153	147	6				463
1991			219	382	8				609
1992			321	241	11				573
1993			677	217	18		44	55	1 010
1994			739	458	4		121	99	1 422
1995	128		1 109	430	3	45	120	168	2 002
1996	258		384	389	9	56	45		1 141
1997	95		968	56	4	214	205	173	1 715
1998	124		854	568	2	135	212	150	2 045
1999	150		712	327	19	152	215	95	1 670
2000	729		639	403	7	140	400	133	2 449
2001	689		1 031	513	3	150	365	169	2 920
2002	983		1 031	298		50	85	90	2 536
2003	972	25	1 488	464		260	254	94	3 557
2004	1 115		1 545	440		100	167	66	3 433
2005	1 387	60	1 264	537		145	134	622	4 150
2006	2 504		1 224	747		80	240	243	5 038
2007	2 926	230	1 438	746	10	113	365	560	6 389
<b>Total</b>	<b>13 360</b>	<b>315</b>	<b>17 329</b>	<b>10 099</b>	<b>173</b>	<b>1 640</b>	<b>2 972</b>	<b>2 715</b>	<b>48 603</b>

Table 3

## Loans signed by the EIB in favour of the Member States of the European Union

(in EUR million)

Year	Germany	France	Italy	Belgium	Netherlands	Luxembourg	United Kingdom	Denmark	Ireland	Greece	Spain	Portugal	Sweden	Austria	Finland	Poland	Czech Republic	Hungary	Slovakia
1959		10.1	20.0			4.0													
1960	2.4	6.1	17.0																
1961	25.0	16.5	45.0																
1962		21.2	40.3	4.8															
1963		0.9	55.3							15.0									
1964	5.0	16.1	91.3							8.0									
1965	3.8	8.9	75.4							13.8									
1966	11.0		93.3							16.5									
1967	22.8	48.3	61.2	16.0						15.9									
1968	35.3	25.3	98.0	10.0		4.0													
1969	10.0	86.2	119.6		32.1														
1970	46.1	61.4	205.2	22.0	2.8	1.0													
1971	61.9	125.2	274.9		8.0														
1972	96.3	144.9	248.4	14.0															
1973	185.0	173.3	212.4				79.0	6.8	26.6					47.6					
1974	79.2	194.6	362.7	14.6	27.6		191.8	18.4	59.5										
1975		158.7	358.9	10.8			334.5	17.7	37.7	47.2									
1976	110.8	60.1	383.6	17.9	30.4		417.6	9.1	57.4			90.0							
1977	28.4	296.5	425.7				489.6	32.7	81.6			60.0		4.7					
1978	45.5	359.7	845.1	62.2			421.4	106.3	117.4	20.0		35.0							
1979	47.8	222.7	990.4	58.4			844.3	15.6	339.7	114.0		46.0		39.4					
1980	14.2	279.0	1 290.3	153.2			682.2	99.3	361.2	101.0		70.0		33.6					
1981	292.0	267.0	1 693.9	182.5			252.7	142.9	342.6	159.2	40.0	79.0							
1982	20.8	461.9	2 038.1	60.5			489.9	305.3	408.5	458.5	105.0	80.0							
1983	152.2	894.1	2 613.3				699.4	365.1	304.0	449.6	105.0	85.0							
1984	134.3	1 210.5	3 035.4	32.5		16.4	921.8	324.7	174.0	344.8	140.0	80.0							
1985	91.4	1 247.3	2 977.2	77.8	69.1		1 063.9	332.5	174.5	423.7	160.0	100.0							
1986	441.8	698.4	3 023.7	46.1	98.2		1 371.5	258.2	262.1	253.0	409.3	190.3							
1987	276.5	1 006.5	3 112.8	37.1	18.0	1.6	1 133.7	315.3	178.6	164.8	707.4	389.9		102.6					
1988	603.0	1 450.5	3 372.5	11.6	259.7		1 363.8	494.1	159.8	186.5	1 018.5	560.4							
1989	856.5	1 595.9	3 734.4	91.1	320.4		1 742.7	545.8	186.8	271.4	1 541.7	755.7							
1990	863.5	1 684.6	3 855.4	206.3	245.3	11.8	2 175.7	564.7	217.7	176.3	1 942.0	794.7			95.0		120.0		
1991	1 300.1	2 124.4	4 001.6	115.6	175.4	28.6	2 148.2	538.7	237.0	366.9	2 342.5	1 000.0			145.0		115.0		
1992	1 663.9	1 895.1	3 796.5	396.6	154.4	42.8	2 495.8	690.8	303.5	377.5	3 020.6	1 230.4			50.0	57.0	70.0	28.0	
1993	2 096.6	2 205.5	3 362.0	371.6	379.7		1 736.9	854.5	388.2	511.1	4 005.1	1 488.8		72.5	263.0	165.0	92.0	110.0	
1994	2 407.9	2 477.4	3 099.5	615.3	399.5	5.1	2 454.7	847.3	291.1	534.6	3 011.5	1 109.7	15.3	89.5	333.0	255.0	140.0	35.0	
1995	2 715.0	2 206.7	3 434.9	665.3	318.9	78.8	2 243.9	824.9	327.3	525.2	2 820.4	1 231.5	273.4	241.9	179.1	140.0	260.0	200.0	80.0
1996	3 093.7	2 809.2	4 120.7	657.5	765.7		2 425.2	688.0	188.7	721.1	2 552.6	1 293.2	846.5	489.9	302.1	380.0	255.0	135.0	100.0
1997	3 446.6	2 720.6	3 490.9	1 139.8	398.4	95.7	3 765.4	737.1	207.3	729.5	2 715.8	1 349.7	924.6	554.7	401.1	355.0	540.0	35.0	262.0
1998	5 096.4	3 048.6	4 387.3	857.6	426.2	100.8	3 024.5	745.0	248.1	735.7	3 113.5	1 498.1	652.6	358.5	534.7	715.0	284.3	375.0	51.0
1999	5 512.3	4 283.7	4 037.6	225.6	311.1	105.0	3 294.3	898.1	61.7	1 436.0	4 020.3	1 598.0	543.6	591.0	541.9	347.0	270.0	170.0	270.0
2000	5 973.3	3 279.1	5 497.6	528.1	233.4	200.0	3 205.4	984.1	412.0	1 712.2	4 183.1	1 852.4	621.1	720.8	495.2	941.0	385.0	240.0	242.0
2001	6 016.7	3 825.5	5 487.5	365.0	786.5	10.0	2 356.7	1 171.5	525.0	1 651.3	4 559.1	1 796.6	933.3	820.3	694.9	1 144.0	390.0	483.0	79.0
2002	6 504.4	4 022.5	6 040.7	478.9	537.5	73.6	3 328.1	1 027.1	400.0	1 071.6	5 425.7	1 769.9	719.8	998.4	744.5	1 083.0	898.0	515.0	80.0
2003	6 442.6	3 966.2	5 912.7	539.6	522.3	183.8	3 249.2	897.9	626.5	1 190.0	6 282.3	1 645.0	890.0	900.4	780.0	1 345.0	1 216.7	740.9	209.0
2004	6 701.0	4 152.3	6 013.5	737.5	582.6	61.4	3 375.8	924.6	518.7	1 429.8	6 751.4	1 588.9	773.2	943.2	932.1	1 683.3	561.0	805.0	195.0
2005	7 039.9	4 178.5	6 393.7	725.0	515.0	246.5	3 979.3	335.2	429.0	895.0	7 600.1	1 584.0	821.9	968.5	711.2	2 169.9	1 237.2	1 487.7	228.0
2006	6 562.3	4 400.5	5 161.3	581.0	1 035.0	24.0	3 567.4	32.2	576.1	1 137.1	7 646.5	1 496.1	281.8	1 355.0	670.0	2 031.0	959.1	1 160.4	197.5
2007	6 535.7	4 148.3	5 608.6	927.6	265.0	50.3	4 160.4	209.1	345.1	755.0	7 154.4	1 503.9	712.9	1 070.0	613.0	2 280.6	1 599.4	1 217.0	17.9
<b>Total before accession</b>										<b>351.4</b>	<b>550.0</b>	<b>725.0</b>	<b>15.3</b>	<b>389.8</b>	<b>60.2</b>	<b>7 336.0</b>	<b>4 976.1</b>	<b>3 430.9</b>	<b>1 546.0</b>
<b>Total after accession</b>	<b>83 671.0</b>	<b>68 576.7</b>	<b>115 617.4</b>	<b>11 057.1</b>	<b>8 918.1</b>	<b>1 363.1</b>	<b>65 486.7</b>	<b>16 360.6</b>	<b>9 575.0</b>	<b>18 667.6</b>	<b>82 823.7</b>	<b>27 727.1</b>	<b>8 994.7</b>	<b>10 012.5</b>	<b>7 599.9</b>	<b>8 164.8</b>	<b>4 356.7</b>	<b>4 670.0</b>	<b>638.3</b>
<b>Grand total</b>	<b>83 671.0</b>	<b>68 576.7</b>	<b>115 617.4</b>	<b>11 057.1</b>	<b>8 918.1</b>	<b>1 363.1</b>	<b>65 486.7</b>	<b>16 360.6</b>	<b>9 575.0</b>	<b>19 019.0</b>	<b>83 373.7</b>	<b>28 452.1</b>	<b>9 010.0</b>	<b>10 402.4</b>	<b>7 660.1</b>	<b>15 500.8</b>	<b>9 332.7</b>	<b>8 100.9</b>	<b>2 184.3</b>

(in EUR million)

Slovenia	Lithuania	Cyprus	Latvia	Estonia	Malta	Romania	Bulgaria	EU-6	EU-9	EU-10	EU-12	EU-15	EU-25	Total EU	Switzerland	Iceland	Norway	Total EFTA	Total EU + EFTA
								34.1						34.1					34.1
								25.5						25.5					25.5
								86.5						86.5					86.5
								66.3						66.3					66.3
								56.2						71.2					71.2
								112.4						120.4					120.4
								88.1						101.9					101.9
								104.3						120.8					120.8
								148.3						164.2					164.2
								172.5						172.5					172.5
								247.9						247.9					247.9
								338.5						338.5					338.5
								470.0						470.0					470.0
								503.6						503.6					503.6
									683.1					730.7					730.7
									948.5					948.5			24.4	24.4	972.9
									918.3					965.4					965.4
									1 087.0					1 177.0					1 177.0
3.6									1 354.5					1 422.8			44.1	44.1	1 466.9
4.0									1 957.6					2 016.6					2 016.6
					8.0				2 518.9					2 726.2					2 726.2
									2 879.3					3 083.9					3 083.9
		12.0								3 332.8				3 463.8					3 463.8
		12.0								4 243.6				4 440.6					4 440.6
										5 477.8				5 681.4					5 681.4
										6 194.4				6 457.5					6 457.5
										6 457.3				6 747.5					6 747.5
											7 070.9			7 085.1					7 085.1
											7 342.3			7 450.5					7 450.5
											9 480.4			9 591.4					9 591.4
											11 642.4			11 658.4					11 658.4
											12 737.9			12 987.9			89.8	89.8	13 077.7
											14 378.9			14 686.4			97.9	97.9	14 784.3
											16 068.2			16 388.2			71.1	71.1	16 459.3
											17 399.9			18 367.4			17.4	17.4	18 384.9
											17 253.5			18 404.6			97.2	97.2	18 501.8
														19 083.4		40.0	288.9	328.9	19 412.3
														22 112.0		33.0	30.6	63.6	22 175.6
														24 221.4		24.3	159.4	183.7	24 405.0
														27 217.0		31.9		31.9	27 248.8
														29 832.8			96.6	96.6	29 929.4
														32 845.9		21.3	300.0	321.3	33 167.2
														33 659.0		39.4	135.0	174.4	33 833.3
														36 783.7	300.0			300.0	37 083.7
														38 617.4		23.0	76.0	99.0	38 716.3
														39 409.0		181.0	164.8	345.8	39 754.8
														42 243.6					43 222.6
														39 511.2			309.8	309.8	40 559.9
														41 285.0		146.0		146.0	41 431.0
<b>1 509.4</b>	<b>397.0</b>	<b>1 011.0</b>	<b>371.0</b>	<b>280.0</b>	<b>108.5</b>	<b>4 933.6</b>	<b>1 266.0</b>							<b>29 257.2</b>					
<b>1 493.0</b>	<b>117.9</b>	<b>615.0</b>	<b>323.9</b>	<b>120.3</b>	<b>53.0</b>	<b>174.8</b>	<b>1 108.1</b>							<b>558 287.0</b>					
<b>3 002.4</b>	<b>514.9</b>	<b>1 626.0</b>	<b>694.9</b>	<b>400.3</b>	<b>161.5</b>	<b>5 108.5</b>	<b>2 374.1</b>	<b>2 454.1</b>	<b>12 347.1</b>	<b>25 706.0</b>	<b>113 374.4</b>	<b>242 075.7</b>	<b>121 044.8</b>	<b>587 544.1</b>	<b>300.0</b>	<b>539.8</b>	<b>2 003.0</b>	<b>2 842.8</b>	<b>590 386.9</b>

Table 4a

### Individual loans by the EIB in the European Union by objective from 1998 to 2007 – Breakdown by country

(in EUR million)

Country	Economic and social cohesion	Transport projects in the common interest	Energy projects in the common interest	Environment	Human capital	Innovation 2010 Initiative	SME
Belgium	2 926	943	331	2 661		358	
Bulgaria	1 152	1 607		740			1
Czech Republic	4 857	2 275		2 459	245	1 071	
Denmark	1 797	2 908	934	1 646	381	1 536	
Germany	24 778	4 637	1 508	9 828	10 206	15 547	1 290
Estonia	80	15	80			5	
Ireland	2 640	1 124	1 316	250	68	168	
Greece	10 913	5 031	1 479	3 551	700	910	
Spain	40 020	18 389	5 642	13 763	2 648	6 573	680
France	9 998	6 920	240	7 349	2 707	3 199	180
Italy	25 101	10 712	7 805	14 596	2 488	5 676	1 632
Cyprus	660	55	100	560	315	335	
Latvia	214	51	210	250	150	155	150
Lithuania	128	182		145	60	65	60
Luxembourg	210	653	80	314		10	
Hungary	4 319	1 642	125	2 166	925	905	445
Malta	53			40			
Netherlands	388	1 032	550	1 526	795	529	
Austria	1 415	1 603	732	1 794	927	1 771	30
Poland	7 751	4 509	220	2 397	2 385	2 940	
Portugal	13 299	5 166	1 857	5 021	148	679	
Romania	1 571	2 320		1 271	310	243	3
Slovenia	1 257	1 279	406	116	20	335	20
Slovakia	583	409		107	97	150	95
Finland	2 451	1 175	228	1 691	1 573	2 236	
Sweden	1 589	1 482	686	2 760	644	2 126	90
United Kingdom	18 495	4 868	5 540	13 770	4 121	4 730	
EFTA		647	715	411		300	
<b>Total</b>	<b>178 645</b>	<b>81 636</b>	<b>30 783</b>	<b>91 182</b>	<b>31 912</b>	<b>52 552</b>	<b>4 676</b>

Table 4b

### Individual loans by the EIB in the European Union by objective from 1998 to 2007 – Breakdown by year

(in EUR million)

Year	Economic and social cohesion	Transport projects in the common interest	Energy projects in the common interest	Environment	Human capital	Initiative Innovation 2010	SME
1998	12 186	6 686	1 855	4 624	771		57
1999	12 877	9 148	2 271	5 408	611		50
2000	13 707	6 206	2 904	8 270	1 188	2 114	
2001	14 563	7 127	2 972	6 486	2 306	4 737	
2002	12 612	7 432	2 651	10 498	1 703	3 186	510
2003	20 103	9 091	2 767	11 483	4 453	6 154	665
2004	21 252	8 476	2 926	10 407	4 387	7 015	1 410
2005	28 369	9 132	3 643	11 206	6 019	10 338	568
2006	20 800	9 710	3 349	9 779	5 134	9 472	747
2007	22 178	8 628	5 445	13 021	5 339	9 535	669
<b>Total</b>	<b>178 645</b>	<b>81 636</b>	<b>30 783</b>	<b>91 182</b>	<b>31 912</b>	<b>52 552</b>	<b>4 676</b>

Table 5

### Development of EIB loans outstanding

(in EUR million)

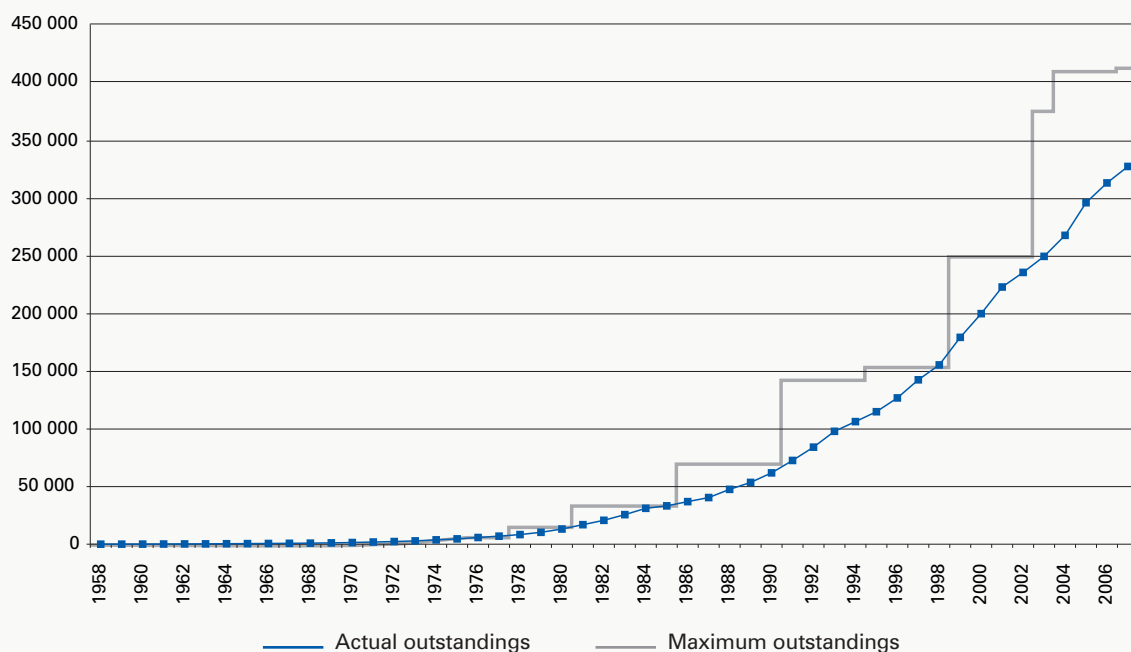




Table 6.a

**Breakdown of the capital of the EIB on 01/01/1958** (in EUR million)

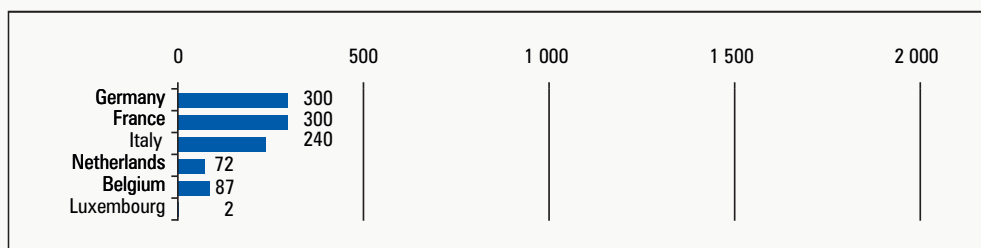


Table 6.b

**Breakdown of the capital of the EIB on 01/01/1973** (in EUR million)

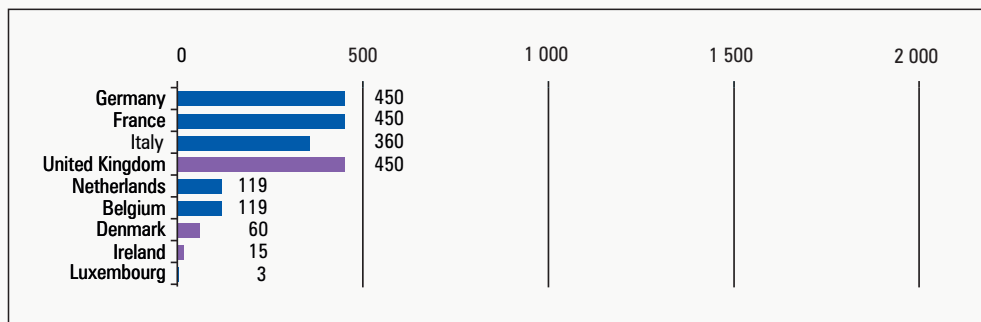
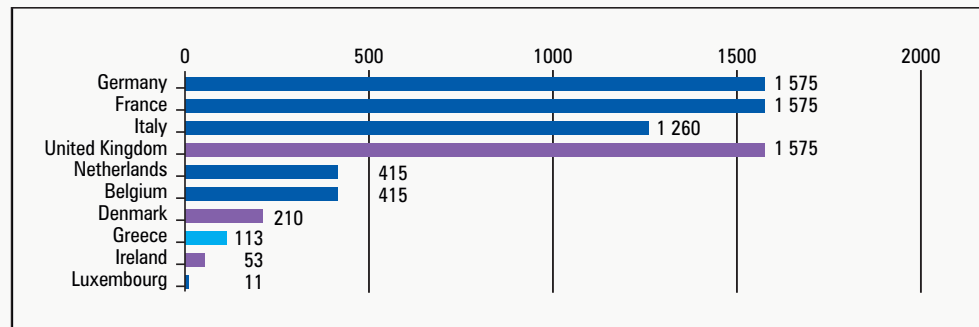


Table 6.c

**Breakdown of the capital of the EIB on 01/01/1981** (in EUR million)



- Founding members (1958)
- 1st enlargement (1 January 1973)
- 2nd enlargement (1 January 1981)
- 3rd enlargement (1 January 1986)
- 4th enlargement (1 January 1995)
- 5th enlargement (1 May 2004)
- 6th enlargement (1 January 2007)

Table 6.d

**Breakdown of the capital of the EIB on 01/01/1986**

(in EUR million)

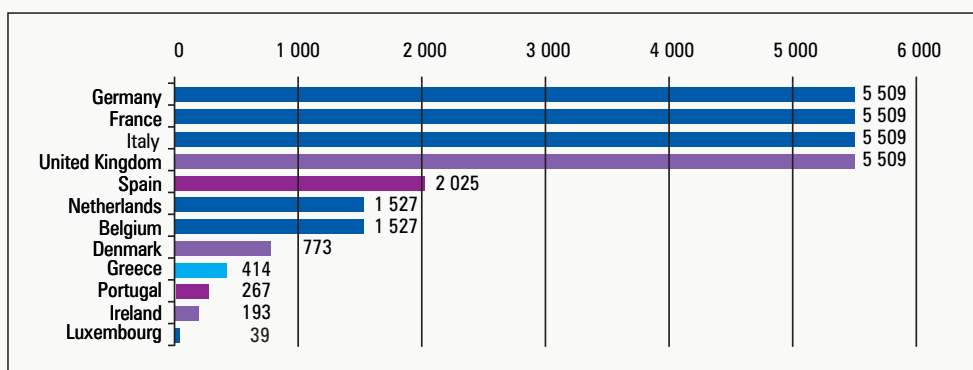
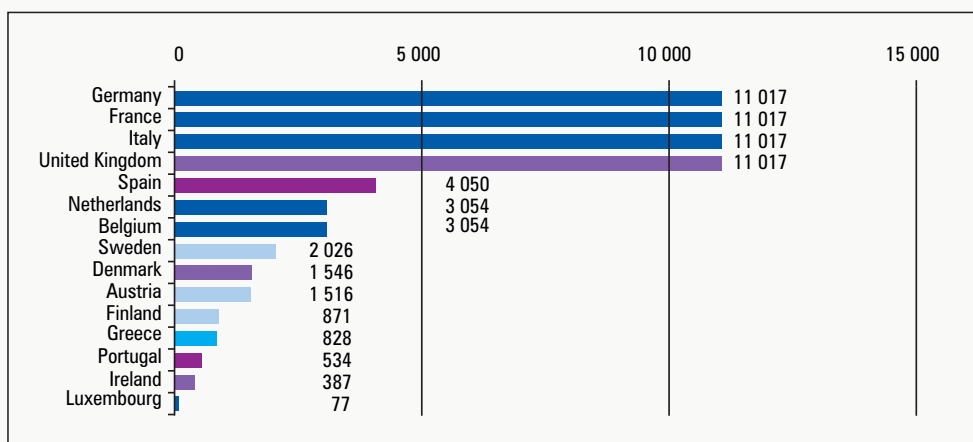


Table 6.e

**Breakdown of the capital of the EIB on 01/01/1995**

(in EUR million)



■ Founding members (1958)

■ 1st enlargement (1 January 1973)

■ 2nd enlargement (1 January 1981)

■ 3rd enlargement (1 January 1986)

■ 4th enlargement (1 January 1995)

■ 5th enlargement (1 Mai 2004)

■ 6th enlargement (1 January 2007)



Tableau 6.f

**Breakdown of the capital of the EIB on 01/05/2004** (in EUR million)

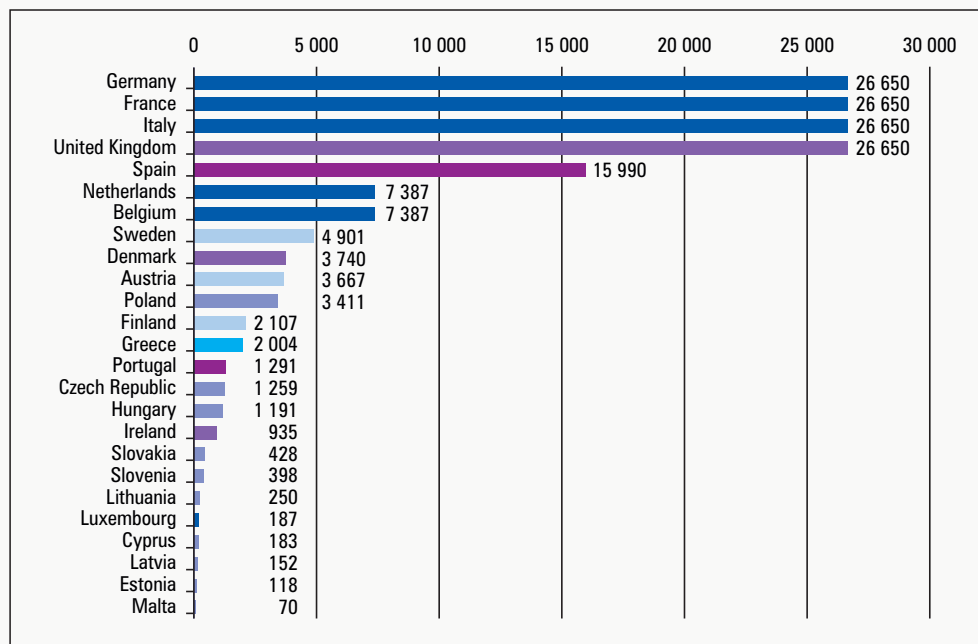
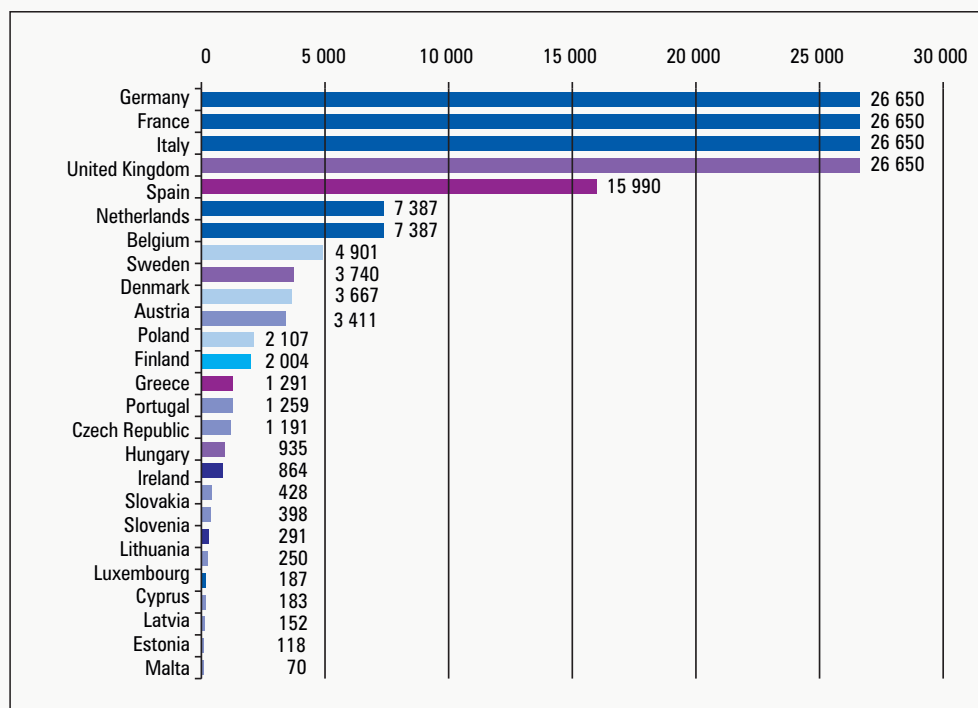


Tableau 6.g

**Breakdown of the capital of the EIB on 01/01/2007** (in EUR million)



- Founding members (1958)
- 1st enlargement (1 January 1973)
- 2nd enlargement (1 January 1981)
- 3rd enlargement (1 January 1986)
- 4th enlargement (1 January 1995)
- 5th enlargement (1 May 2004)
- 6th enlargement (1 January 2007)

Table 7

**Borrowing activity of the EIB: breakdown by currency**

(in EUR million)

Year	Community currencies		of which				USD		Other currencies		Total amount
			ECU / EUR		GBP						
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	
1961	19.3	90.4	0.0	0.0	0.0	0.0	0.0	0.0	2.1	9.6	21.4
1962	32.3	100.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	32.3
1963	35.2	100.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	35.2
1964	41.8	62.6	0.0	0.0	0.0	0.0	25.0	37.4	0.0	0.0	66.8
1965	45.0	69.3	0.0	0.0	0.0	0.0	20.0	30.7	0.0	0.0	65.0
1966	98.5	71.1	0.0	0.0	0.0	0.0	40.0	28.9	0.0	0.0	138.5
1967	84.5	47.1	0.0	0.0	0.0	0.0	95.0	52.9	0.0	0.0	179.5
1968	143.8	85.2	0.0	0.0	0.0	0.0	25.0	14.8	0.0	0.0	168.8
1969	164.7	86.8	0.0	0.0	0.0	0.0	25.0	13.2	0.0	0.0	189.7
1970	78.9	63.7	0.0	0.0	0.0	0.0	45.0	36.3	0.0	0.0	123.9
1971	240.7	55.6	0.0	0.0	0.0	0.0	140.0	32.3	52.3	12.1	432.9
1972	235.8	48.2	0.0	0.0	0.0	0.0	228.6	46.8	24.5	5.0	488.8
1973	391.0	63.9	0.0	0.0	0.0	0.0	149.2	24.4	71.8	11.7	612.0
1974	87.6	10.9	0.0	0.0	0.0	0.0	692.2	85.8	26.9	3.3	806.7
1975	391.1	48.3	0.0	0.0	0.0	0.0	268.6	33.2	149.7	18.5	809.4
1976	150.1	20.3	0.0	0.0	0.0	0.0	496.4	67.2	92.5	12.5	739.0
1977	355.9	35.8	0.0	0.0	38.2	3.8	500.0	50.3	137.5	13.8	993.4
1978	769.5	45.0	0.0	0.0	39.0	2.3	810.6	47.4	131.3	7.7	1 711.4
1979	1 257.2	48.9	0.0	0.0	62.1	2.4	1 045.7	40.7	269.1	10.5	2 571.9
1980	1 339.9	56.4	0.0	0.0	11.5	0.5	704.1	29.6	332.9	14.0	2 377.0
1981	1 156.5	48.4	97.2	4.1	141.0	5.9	624.9	26.2	607.5	25.4	2 388.9
1982	1 676.5	52.6	100.0	3.1	262.9	8.2	753.6	23.6	756.6	23.7	3 186.7
1983	1 731.8	51.7	155.0	4.6	175.7	5.2	834.3	24.9	784.9	23.4	3 351.1
1984	2 561.2	58.6	400.0	9.2	621.6	14.2	1 066.0	24.4	744.2	17.0	4 371.5
1985	3 098.2	57.2	850.0	15.7	132.9	2.5	1 259.4	23.3	1 056.2	19.5	5 413.9
1986	3 545.9	55.8	827.0	13.0	419.9	6.6	1 408.8	22.2	1 396.5	22.0	6 351.2
1987	4 306.0	67.7	725.0	11.4	531.4	8.3	957.3	15.0	1 101.4	17.3	6 364.7
1988	6 120.2	83.0	875.0	11.9	610.7	8.3	307.5	4.2	946.8	12.8	7 374.5
1989	5 551.1	80.3	1 429.0	20.7	591.6	8.6	533.5	7.7	826.3	12.0	6 910.9
1990	6 666.9	64.9	1 271.9	12.4	834.1	8.1	2 097.4	20.4	1 501.5	14.6	10 265.8
1991	8 556.2	67.1	2 000.0	15.7	1 269.9	10.0	1 954.6	15.3	2 236.6	17.5	12 747.3
1992	7 493.5	62.3	1 630.0	13.5	953.3	7.9	1 811.0	15.0	2 729.5	22.7	12 034.1
1993	11 083.7	72.7	650.0	4.3	2 435.6	16.0	1 715.6	11.3	2 442.4	16.0	15 241.7
1994	9 296.6	70.1	300.0	2.3	1 535.9	11.6	1 615.5	12.2	2 344.3	17.7	13 256.4
1995	7 812.8	74.2	400.0	3.8	635.3	6.0	445.9	4.2	2 270.6	21.6	10 529.3
1996	10 628.7	73.4	808.6	5.6	1 854.1	12.8	1 463.0	10.1	2 380.3	16.4	14 472.0
1997	13 375.9	70.4	1 300.0	6.8	5 007.3	26.3	3 010.6	15.8	2 619.9	13.8	19 006.4
1998	13 775.3	57.7	3 500.0	14.7	5 996.9	25.1	9 005.5	37.7	1 077.1	4.5	23 857.9
1999	19 988.6	65.9	13 012.9	42.9	6 975.7	23.0	7 366.8	24.3	2 962.7	9.8	30 318.1
2000	22 013.9	70.7	6 680.0	21.4	15 333.9	49.2	7 309.4	23.5	1 823.0	5.9	31 146.3
2001	17 260.6	53.4	10 398.2	32.2	6 862.4	21.2	13 092.5	40.5	1 951.6	6.0	32 304.7
2002	19 538.9	52.0	13 305.0	35.4	6 180.1	16.5	14 181.3	37.8	3 826.7	10.2	37 546.9
2003	24 935.1	58.6	17 318.0	40.7	7 174.6	16.9	12 576.5	29.6	5 024.5	11.8	42 536.1
2004	28 427.1	57.0	17 396.3	34.9	9 583.1	19.2	17 862.9	35.8	3 597.5	7.2	49 887.5
2005	32 023.5	60.5	19 637.3	37.1	11 902.6	22.5	14 785.4	27.9	6 120.4	11.6	52 929.2
2006	24 427.6	54.2	16 969.0	37.7	6 768.7	15.0	13 748.1	30.5	6 865.6	15.2	45 041.4
2007	32 979.1	60.1	20 675.4	37.7	11 023.0	20.1	14 399.8	26.3	7 453.2	13.6	54 832.1
<b>Total</b>	<b>345 994.5</b>		<b>152 710.8</b>		<b>105 965.0</b>		<b>151 497.5</b>		<b>68 738.2</b>		<b>566 230.1</b>

Table 8

**Guarantees and venture capital of the EIF from 1994 to 2007** (in EUR million)

Year	Guarantees*	Venture capital**	Total
1994	515		515
1995	116		116
1996	833		833
1997	769	58	827
1998	517	335	852
1999	1 563	269	1 832
2000	843	548	1 391
2001	958	800	1 758
2002	1 236	472	1 708
2003	2 251	134	2 385
2004	1 447	358	1 805
2005	1 685	368	2 053
2006	2 223	813	3 036
2007	1 397	521	1 918
<b>Total</b>	<b>16 353</b>	<b>4 676</b>	<b>21 029</b>

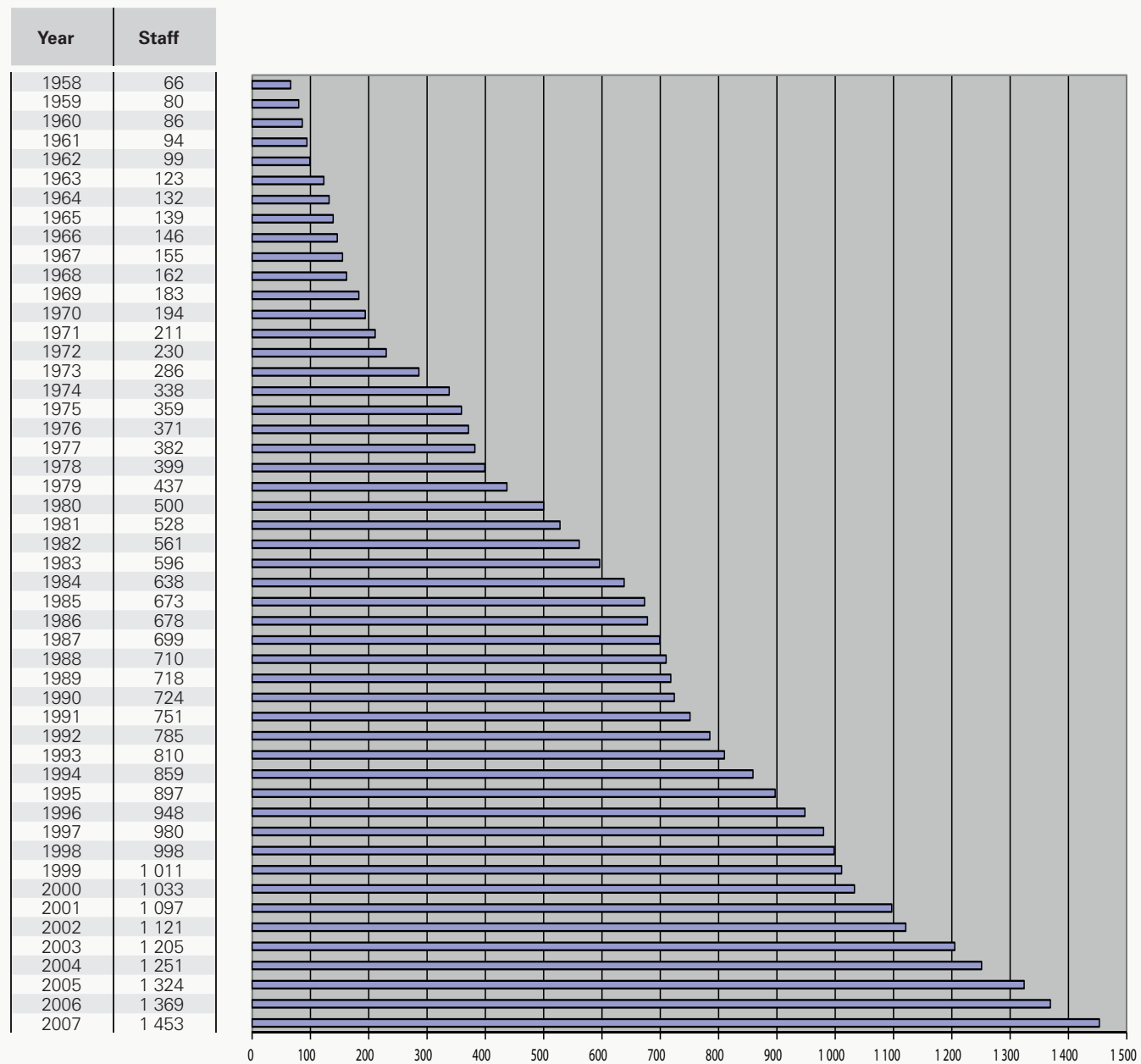
\* Including infrastructure projects related to TENs, until the portfolio was transferred to the EIB on 1 January 2001.

\*\* 1997-2000: including signings in the signed portfolio of the EIB (EUR 921.8 million), which were transferred to the EIF in the year 2000.

\*\*\* 2006-2007: including commitments in structures of the type "Funds of Funds".

Source EIF

Table 9

**Staff of the EIB****Active staff members**

As from 2002, the total staff includes all the seconded staff, the staff members in part-time retirement, except for the members of the Management Committee.

# Sources and works

This study is based on research in the archives of the European Investment Bank and those of other institutions, interviews with people directly involved in the making of its history, as well as official EIB documents and publications. Other printed sources were also used.

## 1. EIB Archives

Certain EIB archives are kept in the Historical Archives of the European Union (HAEU) in Florence:

*Giandomenico Sertoli fonds (EIB-1000)*

*Minutes of the meetings of the Board of Directors between 1958 and 1974 (EIB-1023 to 1134)*

*Documents related to EIB projects signed between April 1959 and May 1965 (EIB-2000 to 2100)*

These documents are available in electronic format at [www.eui.eu/ECArchives](http://www.eui.eu/ECArchives).

Under a specific authorisation the Bank granted access to the archives kept at its head office in Luxembourg for the sole purpose of writing the academic work commemorating its 50<sup>th</sup> anniversary.

## 2. Archives of European and international institutions

Archives of the World Bank

*Records of the Europe Regional Office - General - European Investment Bank and correspondence files for one Congo project*

Archives of the Council of the European Union, Brussels

*Conseil spécial de ministres CECA fonds - Négociations du traité instituant la CEE et la CEEA, 1955-1957 (CM3-NEGO)*

Archives of the International Labour Organisation (ILO), Geneva

## 3. National archives

### Germany

Bundesarchiv, Bonn

*Walter Hallstein fonds*

Politisches Archiv des Auswärtiges Amts, Berlin (PA-AA)

*Files B20-200, 1003 and B 20-200, 1961: Europäische Investitionsbank*

### **France**

Archives of the Banque de France (BDF), Paris

*Fonds de la direction générale des services étrangers (1489200205/207)*

National archives, Paris

*Fonds de la présidence de Georges Pompidou (SAG2)*

Archives of the French Ministry of Foreign Affairs, Paris (MFAE)

*Fonds Affaires économiques et financières – coopération économique*

Archives of the French Ministry of the Economy and Finance, Paris

*Fonds de la direction du trésor*

### **Belgium**

Archives of the Federal Public Service of Foreign Affairs (formerly the Ministry of Foreign Affairs) of Belgium, Brussels (AMAEB)

*File 11440-I: États-Unis d'Europe (1930-1940)*

### **Italy**

Archivi Centrale dello Stato (ACS), Rome

*Ministero del Bilancio e della programmazione economica fonds, Gabinetto*

### **Luxembourg**

Archives of the Robert Schuman Centre for European Studies and Research (CERE), Luxembourg

*Albert Borschette fonds*

### **Netherlands**

Nationaal Archief Nederland, The Hague

*Dirk U. Stikker fonds*

### **United Kingdom**

National Archives of the United Kingdom, Kew

*Foreign Office fonds: Political Departments: General Correspondence from 1906-1966 (FO 371)*

*Treasury fonds: European Economic Co-operation Committee (Rowan Committee) (T 232)*

*Treasury fonds: Home and Overseas Planning Staff Division and successors (T 234)*

*Treasury fonds: Overseas Finance Group: Finance (European Co-ordination) Division and Finance (European Monetary) Division (T355)*

## 4. Archives of other institutions

Archiv für Christlich-Demokratische Politik, Sankt Augustin (ACDP)

*Hans von der Groeben fonds*

Archives of the Jean Monnet Foundation for Europe (FJME), Lausanne

*Jean Monnet fonds, La Communauté européenne du charbon et de l'acier (1952-1955) (AMH)*

*Robert Marjolin fonds (ARM)*

Documentation fonds of the Georges Pompidou association, Paris.

## 5. Oral archives

Historical Archives of the European Union (HAEU), Florence

- Achille Albonetti interviewed by Paolo Tedeschi in Rome on 1 February 2008;
- Francis Carpenter interviewed by Éric Bussière and Arthe Van Laer in Luxembourg on 25 January 2008;
- Herbert Christie interviewed by Éric Bussière and Arthe Van Laer in Luxembourg on 24 January 2008;
- Michel Deleau interviewed by Éric Bussière in Paris on 11 December 2007;
- Dieter Hartwich interviewed by Jürgen Elvert in Luxembourg on 21 November 2007;
- Rémy Jacob interviewed by Michel Dumoulin in Louvain-la-Neuve on 14 March 2008;
- René Karsenti interviewed by Éric Bussière in Brussels on 28 February 2008;
- Philippe Marchat interviewed by Éric Bussière in Paris on 10 December 2007;
- Philippe Maystadt interviewed by Éric Bussière, Michel Dumoulin and Arthe Van Laer in Brussels on 3 December 2007;
- Alessandro Morbilli interviewed by Paolo Tedeschi in Frascati on 14 November 2007;
- Wolfgang Roth interviewed by Jürgen Elvert in Bonn on 6 December 2007;
- François Roussel interviewed by Émilie Willaert in Luxembourg on 21 November 2007;
- Jacques Silvain interviewed by Michel Dumoulin and Émilie Willaert in Paris on 12 December 2007;
- Alfred Steinherr interviewed by Éric Bussière in Luxembourg on 15 February 2008;
- Brian Unwin interviewed by Jürgen Elvert in Brussels on 30 January 2008;
- Fridolin Weber-Krebs interviewed by Jürgen Elvert in Brussels on 30 January 2008.

The transcripts of the interviews will be available at [www.eui.eu/ECArchives](http://www.eui.eu/ECArchives).

The authors were also able to draw information from the talks at a seminar held on 17 March 2008, attended by several persons currently serving at the EIB: Thomas Hackett, John A. Holloway, Rémy Jacob, Jean-Christophe Laloux, Philippe Maystadt, Peter Munro, Alfonso Querejeta and Éric Perée.

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### 3. Acronyms and Abbreviations

#### A

AASM:	Associated African States and Madagascar
ABDF:	Archives de la Banque de France
ACP:	African, Caribbean and Pacific States party to the Lomé Convention
ACS:	Archivio Centrale dello Stato
ADCP:	Archiv für Christlich-Demokratische Politik
AID:	Agency for International Development
AMAEB:	Archives du service public fédéral des affaires étrangères, Belgique
AMEF:	Archives du ministère des finances français
AMFAE:	Archives du ministère français des affaires étrangères
ARM:	Archives de Robert Marjolin
ATS:	Austrian schilling

#### B

BEF:	Belgian franc
Benelux:	Economic Union of Belgium, Luxembourg and the Netherlands
BIS:	Bank for International Settlements

#### C

CAECL:	Caisse d'aide et d'équipement des collectivités locales (subsidiary of Caisse des dépôts et consignations française)
CCCE:	Caisse centrale de coopération économique (France)
CCTAF:	Climate Change Technical Assistance Facility
CE:	Service de la coopération économique (France)
CERE:	Robert Schuman Center for European Studies and Research
CFE:	Carbon Fund for Europe
CHEFF:	Comité pour l'histoire économique et financière de la France
CHF:	Swiss franc
CIS:	Credito Industriale Sardo
COP:	Corporate Operational Plan
Coreper:	Committee of Permanent Representatives
Crediop:	Consorzio di Credito per le Opere Pubbliche
CSO:	Civil Society Organization

#### D

DAEF:	Direction des affaires économiques et financières (France)
DATAR:	Délégation à l'aménagement du territoire et à l'action régionale (France)
DEM:	Deutschmark
DG:	directorate-general

#### E

EAEC:	European Atomic Energy Community
EAFRD:	European Agricultural Fund for Rural Development
EAGGF:	European Agricultural Guidance and Guarantee Fund
EARN:	Euro Area Reference Notes
EBRD:	European Bank for Reconstruction and Development
ECB:	European Central Bank
Ecofin:	Economic and Financial Affairs Council

ECSC:	European Coal and Steel Community
ECU:	European currency unit
EDC:	European Defence Community
EDF:	European Development Fund (before 1963: European Development Fund for Overseas Countries and Territories)
EEA:	European Economic Area
EEC:	European Economic Community
EFF:	European Fisheries Fund
EFTA:	European Free Trade Area
EIB:	European Investment Bank
EIF:	European Investment Fund
ELISE:	European Loan Insurance Scheme for Employment
EMCF:	European Monetary Co-operation Fund
EMS:	European Monetary System
EMU:	Economic and Monetary Union
ENEL:	Ente nazionale per l'energia elettrica
EPOS:	Eurozone Public Offering of Securities
EPU:	European Payments Union
ERDF:	European Regional Development Fund
ERP:	European Recovery Program
ESF:	European Social Fund
Esprit:	European Strategic Programme for Research and Development in Information Technologies
ETBA:	Ελληνική Τράπεζα Βιομηχανικής Ανάπτυξης (Hellenic Industrial Development Bank)
ETF:	European Technology Facility
EU:	European Union
EUA:	European Unit of Account
EUR:	Euro
Euratom:	European Atomic Energy Community (EAEC)
Eurco:	European composite unit
Eurodif:	European Gaseous Diffusion Uranium Enrichissement Consortium

## F

FB:	Fonds Borschette
FEMIP:	Facility for Euro-Mediterranean Investment and Partnership
FIFG:	Financial Instrument for Fisheries Guidance
Finmare:	Società finanziaria marittima
Finsider:	Società finanziaria siderurgica
FJME:	Jean Monnet Foundation for Europe
FRF:	French franc
FS:	Ferrovie dello Stato

## G

GATT:	General Agreement on Tariffs and Trade
GBP:	Pound sterling
GDP:	Gross Domestic Product
GNP:	Gross National Product

## I

I2i:	knowledge economy
IBRD:	International Bank for Reconstruction and Development
Icipu:	Istituto di Credito per le Imprese di Pubblica Utilità
IFC:	International Finance Corporation
IFI:	International financial institution
ILO:	International Labour Organisation
IMF:	International Monetary Fund
IMI:	Istituto Mobiliare Italiano
IMP:	Integrated Mediterranean Programme
Irfis:	Istituto Regionale per il Finanziamento delle Industrie in Sicilia
IRI:	Istituto per la Ricostruzione Industriale
ISCLT:	Club of Institutions of the European Community Specialising in Long-term Credit
ISPA:	pre-accession structural instrument
Isveimer:	Istituto per lo sviluppo economico dell'Italia meridionale
ITL:	Italian lira

## J

Jaspers:	Joint Assistance to Support Projects in European Regions
Jeremie:	Joint European Resources for Micro-to-Medium Enterprises
Jessica:	Joint European Support for Sustainable Investment in City Areas
JPY:	Japanese yen

## L

LBP:	Lebanese pound
LUF:	Luxembourg franc

## M

MCCF:	Multilateral Carbon Credit Fund
METAP:	Mediterranean Environmental Technical Assistance Programme

## N

NATO:	North Atlantic Treaty Organisation
NCI:	New Community Instrument
NGO:	non-governmental organisation
NL:	The Netherlands
NLG:	Dutch guilder
NUTS:	Nomenclature of Territorial Units for Statistics

## O

OCTs:	overseas countries and territories
OD:	overseas department (France)
OECD:	Organisation for Economic Co-operation and Development
OEEC:	Organisation for European Economic Co-operation
OJ:	Official Journal
OLAF:	European Anti-Fraud Office
OPEC:	Organisation of Petroleum Exporting Countries

## P

PASA:	Amsterdam special action programme
PHARE:	Poland-Hungary: aid for economic restructuring (Community aid programme for central and east European countries)
PLO:	Palestine Liberation Organisation
PPS:	Purchasing Power Standards

## R

RD:	research & development
RSFF:	Risk Sharing Finance Facility

## S

SAPARD:	pre-accession agricultural instrument
SDR:	Société de développement régional (France)
SDR:	special drawing right
SEA:	Single European Act
SEITA:	Société d'exploitation industrielle des tabacs et des allumettes
SFF:	Structured Finance Facility
SIP:	Società idroelettrica piemontese, then (1964) Società italiana per l'esercizio telefonico
SME:	small and medium-sized enterprise
SNCF:	Société nationale des chemins de fer français
Stabex:	System for the stabilisation of ACP and OCT export earnings
STET:	Società Torinese Esercizi Telefonici
Sysmin:	Special financing facility for ACP and OCT mining products

## T

TENs:	trans-European networks
TGV:	high-speed train
TSKB:	Türkiye Sınai Kalkınma Bankası (Turkish Bank for Industrial Development)

## U

u.a.:	unit of account
UK:	United Kingdom
UMHK:	Union minière du Haut Katanga
UNICE:	Union of Industrial and Employers' Confederation of Europe
UNNRA:	United Nations Relief and Rehabilitation Administration
USD:	United States dollar
USSR:	Union of Soviet Socialist Republics

## W

WB:	World Bank
WTO:	World Trade Organisation



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## Introduction of the authors

*This book was co-edited by:*

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The history of the European Investment Bank cannot be dissociated from that of the European project itself or from the stages in its implementation. First broached during the inter-war period, the idea of an institution for the financing of major infrastructure in Europe resurfaced in 1949 at the time of reconstruction and the Marshall Plan, when Maurice Petsche proposed the creation of a European investment bank to the Organisation for European Economic Cooperation.

The creation of the Bank was finalised during the negotiations which preceded the signing of the Treaty of Rome establishing the European Economic Community. As well as contributing to the financing of projects of common interest, it also met the concerns of those who feared that the common market would accentuate imbalances in regional development or hasten the decline of certain industries. The Bank

would thus mobilise capital to promote the cohesion of the European area and modernise the economy. These initial objectives have not been abandoned.

However, today's EIB is very different from that which started operating in 1958. The Europe of Six has become that of Twenty-Seven; the individual national economies have given way to the 'single market'; there has been continuous technological progress, whether in industry or financial services; and the concerns of European citizens have changed.

This work is thus a history book. It follows the successive enlargements of the European Union as well as the changes in the economic and political environment. It endeavours to understand how the EIB has set its course over half a century of upheavals whilst remaining true to plans of its founders.



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