Significance of the European Investment Bank

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Significance of the European Investment Bank

by

Maria L. Pisaneschi

A thesis submitted in partial fulfillment of the requirements for the degree of Master of Arts Department of Political Science College of Arts and Sciences University of South Florida

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Date of Approval: March 30, 2004

Keywords: european union, development bank, european bank of reconstruction and development, regional development, regional lending

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Dedication

A special thanks to my major professor, Dr. Mark Amen, for all his continuous support, motivation and inspiration over the years.

To all those who have supported me in this endeavor, especially my parents, Tracy, Scooter, Beverly, Katherine, John and many other friends whom always believed in me.
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The Significance of the European Investment Bank

Maria L. Pisaneschi

ABSTRACT

Since the implementation of the Treaty of Rome in 1958, the Common Market of six European states has grown to the European Union of twenty-five states as of May 2004. From the outset, the integration of these states into a single economic system has made more apparent the differences in levels of economic development among and within the member states. The original members of the Common Market were aware of these regional differences in 1958 and created the European Investment Bank as part of the Treaty of Rome to provide investment funds to reduce the development gap among the member states.

This thesis assesses the extent to which the European Investment Bank has contributed to closing this gap. An analysis of its lending to the fifteen member countries of the European Union between 1995 and 2001 establishes that the economic development gap has not been reduced and that the lending policies of the EIB have not significantly contributed to solving differences in levels of development among these member states. Examining the GDP of the member nations during this time period reveals that the EIB has been unable to spur economic growth and close the development gap. Particular attention is paid to those member states who received the greatest percentage of EIB lending.
Chapter One
The European Investment Bank

Introduction

What is the significance of the European Investment Bank as a developmental tool for the European Union? What impacts have its activities had on the development gap among and within the European Union member states? Research on the EIB and its lending practices can demonstrate the effectiveness or significance of the EIB in the development of the EU economic community.

Frederick S. Dunn defines international relations as the actual relations that take place across national boundaries or as the body of knowledge that we have of those relations at any given time (Dougherty and Pflazgraff 1990). The integration of the European states, beginning with the birth of the European Coal and Steel Community in 1952, has led to the development of many supranational (as well as intergovernmental) institutions, including the European Investment Bank (EIB). The Treaty of Rome created the EIB in 1958 as a finance institution that will contribute towards the integration, balanced development and economic and social cohesion of the member nations (European Investment Bank 1999). The EIB is concerned with promoting smooth and balanced development of the member states of the European Community, now the European Union (European Investment Bank 1978).
While considered part of the EU, the EIB remains autonomous from other institutions of the Union. The design of the EIB has been for operational autonomy within a general legal framework. It has the authority to decide on lending operations within the EU, but outside the EU the EIB acts on mandates from the Council of Economic and Finance Ministers (Dinan 1998). The role of the EIB is one factor to assess in understanding the relationship between the international political economy and regional movements such as the European Union. Assessing the lending behavior of the EIB will enhance our understanding of how regional development occurs among autonomous states that are creating a single economy.

The EU is a single market system of 15 European nation-states. There are uneven levels of economic development within this single market and across and within each of the 15 member states. The expansion of the European Union, with the addition of 10 new members in May 2004, will create an even larger regional development gap. It was evident from their creation of the EIB in the 1958 Treaty of Rome, that the six members of the Common Market were already concerned with the issue of uneven levels of development among the original members. The issue of uneven regional development among and within the member states continued to be an issue with each enlargement of the Common Market and later the European Union.

Each of the six original members joined for political reasons; and each subsequent enlargement was also supported for a number of political reasons. Yet the consequences of these political decisions were apparent for the regional development gap issue. From the outset and thereafter, each
enlargement made the development gap among the members and within some of the members a more pronounced problem with which the EIB had to contend. France was a pivotal country in establishing the Common Market. Charles de Gaulle, President of France during this time period, saw the entry of France as a positive opportunity both to address development issues within his own country as well as for the promotion of his foreign policy goal to establish a united Europe under French leadership. The European Community offered an opportunity to stabilize the politics of France, modernize its economy (establish its agricultural system), and create a framework in which to embed Franco-German rapprochement (Dinan 1999). French solidified its relationship with Germany when De Gaulle supported the French policy of reconciliation and rapprochement. De Gaulle’s commitment to the Treaty of Rome was given in exchange for German support for the CAP. De Gaulle’s support was essential for establishing the European Community. His commitment to the original common market was so firm that he devalued the franc in 1958, cut government expenditures and instituted tax hikes to bolster the French economy to prepare it for the impending intra-EC tariff reductions. De Gaulle also saw the EC as a means to improve the French economy. The Common Agricultural Policy (CAP) provided a large market for French agriculture and high prices even when the world market prices were lower. This would give France time to modernize its agricultural sector and close the agricultural development gap between France and other original members (e.g., German Federal Republic and the Netherlands).
For several reasons, Britain was not willing to consider signing the Treaty of Rome. Instead, it successfully proposed the establishment of the European Free Trade Agreement (EFTA) to establish an alternative within Europe to the Common Market. EFTA allowed Britain to maintain its commonwealth relationships while also enjoying the benefits of special trade preferences with other EFTA member states. Of course, this alternative was not welcomed by De Gaulle, who subsequently blocked Britain from entry into the Common Market when it did apply several times after 1958. EC member nations perceived Britain as deterrent from integration. Britain applied for EC membership in 1967 and again de Gaulle led the opposition to the application. Once again Britain was denied membership into the EC for essentially the same reason as before.

The first enlargement of the Common Market began with British entry negotiations in 1970. Pompidou, who had replaced DeGaulle, was far more willing to consider British entry, especially since the French economy had declined relative to that of the German Federal Republic between 1958 and 1970. Under Pompidou, France was also more supportive of British entry because its membership was perceived as a means to ensure a gradual move into the European Monetary Union (EMU) that France was so intent on establishing. In fact, Pompidou’s willingness to support British entry went so far that he actively supported the creation of the European Regional Development Fund (ERDF) which Prime Minister Heath wanted as a promise from the other Common market members to assist in closing the agricultural and industrial development gaps between Britain and other Common Market
member (Dinan 1999). Germany wanted to quicken the pace of EMU and viewed enlargement as a deterring from this process. Britain viewed entry to the EU as a means to become a more prosperous nation and obtain greater economic development. While its entry into the Common Market would widen the regional development gap among the member states, this issue was not of central concern when terms of entry were negotiated.

The fishing and agricultural policy of the EU was of major concern to Norway and essentially was the stumbling block to entry. The Norwegians were concerned with EU agricultural and fishing policy as well as their fledgling oil industry. Denmark, like many in Britain, was leery of integration. Since Denmark conducted a majority of its trade with Britain, it was compelled to apply for entry. Denmark needed access to Britain’s markets and would not have those on equal terms with other common market members if it chooses not to apply for entry. Ireland’s economy was tied to Britain more than Denmark thus there was overwhelming support for Irish entry into the Common Market. Although Ireland’s economy was linked to that of Britain, it was severely underdeveloped. Joining the Common Market would only exacerbate the gap in regional development among the member states. The first enlargement consisted of these four countries applying for entry, yet only three became members in January 1973. It occurred just as the industrialized world, including Europe, began a period of economic decline characterized by slow growth and rising inflation (i.e., stagflation). This only worsened regional development problems within the
Common Market. Norway’s national referendum did not pass, thus they did not choose to join.

The second enlargement occurred when Greece joined in 1981. Greece had recently returned to a system of democracy. The addition of Greece was seen as a means of combating the institutional decline of the EU. Yet the gap in development between Greece and the other members of the Common Market clearly made the regional development problem among the member states a far more difficult issue to reason. The European Community commission president wanted the enlargement to spur the existing EC members to begin institutional reforms. This enlargement resulted in the entrance of Greece only.

The third enlargement began with entrance negotiations of Spain and Portugal. This enlargement had tremendous economic obstacles to address as these countries, like Greece, were extremely poor and also large populations. The EC commission facilitated Portugal entry by providing funds to modernize the economy. France was concerned with agricultural competition with accession of Spain and this concern provoked a CAP reform. Additionally Greece demanded the EC finalize Integrated Mediterranean Programs (IMPs) before concluding enlargement negotiations. The IMPs were financial assistance to not only Greece, but Italy and southern France as well. This assistance was to promote agriculture, small business and tourism. The end result was the member states agreeing to finance the IMPs and allocating approximately 30 percent to Greece. This agreement removed the final obstacle to Spain and Portugal entrance, both of whom joined in
1986. Clearly the arrangements for their entry pointed out how widespread the regional development problem had become within the community.

The fourth enlargement occurred after the Maastricht Treaty was implemented in November 1993 and renamed the EC the European Union. Austria, Finland and Sweden joined in January 1995. This enlargement was seen as strengthening the concepts of democracy and openness. This enlargement extended the Union to the north and increased its size by 33 percent. These countries brought new and different perspectives on environmental issues, regional development and investment. The accession of these nations occurred very rapidly as their respective economies were stronger than most of the existing EU. Most importantly they had already adopted much of EU policy. The EU wanted to fully implement the single market program before another enlargement occurred. The European Economic Area was created as an association of the twelve EU countries and the seven European Free Trade Association (EFTA) members. EFTA included Sweden, Austria and Finland. The EEA would become the largest commercial bloc. The EEA became a stepping stone to membership in the EU.

Since the collapse of the Soviet Union and its relations with several Eastern European countries in the early 1990s, several former and newly formed countries have sought admission to the European Union. In May 2004, ten of these countries will be admitted. Their admission to the EU has been based on several reasons; but the primary concern has been political. Allowing entry has been perceived as a mechanism for ensuring their
progress toward democratic practices and the promotion of a market-based approach to economic develop. At the same time, and as was already experienced by the EU with the reunification of Germany in the mid-1990s, their entry will intensify the need to solve problems related to disparities in level of economic development among the twenty-five member states.

Against this brief background, there has been very little research conducted on the effectiveness of the EIB in addressing the development gap goals of the Common Market, then the European Community, and now the European Union. The EIB was created in 1958 to deal with regional development issues among the six member states. Although its mission since then has not changed, this brief description of enlargement clearly establishes that the politics of enlargement has impacted the extent to which the scope of the problem for which the EIB was created has become far more extensive and complex since 1958. This thesis will contribute to understanding the effect EIB has had on regional development goals and why this effect has occurred.

The relationship among the EU, regional development and the EIB has not been fully analyzed in any scholarly writings. Literature does exist which separately discusses these entities, their goals and structures. This literature will be utilized as the starting point for a more in depth analysis of the regional development gap within the EU.

When discussing the EIB, most literature addresses the area of regional development. The development of transport, telecommunications and energy infrastructure has a great impact on the economic growth rates in the
different regions of the EU (Balchin and Sykora 1999). Rates of economic growth are a primary concern of the EIB, especially in the area of regional development. The EIB (1999) requires all projects brought to it for lending adhere to one of the following objectives:

- Foster economic development in less favored regions (balanced development)
- Improve European transport and telecommunications infrastructure
- Protect the environment
- Secure energy resources
- Boost the competitiveness of industry
- Promote small and medium sized enterprises (SMEs)
- Modernize and extend the infrastructure in the health and education sectors

These objectives of the EIB provide insight into the lending practices and procedures of the bank. What is relevant to the research question is how these EIB objectives, particularly economic development have been effective in reducing the regional development gap and promoting integration within the Union.

I propose that the European Union member states have not been successful in closing the differences in levels of development among themselves. I will test this proposition by completing a case study of the European Investment Bank.

The remainder of chapter one will contain a review of current literature regarding the European Investment Bank relevant to the thesis. The
relevant theory of international relations will be briefly identified and the
sources and method of research that will be utilized in this thesis are named.
In chapter two I will describe the organization and foundation of the EIB. I
will review the treaties and the applicability to the research proposal.
Chapter three will outline the establishment of the European Bank for
Reconstruction and Development and its connection to the research proposal.
I will review the lending patterns of the EIB in chapter four. Chapter four is a
detailed analysis of the financing of EIB lending in relation to the individual
countries of the European Union. Finally, in chapter five, I will summarize
and provide analysis of the case study of the European Investment Bank
created by earlier chapters. Chapter five serves as a conclusion to the
research project and reports the results from testing the research
proposition.

**Literature Review**

There are three areas of research that are present in the literature
review that analyze the European Investment Bank. These areas are EU
institutional effects, non-EU institutional effects and effects since the 1980’s.

**European Union Institutional Effects**

The regional development role of the EIB may also be affected by the
different kinds of relations it has with various EU institutions. Laffan (1997)
argues the relationship between the EIB and the Commission of the EU is
complementary and does not suffer from the interinstitutional rivalry, which
is prevalent in most of the decision making in the EU. Laffan supports this
complementary relationship by noting that two senior directors from the
commission serve on the board of directors for the EIB. However, the Commission has created initiatives to address regional development that are separate from the EIB. For instance, the EU established the Cohesion Fund, a programming approach for structural spending within the EU. The Treaty on European Union (TEU) created the Cohesion Fund for the four poorest countries of the union. It was created as a separate entity, independent from another EU program: the European Regional Development Fund (ERFD) established in the 1970s in response to demands from the United Kingdom. What is the relationship between these programs and the EIB? The Cohesion Fund and the ERFD must be assessed to determine their contributions, as compared to those of the EIB, to closing the regional development gap. Are these programs compatible with those of the EIB, thereby reflecting a harmonious relationship between the EU commission and the EIB on the question of regional development?

Laffan (1997) claims there is an uneasy relationship between the EIB and two other EU institutions: the European Parliament and European Court of Auditors. The relatively complementary relationship between the EIB and the Commission does not exist between the EIB and the European Parliament (EP). The EP is continually presenting resolutions to ensure adequate political monitoring of the borrowing and lending activities of the EU, including the EIB (Laffan 1997). The EP argues that the EIB should be held to greater accountability because the EIB manages funds on behalf of the community. The EP also argues that the EIB’s lending activities affect the
implementation of structural funds from a budgetary perspective and therefore should be monitored (Laffan 1996).

Along with the EP, the Court of Auditors has had a continued dispute with the EIB regarding the process of auditing. The EIB maintains its own auditing structure and does not want the Court to conduct audits. In November 1992, an agreement was signed between the two institutions to normalize relations between the institutions and set up a framework for auditing. To what extent are the positions of the EP and the Court of Auditors factors that effect EIB’s regional development goals?

Laffan’s analysis suggests that the level of cooperation between the EIB and EU institutions varies; but he does not assess how this variation affects EIB regional development goals. Do the Commission’s economic goals promote greater integration and closure of the regional development gap? How do the positions of the EP and the Court of Auditors influence EIB operations? These questions illuminate another avenue of research in this subject area.

**Effects of Non-European Union Institutions**

Guntar Handl focuses on sustained development in his analysis. His focus is on Multilateral Development Banks (MDBs). His analysis does not specifically discuss the EIB; however it does mention the European Bank for Reconstruction and Development (EBRD).

The EBRD began operating in April 1991 and is not an institution of the EU, but the member states had a key role in its development. It is the 4th largest major area-based development bank (Jones 1996). It is part
development bank and part investment bank. Its starting capital came from EU and non-EU states as well as several non-European states. ERBD members include the EIB and the European Commission, which have both contributed to its capital base. Much criticism has ensued since its inception as it appears to duplicate the role of the World Bank and the EIB.

Handl calls for a mandate to ensure that MDBs funding for development contribute to the economic growth, social development and environmental protection in the context of sustainable development (Handl 1998).

Sustained development has become one of (in Handl’s opinion) crucial elements in MDBs. He praises the EBRD for its agreement that directs the Bank to “promote in the full range of its activities environmentally sound and sustainable development (Handl 1998)“. Although not necessarily concerned with the regional development gap, but rather sustainable development, this analysis brings forth the concept of MDBs becoming politically involved in a nation’s development. How does the concept of sustainable development and political involvement within nations affect EIB efforts to address regional development?

The Effect of Developments since the 1980s on EIB Regional Development Activities

An examination of the expanded roles of the EIB will be researched to determine the effectiveness of the EIB’s ability to address the regional development gap in the face of its expanding role. Dinan (1999) provides a straightforward description of the EIB and its structure but also identifies four developments within the EU during the 1980’s and 1990’s that increased the role of the EIB in addressing EU issues:
• Single market program increased demand for loans to improve EU infrastructure to increase industrial competitiveness.

• Single European Act lead to an emphasis on projects in the area of regional development

• German unification resulted in increased demand for EIB financing for environmental programs

• The need for assistance in Central and Eastern Europe has led to the EIB including these areas in their financing programs

The Single European Act of 1986 did not alter the structure of the bank, but the Act is instrumental in understanding the theme of unification. However, this role is not discussed in detail in Coombes and Rees analysis. The analysis of Coombes and Rees, Balchin and Sykora and regional development policy in the EU provides the groundwork for determining the economic goals of the EU particularly in the area of regional development. Coombes and Rees argue that the increased activity in the Community’s regional and social policies during 1989 and 1990 reflect the new emphasis on economic and social cohesion. This activity includes (Coombes and Rees 1991):

1. Many decisions were approved by the community to reform and expand structural funds with important new procedures involving long-term support frameworks for individual states, regional development programs from different community funding sources
and intensified consultation and control by the commission in this area.

2. A Social Charter was adopted to define basic rights for people throughout the community.

The increased role of the EIB, as indicated, has resulted in an increased lending base for the bank. These developments touch briefly on the ongoing relationship between the EIB and the EU, and regional development. Further study of these developments will indicate how the lending policies of the EIB have affected the EU in reaching regional development goals and whether the EIB has been effective in promoting integration within the European Union through its lending practices.

The Amsterdam Treaty signed in the latter part of the 1990s has also affected the role of the EIB. That treaty gave authority to the EIB to lend money for health and education projects as well as provide risk capital for small and medium sized enterprises (Osborn 1999). However, these new roles were not intended to replace the primary focus of the bank on balanced regional development. Osborn (1999) argues the new roles established in the Amsterdam Treaty were created as a result of the EU’s inability to generate a plan for job creation without weakening the fiscal controls required to meet the deadlines for The European Monetary Union (EMU) in 1999. In addition, Osborn (1999) argues the EIB will be instrumental in easing the conversion to the single currency, the Euro. Osborn’s observations also reveal the relationship that exists between the EIB and the EU. The addition of other nations to the EU is dependent on the ability of the
EIB to address the economic disparities of candidate nations. The EU will not allow admission of a member nation that could be a categorized as a “burden” to the economic system of the Union. The utilization of the EIB by the EU may indicate one approach (in terms of regional development) of these organizations; however, further research will be required to determine applicability to the research question.

Zysman and Schwartz examine European unification in light of a changed world economy, specifically focusing on the industrial integration of Central and Eastern Europe into the broader European economy. They argue that for two generations the EU has sought to create a single market from the economies of a set of similar political economies, a homogeneous economic space established by a policy-driven convergence of market rules (Zysman and Schwartz 1998). The basis of their analysis is a comparison to the tiers of economic development in Asia and a focus on international production networks. This analysis calls for a reorganization of production to promote integration, a redivision of labor (Zysman and Schwartz 1998).

Although their focus is on Asia and production, several points are revealed that are important to gaps in regional development and the EU member states: (Zysman and Schwartz 1998)

- The range of incomes, wages and skills in Europe was very compressed or specialized by region prior to integration.
- With the dissolution of the Soviet Union and the end of the Cold War, the range of wage and technological capacities has been dramatically extended in regions of Europe.
The goal of the EU is to create a homogeneous economic environment.

Europe has become a much more economically heterogeneous region, thus creating a larger development gap.

Zysman and Schwartz argue Multinational Corporations (MNCs) will be more involved in Central and Eastern European development. The EIB has been shown to be involved in capital investments in these areas of Europe. The emergence of MNCs will affect EIB lending policies.

Zysman and Schwartz find that the increased development in the areas of transport, telecommunications and energy infrastructures will greatly impact the rates of regional economic growth. A regional development gap resulted in Central and Eastern Europe and it was not until the early 1990’s that this imbalance was addressed. They argue the trans-European networks (TENs) were created after the Treaty of Maastricht in 1991, in an effort to facilitate multi-mode connections with the peripheral regions and to assist in the development of a single market (Zysman and Schwartz 1998). Development of transport, telecommunications and energy TENs are imperative, according to Zysman and Schwartz, for the development of a Single European Market. They were unable to judge whether TENs have been effective in reducing the regional development gap.

**Relevant Theories**

Neofunctionalism grew out of the theory of functionalism in the 1950’s. It was developed to explain integration on a regional scale (Jones 1996).
Functionalism was based on the view that regionalism could be built from the ground up by focusing on particular economic problems and solutions to those problems. By contrast, neofunctionalism emphasizes the political processes that lead to regional integration through the attainment of economic goals (Wood and Yelilada 1996). The EIB is a political institution, comprised of elites from various European nations. It interacts with various EU institutions. The relationship among these elites, the EU institutions, and the EIB is important in determining the effectiveness of the EIB in influencing the regional development gap. Therefore, I expect that the results of a case study on the EIB will best be explained by neofunctionalist theory of integration.

**Sources and Methods of Research**

I will review the lending of the EIB from its beginning to 2001 and the ERDF from 1991 to 2001. Review of the ERDF will be used to support of the existence of a regional development gap. These are the two organizations within the European Union active in addressing the development gap among EU member states. I will then offer a detailed analysis of EIB lending from 1995 to 2001 concerning what each EU member state was lent and for what projects.

The data required for this research are readily available from the EIB including annual reports, annual brochures, EIB economic research papers compiled by EIB staff, external scholars and specialists, technical reports on loan projects, and other miscellaneous publications. The other institutions of the European Union also have data readily available, including annual
reports, budget reports and treaty information. In addition, scholarly journals, including (but not limited to) The Journal of Common Market Studies, International Organization, European Economic Review, The American Journal of International Law and Regional Studies will be a valuable resource of pertinent information. I will also provide evidence about changes in the development gap across member states (and within member states where appropriate).

The primary sources (treaties, annual reports, etc) will be analyzed to establish trends in the lending practices of the EIB and the regional development gap. Secondary resources will be utilized as supporting evidence of patterns observed in the primary sources. The end result will be a predominately qualitative research piece; however, budget analysis will lead to some quantitative results. This will allow examination of what, if any, relationship there may be between the EIB lending and changes in the development gap among EU member states.

This is a case study based primarily on quantitative and qualitative resources. The case study is a historical analysis that identifies changes that have occurred in the treaty status of the EIB and the lending practices of the EIB. The case study is presented in chapters two, three and four. Chapter three regarding the EBRD illuminates several points that relate to the proposition. The EBRD represents an effort of the European Union to address the growing concern for the regional development gap occurring in Europe. The EBRD is similar in structure to the EIB; however, its membership is not
limited to the EU. It also includes non-members. A general overview of the
EBRD is added to the case study to reinforce the concept of a growing
regional development gap in Europe.
Chapter Two
The Legal Organization of The European Investment Bank

Introduction

The European Investment Bank (EIB) originated with the Treaty of Rome in 1957. The Treaty of Rome established the European Community and was written by the following countries: Belgium, Germany (at this time considered West Germany), France, Italy, Luxembourg, and the Netherlands. These countries would later be referred to as “member nations”. The EIB is an autonomous financial institution established by articles 129 and 130 of the Treaty of Rome (Dinan 323).

A historical perspective of the EIB may be achieved by examining various European Union documents. Beginning with its inception with the Treaty of Rome through the most current treaty, the Treaty of Nice, the development of the bank can be traced. This development includes the legal basis for the bank and its capital base.

The Treaty of Rome

The Treaty of Rome (Article 267) defines the task of the European Investment Bank is to contribute to a balanced and steady development of the common market in the interest of the entire European Community. The EIB will provide financing for specific projects based on the following criteria:

1) A project for developing less developed regions.
2) A project for modernization or conversion to the establishment of the common market and those projects, which would be too large for a single member country to finance.
3) Projects of common interest to several member nations which due to size or nature are unable to be financed by means available in individual member states.

The Treaty of Rome also dictates that members of the EIB would be the member states themselves. The Statute of The European Investment Bank is established by a Protocol annexed to this Treaty.

**Protocol for Establishing the European Investment Bank**

The Protocol for establishing the European Investment Bank is detailed in Appendix A. This protocol establishes the banks mandate of regional development. The protocol is a detailed document outlining the authority and responsibilities of the EIB. The most critical article of the protocol in terms of this research is Article 2 that defines the task of the bank in Article 267 of the Treaty of Rome. This article essentially defines the mandate of the European Investment Bank as promoting and contributing to a balanced development of the common market in the interest of the entire European Community. An assessment of GDP will be used to assess if the EIB has fulfilled this task as established in the Protocol. The Protocol develops criteria for the lending procedures of the bank. One of the fundamental criteria is lending for projects in less developed regions. This is directly related to the research question. The attached Appendix A provides the detailed tasks of the bank. The Protocol reveals the reasoning of the EU for developing the EIB by presenting the criteria necessary for EIB funding. The structure of the EIB as offered by the Protocol indicates the involvement of
the EU. The Bank directors are selected by nominations from the member nations. Thus concerns of the Bank would be EU related. Article 18 does provide provisions for investment outside the EU but only when authorized by the Board of Governors acting on proposals from the Board of Directors. Article 20 specifically addresses the operating principles that require all loans or grants to promote the goal of the common market. This denotes the overall theme of the EIB. The Protocol establishes the audit process for the Bank, which is internal by a committee of three appointed by the Board of Governors. This testifies to the autonomy of the EIB from outside institutions. The Protocol serves as an in depth definition of the EIB that was created by Article 267 of The Treaty of Rome.

**Single European Act**

This Act was signed in February 1986, but did not come into force until July 1987. This act makes no special provisions or changes in regard to the European Investment Bank. The main theme of the Act is cooperation. The Act redefines the powers of the Commission in regards to the implementation of progress towards European unity. A major focus of the Act is the development of the internal market and a general movement toward a European Union.

The Act also included items regarding political cooperation, common policies and community interests. However, this Act does not alter the structure of the European Investment but rather institutes a progression towards a European Union.
The Treaty on European Union

The Treaty on European Union (TEU) was signed in February 1992 and was primarily concerned with establishing the European Union founded on the existing European Communities. Again, there are no specific references to the EIB. TEU is primarily focused on the attainment of common foreign, security policies and international cooperation.

The TEU redefines the roles of the European Council, the President, the Commission, the Parliament and the Court of Justice in implementing the concept of Union. The adjustments to the established European Communities include budget adjustments and common action among the Member States in regards to police actions.

Articles 40 and 43 of the TEU are perhaps the only items that may be related to the EIB, but not specifically stated. These articles allow Member States the opportunity to make use of institutions, procedures and mechanisms of The Treaties (starting with the Treaty of Rome to present) to create closer cooperation with other Member States and furthering the objectives of the Union. Although the EIB is not stated specifically in the Articles, it may be inferred from the idea of institutions.

The Statute of the European Investment Bank

The 1999 version of the Statue is very similar to the Protocol that establishes the Bank. The most notable change is in Article 4, which increases the capital of the Bank to one hundred billion Euros and changes the subscribed rates of the Member states to reflect this capital:
Table 1: New Subscribed Capital Rates Converted to Euro

<table>
<thead>
<tr>
<th>Country</th>
<th>Capital in Euros</th>
</tr>
</thead>
<tbody>
<tr>
<td>Germany</td>
<td>17,766,355,000</td>
</tr>
<tr>
<td>France</td>
<td>17,766,355,000</td>
</tr>
<tr>
<td>Italy</td>
<td>17,766,355,000</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>17,766,355,000</td>
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<tr>
<td>Spain</td>
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<tr>
<td>Belgium</td>
<td>4,924,710,000</td>
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<td>Netherlands</td>
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<td>Sweden</td>
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<td>Denmark</td>
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<td>Finland</td>
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<td>860,858,000</td>
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<tr>
<td>Ireland</td>
<td>623,380,000</td>
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<tr>
<td>Luxembourg</td>
<td>124,677,000</td>
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</table>

This Article also indicates the change from the ECU as the unit of account to the Euro. Article 5 is amended to change the average amount of the subscribed capital to be paid to 6 percent from 7.50162895 percent as originally dictated by The Treaty of Rome. Article 13 is amended to increase the number of Vice Presidents from six to seven on the Management Committee.

**The Treaty of Nice**

These amendments to TEU were developed in October 2001 in Nice and compiled into The Treaty of Nice and protocols. This treaty was ratified by the EU in February 2003. These amendments are not concerned with the EIB but rather developing consistency in Union policies.
The Treaty of Nice is concerned primarily with voting rights and enhancing cooperation among the Member States. A recurrent theme in this treaty as well as previous treaties is a common foreign policy and common security policy. The Treaty of Nice does replace Article 43 of the TEU, but it essentially remains the same.

In conclusion, with the exception of a few minor changes with the 1999 Statute, the European Investment Bank has remained unchanged from its inception with the Treaty of Rome in 1957. The review of The Treaty of Rome describes the Bank and its role in The European Union. Study of other European Union documents since the Treaty of Rome illustrates the minor changes the bank has undergone since 1957. The minor changes that have occurred since 1957 do not alter the original task of the bank, which is central to the research.
Chapter 3
European Bank for Reconstruction and Development

Introduction

The European Bank for Reconstruction and Development (EBRD) was established in 1991. At that time communism was failing in Central and Eastern Europe. The EBRD was created to assist these countries in developing market economies and democracies. The EBRD is committed to the fundamental principles of multi-party democracy. The mandate of the bank is to foster the transition towards open market-oriented economies and to promote private and entrepreneurial initiatives in the countries of Central and Eastern Europe (EBRD 1991). The principal office of the Bank is located in London, England; however it may establish branch offices in any territory of members of the Bank. The functions of the EBRD include fostering the transition of Central and Eastern European countries toward open market-oriented economies and the promotion of private and entrepreneurial initiatives, encourage the development of capital markets, give support to economically viable projects involving more than one recipient member country, promote activities that are environmentally sound and those promoting sustainable development. Membership in the bank is open to European countries, members of the European Economic Community (EEC), members of the European Investment Bank (EIB) and those non-European countries that are currently members of the International Monetary Fund (IMF). Members can also be admitted by a three-fourths majority vote of no less than two-thirds of the bank’s Board of Governors.
The capital stock of the bank has been set at ten thousand million ECU and is divided into one million shares with a value of ten thousand ECU each. This authorized capital stock may increase or decrease by a two-thirds vote of the Board of Governors. The Board must review the capital stock of the bank at least once every five years to determine whether an increase or decrease may be necessary. Payment of the paid in shares of bank members shall be made in five installments of twenty percent of the subscription amount, these installment payments are to begin no later than sixty days after membership entry. Capital resources for bank operations include these capital shares of members as well as funds raised by borrowing, repayment of loans, investments and any other funds or income received by the bank. The bank may charge commissions or fees in addition to interest received for loans it has granted.

The methods of operation for achieving the functions or mandate of the bank include (EBRD 1991):

1. Banks or interested sources, loans to state-owned enterprises operating competitively and moving towards participation in the market economy or loads to aide in the facilitation of these enterprises into private control.

2. Investment in equity capital of private sector enterprises.

3. Investment in the equity capital of any state-owned enterprise operating Making or co-financing with other multilateral institutions, commercial competitively and moving to participation in a market oriented economy.

4. Underwriting where financing is not appropriate.

5. Facilitation of access to domestic and international capital markets for private enterprises.
6. Providing loans for technical assistance for reconstruction or
development of infrastructure.

7. Deploying Special Funds and determining the use of these funds.

The structure of the bank consists of a Board of Governors, a Board of
Directors, a President, at least one Vice-President and any other officers
deemed necessary. Each member of the EBRD appoints one governor and
one alternate. The powers of the Board of Governors include (EBRD 1991):

1. Admission of new members or determination of conditions of
entry.

2. Increase or decrease capital stock of bank.

3. Suspend a member, if necessary.

4. Decide on appeals from interpretations or applications of the
agreement of the bank by the Board of Directors.

5. Authorize the conclusion of general agreements.

6. Elect the Directors and President of the Bank.

7. Determine the salary and other terms of the contract of service
of the president and the remuneration of the Directors and
Alternate Directors.

8. Approve the general balance sheet and the profit and loss
statements after reviewing the auditor’s report.

9. Determine the reserves and the allocation and distribution of the
net profits of the bank.

10. Amend the agreement establishing the ERBD.

11. Decide to terminate the bank operations and liquidate the
assets.

12. Exercise the powers of the Board of Governors as expressed in
the establishing agreement.

The Board of Governors holds an annual meeting or additional meetings if
required to fulfill the duties to conduct the business of the EBRD.
The Board of Directors or members of the bank whose voting power is greater than one quarter of the voting power of the bank can request a meeting. All regulations and decisions must pass the Board of Directors by a majority of no less then two-thirds of the voting power.

The Board of Directors is comprised of twenty-three (23) members who are not members of the Board of Governors. Eleven (11) of the directors are elected by the Governors representing Belgium, Denmark, France, the Federal Republic of Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Portugal, Spain, the United Kingdom, the European Economic Community and the European Investment Bank. Four (4) are elected by Governors representing countries in Central and Eastern Europe that are eligible for assistance from the EBRD. Four (4) are elected by Governors representing other European countries and four (4) are elected by Governors representing non-European countries. Thus, the Board of Directors is elected by the Board of Governors. The powers of the Board of Directors are minimal and include preparing the work for the Board of Governors, establishing policies concerning loans, guarantees, investments, borrowing of the Bank and technical assistance on the operations of the Bank (EBRD 1991). The Board of Directors also approves the budget of the Bank and submits the audited accounts of each financial year to the Board of Governors (EBRD 1991). The Board of Directors functions as the principal office of the bank and meets as necessary to conduct the business of the bank. A majority of the Directors constitutes the quorum for any decisions of the Board.
The President of the EBRD is elected by the Board of Governors for a term of four (4) years and is eligible for re-election (EBRD 1991). The President is the legal representative of the Bank and is responsible, as the chief of staff, for the organization, appointment and dismissal of the officers of the Bank. In addition to these duties, the President also chairs the meetings of the Board of Directors and under their direction conducts the current business of the bank.

One or more Vice-Presidents are appointed by the Board of Directors based on recommendations of the President of the Bank. The Vice-President may participate in meetings of Board of Directors but has no voting authority. In the event of the incapacity or absence of the President, the Vice-President becomes the acting President of the Bank including voting privileges within the Board of Directors.

The following table presents the initial capital subscription amounts and shares allocated to member nations.

Table 2: Initial Subscribed Capital of the European Bank for Reconstruction and Development

<table>
<thead>
<tr>
<th>European Communities</th>
<th>Number of Shares</th>
<th>Capital Subscription in million ECU</th>
</tr>
</thead>
<tbody>
<tr>
<td>Belgium</td>
<td>22,800</td>
<td>228.00</td>
</tr>
<tr>
<td>Denmark</td>
<td>12,000</td>
<td>120.00</td>
</tr>
<tr>
<td>France</td>
<td>85,175</td>
<td>851.75</td>
</tr>
<tr>
<td>Germany, Federal Republic of</td>
<td>85,175</td>
<td>851.75</td>
</tr>
<tr>
<td>Greece</td>
<td>6,500</td>
<td>65.00</td>
</tr>
<tr>
<td>Ireland</td>
<td>3,000</td>
<td>30.00</td>
</tr>
<tr>
<td>Italy</td>
<td>85,175</td>
<td>851.75</td>
</tr>
<tr>
<td>Luxembourg</td>
<td>2,000</td>
<td>20.00</td>
</tr>
<tr>
<td>Netherlands</td>
<td>24,00</td>
<td>248.00</td>
</tr>
<tr>
<td>Portugal</td>
<td>4,200</td>
<td>42.00</td>
</tr>
<tr>
<td>Spain</td>
<td>34,00</td>
<td>340.00</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>85,175</td>
<td>851.75</td>
</tr>
<tr>
<td>Country</td>
<td>Shares</td>
<td>Capital Subscription</td>
</tr>
<tr>
<td>---------------------------------</td>
<td>-----------</td>
<td>----------------------</td>
</tr>
<tr>
<td>European Economic Community</td>
<td>30,000</td>
<td>300.00</td>
</tr>
<tr>
<td>European Investment Bank</td>
<td>30,000</td>
<td>300.00</td>
</tr>
<tr>
<td>Austria</td>
<td>22,800</td>
<td>228.00</td>
</tr>
<tr>
<td>Cyprus</td>
<td>1,000</td>
<td>10.00</td>
</tr>
<tr>
<td>Finland</td>
<td>12,500</td>
<td>125.00</td>
</tr>
<tr>
<td>Iceland</td>
<td>1,000</td>
<td>10.00</td>
</tr>
<tr>
<td>Israel</td>
<td>6,500</td>
<td>65.00</td>
</tr>
<tr>
<td>Liechtenstein</td>
<td>200</td>
<td>2.00</td>
</tr>
<tr>
<td>Malta</td>
<td>100</td>
<td>1.00</td>
</tr>
<tr>
<td>Norway</td>
<td>12,500</td>
<td>125.00</td>
</tr>
<tr>
<td>Sweden</td>
<td>22,800</td>
<td>228.00</td>
</tr>
<tr>
<td>Switzerland</td>
<td>11,500</td>
<td>228.00</td>
</tr>
<tr>
<td>Turkey</td>
<td>7,900</td>
<td>115.00</td>
</tr>
<tr>
<td>Bulgaria</td>
<td>7,900</td>
<td>79.00</td>
</tr>
<tr>
<td>Czechoslovakia</td>
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<td>128.00</td>
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<tr>
<td>German Democratic Republic</td>
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<td>155.00</td>
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<td>Hungary</td>
<td>7,900</td>
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<td>Poland</td>
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<td>Rumania</td>
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<tr>
<td>Union of Soviet Socialist Republics</td>
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<td>600.00</td>
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<tr>
<td>Yugoslavia</td>
<td>12,800</td>
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<tr>
<td>Australia</td>
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<td>100.00</td>
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<tr>
<td>Canada</td>
<td>34,000</td>
<td>340.00</td>
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<tr>
<td>Egypt</td>
<td>1,000</td>
<td>10.00</td>
</tr>
<tr>
<td>Japan</td>
<td>85,175</td>
<td>851.75</td>
</tr>
<tr>
<td>Korea, Republic of</td>
<td>6,500</td>
<td>65.00</td>
</tr>
<tr>
<td>Mexico</td>
<td>3,000</td>
<td>30.00</td>
</tr>
<tr>
<td>Morocco</td>
<td>1,000</td>
<td>10.00</td>
</tr>
<tr>
<td>New Zealand</td>
<td>1,000</td>
<td>10.00</td>
</tr>
<tr>
<td>United States of America</td>
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<td>1,000.00</td>
</tr>
<tr>
<td>Non allocated shares</td>
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<tr>
<td><strong>Total</strong></td>
<td><strong>1,000,000</strong></td>
<td><strong>10,000.00</strong></td>
</tr>
</tbody>
</table>

Similar to the European Investment Bank, these capital subscription amounts were converted to the Euro in 1999. Unlike the EIB, however, the EBRD does not focus primarily on the EU. The subscribed members of the EBRD are worldwide, not just the European Union. The variety of members of the EBRD indicates the focus of the EBRD is not centered in the European Union as the EIB proclaims to do with its mandate.
The creation of the EBRD demonstrates the EU’s concerns for a development gap within the Europe; however its member base indicates a concern for areas outside the European Union. Therefore, the task of aiding in regional development within the European Union falls on the EIB. The EBRD just maintains a supporting role.

**Regional Development**

The European Bank for Reconstruction and Development requires any country seeking investment from the bank to be moving toward a full market economy. This requirement coincides with the mandate for requiring countries to be committed to democratic principles. The creation of the Bank, although not limited to just European Union development, indicates the push for a market economy in the European region. This effort is similar to that of the European Investment Bank. The establishment of these two banks indicates the regional development gap occurring in Europe and the concern that Central and Eastern European nations will need to move towards a free market economy in order to be competitive with the world economic market today. A brief analysis of the member subscription in each bank indicates the wider realm of the ERBD. Membership in the ERBD includes the European Investment Bank, which indicates the overlapping direction of the Banks. It could be perceived that the ERBD was created as a supplement to the EIB to decrease the increasing regional development gap. In addition, the inclusion of such nations as the United States indicates the worldwide concern for this increasing gap with the fall of communism in the east.
Chapter Four Case
The Lending Patterns of The European Investment Bank

Introduction

An overview of financing provided by the EIB since it’s inception in 1959 through 1997 is indicated in Table 3. This general overview indicates several points regarding EIB lending. The Table indicates the general increase in financing throughout this time period. This trend indicates the need for more lending as the European Union (or European Community, depending on the time) was growing. It also indicates the gaining capital strength of the Bank since predominately most of the lending capital was from EIB’s own resources. This Table also indicates financing that was provided in areas outside the European Union. Although these data are not specific to lending location, it is an indication of EIB interest in outside areas. Unless this lending benefits a development within the Union, this type of lending is in direct contrast to the tasks of the EIB as set forth in the Protocol that calls for balanced development within the EU. Although this financing only amounts to approximately nine percent of all financing within the period, it is still noteworthy in terms of the research.

Table 3: Financing Provided by the EIB from 1959-1997

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Own Resources</th>
<th>Total NCI* Resources</th>
<th>Total Own Resources</th>
<th>Total NCI* Resources</th>
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<td>6,678</td>
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<td>1989</td>
<td>12,246</td>
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<td>78</td>
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<td>1990</td>
<td>13,339</td>
<td>12,626</td>
<td>12,602</td>
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<tr>
<td>1991</td>
<td>15,393</td>
<td>14,477</td>
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<tr>
<td>1992</td>
<td>17,032</td>
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<td>16,140</td>
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</tr>
<tr>
<td>1993</td>
<td>19,625</td>
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<td>17,724</td>
<td>-</td>
</tr>
<tr>
<td>1994</td>
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<tr>
<td>1995</td>
<td>21,408</td>
<td>18,603</td>
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<td>-</td>
</tr>
<tr>
<td>1996</td>
<td>23,239</td>
<td>20,946</td>
<td>20,946</td>
<td>-</td>
</tr>
<tr>
<td>1997</td>
<td>26,203</td>
<td>22,958</td>
<td>22,958</td>
<td>-</td>
</tr>
</tbody>
</table>

239,893 217,513 211,112 6,399 22,379 19,490 2,889

*New Community Instrument

**EIB Lending 1995-2001**

The European Union created the European Investment Bank and the European Bank for Reconstruction and Development as a means of addressing the foreseen developmental gap that has been created by the induction of additional members to the European Union. These banks were also created to assist the existing members in achieving a balanced economic
community. A development gap clearly exists within the European Union; in order for the EU to successfully accept additional members it becomes necessary for this gap to be resolved. A prevailing theme throughout the development of the EU and the EIB has been balanced development. More detailed information regarding European Investment Bank financing is provided in tables 4, 5 and 6 documenting loans received by EU member countries for the period 1995-2001. This more detailed data provides further proof of the ineffectiveness of the EIB in the area of regional development.

Several points become apparent when reviewing the data from the tables. A foremost objective of the European Investment Bank is balanced development; however upon examining the lending patterns indicated by the table in the period of 1995 – 2001 the percentage of loans appropriated for regional development peaks at 55 percent. The loan emphasis during this period does not appear to be dominated by regional development investment. To obtain the desired balanced economic arena, the economic development gap between the current member nations must be addressed and solved. The members of the EU created the bank primarily for this purpose; however the data compiled uncovers the shortcomings of the EIB in this task. To further bolster this finding, more in depth data are required.
### Table 4: Total EIB Loans to EU Members 1995-2001

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Belgium</td>
<td>665.3</td>
<td>657</td>
<td>1,140</td>
<td>858</td>
<td>2,260</td>
<td>503</td>
<td>365</td>
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<tr>
<td>Denmark</td>
<td>824.9</td>
<td>688</td>
<td>737</td>
<td>745</td>
<td>898</td>
<td>991</td>
<td>1,172</td>
</tr>
<tr>
<td>Germany</td>
<td>2,715</td>
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<td>5,168</td>
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**Totals** 18,084.2 20,545 22,326 24,833 29,704 30,321 31,010

*Years 2000 and 2001 are represented in Euro Millions pursuant to 1999 Statute of the EIB change.

### Table 5: Total EIB Regional Development Loans to EU Members 1995-2001

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**Totals** 9,978.2 10,487 10,978.5 10,658.9 12,850.3 13,737.8 14,713.2
*Years 2000 and 2001 are represented in Euro Millions pursuant to 1999 Statute of the EIB change.

Table 6: Percentage of Total EIB Loans Designated Regional Development 1995-2001

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Table 7: EU Member States’ Percentage of Total EIB Lending: 1995-2001

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### Table 8: EU Member States’ Percentage of Total EIB Regional Development Lending: 1995-2001

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*Percentages in tables 7 and 8 have been rounded to the nearest whole percentage

**Total columns in tables 7 and 8 indicate total percentage during 1995-2001

Examining these data discloses information regarding two member countries, Spain and the Netherlands. The EIB loans indicate that the Netherlands, during the time period studied received only 20 EUR in regional development loans that equates to less than 1 percent of the total EIB regional development loans received for all other member nations. Spain, however, received 15,197.2 million EUR during this same time period that equates to 18 percent of all regional development loans issued by the EIB. Spain received the highest percentage of regional development loans during the research period. The EIB regional development loans to Spain during
this period equal 72 percent of all EIB loans to Spain. Italy, second to Spain, received 14,412.1 million EUR or 17 percent of regional development loans in the EU. Germany received 11627.5 million EUR or 14 percent of all regional development lending. Portugal and the United Kingdom both received 12 percent of EIB regional development lending for the time period examined. Table 9 illustrates these member nations GDP during this time (Eurostat 2003).

Table 9: GDP Per Capita in Purchasing Power Standards

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<td>United Kingdom</td>
<td>99.9</td>
<td>101.2</td>
<td>103.6</td>
<td>103.4</td>
<td>103</td>
<td>103.9</td>
<td>105.1</td>
</tr>
</tbody>
</table>

Gross domestic product (GDP) is a measure of economic activity. It is defined as the value of all goods and services produced less the value of any goods or services used in their creation (Eurostat 2003). Purchasing Power Standards (PPS) is a common currency used in European Union country comparisons to eliminate the differences in price levels of individual member nations.¹

The GDP of Spain and the Netherlands illustrates the ineffectiveness of the European Investment Bank to address the regional development gap

¹ Four of the six countries listed maintain the largest populations in the EU, with Germany ranking the largest, followed by the UK, Italy and Spain respectively. Portugal has the lowest population in this data set, but still is the 9th highest in population. Netherlands has the 6th largest population in EU.
existing within the European Union. The gap that existed between the Netherlands and Spain in 1995 is still apparent in 2001. These data indicate that the EIB efforts in Spain were futile in terms of promoting balanced development within the European Union. The selection of these two countries for analysis was based on the financing received from the EIB. They represent the spectrum of economic development within the European Union; the two countries are on opposite ends of this spectrum. The trend between Spain and Netherlands is indicative of the trends existing in terms of economic development within the European Union. These data and findings represent the inability of the EIB to resolve the regional development gap as intended with its creation. Based on these findings within the European Union, it can be concluded the European Investment Bank will also be impotent when additional countries seek admission to the Union. The trends indicated in this time period do not indicate an effort on the part of the European Investment Bank to increase financing projects in the sphere of regional development. The percentage of funding for regional development was at its highest (during the research period) in 1995 and declined from that point until 2000. The percentage fell below 50 percent in 1997. This does not indicate a solid effort by the EIB to address the regional development gap.

Italy and Germany illustrate another contradiction to the EIB goals. Italy’s and Germany’s GDPs are not as low as Spain; however, they still received a large portion of regional development lending. The GDP did not improve over this time period, but declined in both countries instead. This
reveals two possible conclusions. The EIB was not effective in triggering GDP growth in Italy and Germany or the GDP decline was lessened by EIB involvement. The findings regarding Italy and Germany expose another possible research avenue regarding the European Investment Bank. Portugal’s and the UK’s GDPs did not decline during this period, but the gap between each of these member nations and the Netherlands did not seem to improve. Portugal’s GDP is actually less than Spain’s but received less regional development lending and the lending it did receive did not improve the GDP during the research period. The United Kingdom has a better GDP, but the regional development lending did not produce a significant improvement to the GDP. The UK GDP is closer to that of the Netherlands, but 12 percent of all regional development lending was unable to close the gap between these two member nations.

The UK GDP is close to and in some years surpasses the average GDP for the European Union, yet still receives 12 percent of regional development lending for the research period. Portugal received the same percentage of regional development lending however; Portugal’s GDP fell well below the EU average GDP. The average GDP of the European Union during the research period is 100 PPS (Eurostat 2003). Spain received the most regional development lending in this time period. Spain’s GDP was below the average, but it was higher than that of Portugal. Germany and Italy GDP were above the EU average, yet they both received relatively high percentages of regional development lending. Political factors agreements
play a role in EIB lending. Regional Development may be the foremost concern of the EIB but political factors weigh in lending decisions.

The research data indicates the development gap between the EU member nations in terms of GDP. An examination of several of the nations during 1995-2001 illustrates the insignificance of the European Investment Bank to improve GDP and close this economic gap.
Chapter Five
Conclusions

In the preceding chapters, I have presented a case study of the European Investment Banks lending between 1995 and 2001. In Chapter two I described the origin and development of the European Investment Bank and its mission of balanced economic development from the Treaty of Rome in 1958 through the Treaty of Nice in 2003. I also included in this chapter a summary and review of the main documents of the EU relating to the EIB. These documents provided a foundation for the case study and the framework on which to test, in Chapter four, the proposition established in Chapter one. Chapter three provided a general overview of the European Bank for Reconstruction and Development. This summary confirmed the member states’ concern for regional development and the additional institutions they created in 1991 to combat the development gap problem. In chapter four, I offered evidence to test the proposition that the member states have not been successful in closing differences in levels of development among themselves. An examination of lending patterns with the European Union by the EIB particularly in tables 7, 8 and 9 demonstrated where EIB funding has been directed and how it benefited the member state.

The analysis offered in the preceding chapters suggests that the European Investment Bank investment practices have not been effective in fulfilling its mission of balanced development among the member states of the European Union. First, as indicated in Table 8, EIB regional development lending between 1995 and 2001 was distributed in a bimodal manner. Within
this distribution, some member states, such as Greece and Ireland, received far less than more developed member states (i.e., United Kingdom and Italy). Second, during the same period, EIB lending did not correspond with a reduction in the develop gap among all the member states. While the relative distribution of GDP per capita purchasing power among the five member states who received the largest portion of EIB lending did change in some cases (e.g., between Spain and Italy), the overall gap continues to be significant among even the largest recipients of EIB lending (Table 9). An examination of the GDP of the member states was used as one economic measure of the effectiveness of EIB lending. Examining the lending of the EIB to the member nations of the European Union demonstrates that the regional development gap continues to be a problem.

The concept of a balanced economic community envisioned with the Treaty of Rome in 1957 has yet to come to realization. The European Investment, by its own Protocol, was developed to promote balanced economic growth. This cannot be attained without addressing the regional development gap between the existing member countries. The creation of the EIB and The European Bank for Reconstruction and Development indicate the concern of the European Union for balanced economic development.

Additional findings from this research illustrate that the bank has not been able to fulfill its mission. Lending data of the Bank indicates several factors regarding the Bank’s efforts. The Bank’s own Protocol defines its task as contributing to a balanced development of the common market for the interest of the entire community. The data suggest that the Bank’s
contributions, loans, have not significantly improved economic development as defined by Gross Domestic Product (GDP). Consequently, the European Union can not rely only on the EIB to institute balanced regional development either for its current members or for the new members that will be added in May 2004. Since the Bank has not been able to significantly reduce the gap among the current member states, the addition of more members will make its mission even more difficult to fulfill.

The historical overview of the development of the European Union from the Common Market stage through the current European Union illustrates the political undertones of enlargement and the continued problem of balanced development. The goal of the EU is integration on several levels, including economy. The Common Market was the beginning process of economic integration. The political influences are prevalent throughout this process. The enlargement stages appear to be concerned with integration, but candidate countries and member nation may have separate agendas that are more nationalistic than supranational. These enlargement stages illustrate the development gaps that were present during the Common Market stage and continued throughout each enlargement. The interdependence of European economies was prevalent prior to integration and sometimes resulted in application for entry into the EU, as with Ireland. The weak economy of Ireland exemplifies the development gap existing in the European Union. The rhetoric of balanced development of the European Union is overshadowed by political motivations for enlargement in many cases. The concern in expanding a free market economy, particularly in
candidate countries from Eastern Europe is greater than an ensuing regional development gap that is continuing to grow.

The continued growth of the EU is not taken into consideration in the EIB’s capital base. Since its inception the average amount of subscribed capital paid has only increased 1.5 percent. The average amount of paid subscribed capital was increased in 1999 with the Statute of the European Investment Bank. The addition of 10 members to the EU will apply additional pressure to the existing insufficient subscribed capital under these circumstances.

The review of the Protocol of The European Investment Bank and other documents of the European Union indicate the Union’s concern for balanced regional development and the desire for a balanced economic environment. The EIB’s mandate has not significantly altered since its inception in 1957 with the Treaty of Rome. Other literature on the European Investment Bank touches on other areas of the bank, including sustainable development, but leaves a void in the area of economic analysis and significance of the EIB. This research fills this space with reliable data to evaluate the effectiveness of the EIB in promoting regional economic balance. The lending patterns researched do not hold much promise for the EIB, on its own, to solve the regional development gap.

Future research will need to identify other factors present in the world economic environment that may be hindering balanced development within the European Union. Further research should also consider the other programs the EIB supports and how these lending programs may be affecting
the regional development gap. The research has indicated that at best during the research period only 55 percent of total EIB loans were directed to addressing the regional development problem. The European Investment Bank, although created to aid in the balanced development, has been shown to be less successful than its mission indicates in its efforts to stimulate economic growth and thereby reduce regional economic differences among the current members of the EU. New members of the Union would increase this burden and possibly render the EIB even less effective in assisting in this endeavor. Finally, future research should be undertaken to address the political factors that effect economic development gaps among the member states. In the introductory chapter, I described the various initiatives that led to the enlargement of the Common Market members from six in 1958 to the current fifteen members of the European Union. Each enlargement was preceded by considerable political negotiations. While the EIB had to address the consequences of these decisions, its capacity to effectively do so to close the development gap was reduced because its resources did not increase accordingly. Hence, future research should take into consideration the extent to which the persistence of the development gap among the member states is also a result of decisions outside the control of either the EIB or market forces.
References


Appendix
Appendix A: Protocol Establishing the European Investment Bank

Article 1: The EIB is established by Article 266 of the Treaty and shall function in accordance with that article and the provisions of the following protocol. The seat of the Bank will be determined by common accord of the governments of the member states.

Article 2: The task of the bank is defined in Article 267 of the Treaty.

Article 3: The members of the EIB shall be the following:

- The Kingdom of Belgium
- The Kingdom of Denmark
- The Federal Republic of Germany
- The Hellenic Republic
- The Kingdom of Spain
- The French Republic
- Ireland
- The Italian Republic
- The Grand Duchy of Luxembourg
- The Kingdom of the Netherlands
- The Republic of Austria
- The Portuguese Republic
- The Republic of Finland
- The Kingdom of Sweden
- The United Kingdom of Great Britain and Northern Ireland

Article 4: Designates the unit of account for the European Investment Bank shall be ECU as used by the European Community. The Board of Governors acting unanimously on a proposal from the Board of Directors may alter this definition. The capital of the bank shall be ECU 62 013 million as subscribed by the member states as follows:
Table 10: Subscribed Capital of the European Investment Bank

<table>
<thead>
<tr>
<th>Country</th>
<th>Capital</th>
</tr>
</thead>
<tbody>
<tr>
<td>Germany</td>
<td>11,017,450,00</td>
</tr>
<tr>
<td>France</td>
<td>11,017,450,00</td>
</tr>
<tr>
<td>Italy</td>
<td>11,017,450,00</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>11,017,450,00</td>
</tr>
<tr>
<td>Spain</td>
<td>4,049,856,000</td>
</tr>
<tr>
<td>Belgium</td>
<td>3,053,960,000</td>
</tr>
<tr>
<td>Netherlands</td>
<td>3,053,960,000</td>
</tr>
<tr>
<td>Sweden</td>
<td>2,026,000,000</td>
</tr>
<tr>
<td>Denmark</td>
<td>1,546,308,000</td>
</tr>
<tr>
<td>Austria</td>
<td>1,516,000,000</td>
</tr>
<tr>
<td>Finland</td>
<td>871,000,000</td>
</tr>
<tr>
<td>Greece</td>
<td>828,380,000</td>
</tr>
<tr>
<td>Portugal</td>
<td>533,844,000</td>
</tr>
<tr>
<td>Ireland</td>
<td>386,576,000</td>
</tr>
<tr>
<td>Luxembourg</td>
<td>77,316,000</td>
</tr>
</tbody>
</table>

Member states are only liable to the amount of their share of the capital subscribed and not paid up. An addition of a new member will result in an increase of the subscribed capital corresponding to the capital brought by the new member. Board of Governors of the EIB may decide, unanimously, to increase the subscribed capital. A member’s share in the subscribed capital may not be transferred, pledged or attached.

Article 5: Subscribed capital shall be paid in by the member state to the extent of 7.50162895 percent on the average of the amounts defined in Article 4. In the event of an increase in subscribed capital, the Board of Governors may unanimously fix the percentage to be paid up and make arrangements for payments. The Board of Directors may require payment of the balance of subscribed capital in the event the Bank has to meet obligations to those who have made loans to the Bank. Each Member state would make payment in proportion to its share of the subscribed capital in the currency required by the Bank in order to meet its obligations.

Article 6: In the event the bank is unable to obtain the necessary funds on the capital markets for a specific project, The Board of Governors, acting on a proposal from the Board of Directors may decide that member nations...
grant special interest loans to the bank. These special loans may not be
called for until the beginning of the fourth year after entry into force of this
treaty. These loans may not exceed 400 million unit of account in aggregate
or 100 million units of account per annum. The terms of special loans will be
related to the term of the loan or guarantee the Bank proposes to grant, but
will not exceed 20 years. The Board of Governors, acting on a proposal from
the Board of Directors may decide on prior repayment of special loans.

These special loans will bear an interest rate of 4 percent per annum, unless
otherwise specified by the Board of Governors. The Member States will grant
special loans in proportion to their shares in the subscribed capital of the
Bank. The payment will be made in the national currency and due within 6
months of being called for. In the event the Bank would go into liquidation,
these special loans will only be repaid to the Member Nations after all other
debts of the Bank are settled.

Article 7: In the event a Member State’s currency value in relation to the
unit of account defined in Article 4 is reduced, that State will adjust the
amount of the subscribed capital share in proportion to the change in value
by making a supplementary payment to the Bank. Likewise, if the value of
the currency increases, the Bank will make repayment to the State in
proportion to this change.

Market rates determine the rate for converting Member State’s currency to
the unit of account and vice versa. The Board of Governors acting on a
proposal from the Board of Directors may alter this conversion method.

Article 8: The Bank will be comprised of a Board of Governors, a Board of
Directors and a Management Committee.

Article 9: The Board of Governors consists of ministers appointed by the
Member States and has the following duties:

1. Defines and insures implementation of the credit policy of the Bank.
   This policy should reference the objectives to be attained as
   progressing toward a common market.
2. Decides on whether to increase the subscribed capital (Article 4).
3. Decides on issues involving special loans (Article 6).
4. Authorizes investment loans outside the Member States (Article 18).
5. Appoints the Board of Directors and Management Committee, decides
   on compulsory retirement of those members and the duties of those
   members.
6. Has the authority to vary the number of members on the Management
   Committee
7. Approves the annual report of the Board of Directors.
8. Approves the profit and loss account and the balance sheet.
Appendix A : (Continued)

10. Defines the unit of account of the subscribed capital.
11. May alter the method of converting from national currencies to the unit of account and vice versa.
12. Has the authority to suspend loans or guarantees to a Member State if that Member State has failed to meet its obligations of membership in the Bank.
13. Has the authority to decide to suspend the operations of the Bank.
14. In the event of liquidation, has the authority to appoint liquidators and oversee liquidation.

Article 10: Unless otherwise specifically stated in the Bank’s Statute, decisions by the Board of Governors require a majority of its members. The majority must represent at least 50 percent of the subscribed capital.

Article 11: Describes the duties and make up of the Board of Directors. The Board of Directors has sole power to make decisions regarding loans and guarantees and raising loans. It has the authority to fix interest on loans granted and commission on guarantees. The Board of Directors is responsible for insuring the Bank is properly run and managed in accordance with the provisions of this Treaty and Statute and implementation of directives issued by the Board of Governors. The Board of Directors will also submit a report to the Board of Directors at the end of each financial year and publish it when the Board of Directors approves it. The Board of Directors consists of 25 Directors and 13 Alternatives and is appointed and can be renewed by the Board of Governors for a term of 5 years as follows:

- Three directors nominated by the Federal Republic of Germany
- Three directors nominated by the French Republic
- Three directors nominated by the Italian Republic
- Three directors nominated by the United Kingdom of Great Britain and Northern Ireland
- Two directors nominated by the Kingdom of Spain
- One director nominated by the Kingdom of Belgium
- One director nominated by the Kingdom of Denmark
- One director nominated by the Hellenic Republic
- One director nominated by Ireland
- One director nominated by the Grand Duchy of Luxembourg
- One director nominated by the Kingdom of the Netherlands
- One director nominated by the Republic of Austria
- One director nominated by the Portuguese Republic
- One director nominated by the Republic of Finland
- One director nominated by the Kingdom of Sweden
- One director nominated by the Commission

Alternatives will also be appointed and can be renewed by the Board of Governors for a term of 5 years as follows:

- Two alternatives nominated by the Federal Republic of Germany
• Two alternatives nominated by the French Republic
• Two alternatives nominated by the Italian Republic
• Two alternatives nominated by the United Kingdom of Great Britain and Northern Ireland
• One alternative nominated by mutual agreement between the Kingdom of Spain and the Portuguese Republic
• One alternative nominated by the mutual agreement of the Benelux countries
• One alternative nominated by the mutual agreement between the Kingdom of Denmark, the Hellenic Republic and Ireland
• One alternative nominated by the mutual agreement between the Republic of Austria, the Republic of Finland and the Kingdom of Sweden
• One alternative nominated by the Commission

Alternatives may take part in Board of Directors meetings, but have no right of vote unless they have replaced an appointed director. The President of the Management Committee or one of the Vice Presidents will preside over the Board of Directors meetings, but will not have a vote. Directors and alternatives are responsible only to the Bank.

Any Director may be forced into retirement if he no longer fulfils the conditions required by a qualified majority of the Board of Directors. Any vacancy arising on the board would result in a replacement for the remainder of term unless the entire Board of Directors is being replaced.

The Board of Governors determines the number of members on the Board of Directors and also acting unanimously determines what activities are considered incompatible with the duties of a director or alternate.

Article 12: Each director on the Board of Directors is entitled to one vote and can delegate this vote in all cases. Unless otherwise specified the decisions of the Board of Directors require a simple majority of members entitled to vote. A qualified majority (at this time) requires 17 votes in favor. The Rules of Procedure of the European Investment Bank determines the quorum required for the adoption of decisions.

Article 13: The Management Committee consists of a President and six Vice-Presidents appointed by the Board of Governors for a renewable term of 6 years. The Board of Directors, acting unanimously, may also alter the number of members on the management committee. A qualified majority of the Board of Governors acting on a qualified proposal of the Board of Directors may compulsorily retire a member of the Committee. The responsibilities and duties of the Management Committee include preparing decisions of the Board of Directors regarding the granting of loans and guarantees, insuring these decisions are implemented. The Committee
is responsible for the current business of the bank under the authority of the President and the supervision of the Board of Directors. The Management Committee will deliver opinions or proposals about loans and guarantees and will do so by a majority of the Committee.

All staff and officials of the European Investment Bank will work under the authority of the President of the Management Committee. Hiring and firing of staff will be the responsibility of the President and this staff will be of equitable representation of the Member States. The President or Vice President in the event the President is unable, represents the Bank in judicial, as well as other matters. The Management Committee and staff are only responsible to the Bank and are completely independent.

Article 14: The Board of Governors will appoint a committee of three members to annually verify the operations of the Bank. The verification of the books will include confirmation of the balance sheet and profit/loss statements reflect the position of the Bank.

Article 15: The Bank will conduct its business through the authority designated by the State and will have recourse to the bank of issue of the Member State concerned or another financial institution approved by the State.

Article 16: The Bank will cooperate with all international organizations similar to themselves and will establish contacts, in the interest of cooperation, with other banking and financial institutions in the countries where Bank operations extend.

Article 17: The Board of Governors, at the request of a Member State or The Commission or its own initiative, will implement the directives set forth in Article 9 of this Statute.

Article 18: The Bank will grant loans to its members or to private or public undertakings for investment with the European territories of the Member States, in the event funds are not available from other sources and with reasonable terms. The Bank may grant loans for investment outside the European territories when authorized by the Board of Governors acting on a proposal from the Board of Directors.

Loans or grants to a body other than a Member State, the loan or grant should be guaranteed by the Member State where the project is being carried out or other adequate guarantees. The Bank may also guarantee loans contracted by public or private entities as provided for in the Treaty. The total amount of loans and guarantees at any time will not exceed 250 percent of the subscribed capital of the Bank. The Bank has the authority to protect itself against risk by placing clauses in the loans and guarantees, as it considers appropriate.
Article 19: Interest rates on loans and guarantees shall be determined by the capital market and calculated to allow the Bank to meet its obligations and cover its operating expenses. The Bank cannot reduce interest rates. The Member State or another agency concerned may grant aid towards the payment of interest.

Article 20: The Bank shall adhere to the following operating principles in regard to loans and guarantees:

- Ensure that funds are used rationally in the interest of the European Community.
- The Bank may only grant loans or guarantees where the project increases economic production and promotes the goal of the common market. Loans and grants in the production sector can be covered by the operating profits of the Bank or by a commitment by the State where the project is carried out.
- The Bank will not gain any interest in or assume any management responsibility of a project unless it is required to ensure repayment of funds to the Bank.
- The Bank can dispose of its claims on the capital market and require its debtors to issue bonds or other forms of security.
- The Bank or a Member State cannot require that funds lent by the Bank be used in a specific Member State.
- Loans can be conditional on international tender being arranged.
- The Bank may not under any circumstances finance a project to be carried out in a Member State where the project is opposed by that Member State.

Article 21: Procedures regarding attainment of loans and guarantees:

- Applications can be make to the Bank through the Commission or Member State where the project will be carried out.
- Applications made through the Commission will be submitted to the involved Member State for opinion: applications made through a Member State will be submitted to the Commission for an opinion.
- These opinions must be submitted within 2 months of the application, no response will indicate to the Bank that there is no objection to the project.
- Applications submitted by the Management Committee will be ruled on by the Board of Directors.
- The Management Committee decides whether submitted applications comply with the Statute of the Bank. If in favor of granting the loan or guarantee, the Management Committee, will submit a draft contract to the Board of Directors. If the Management Committee is against an application for loan or guarantee, it will also submit this opinion to the Board of Directors.
• The Board of Directors cannot grant the loan or guarantee if the opinion of the Management Committee is unfavorable, unless it is a unanimous decision by the Board of Directors.
• This policy is the same for The Commission when delivering an unfavorable opinion, except when the Board of Directors votes on the loan application, the Director nominated by the Commission must abstain from the vote.
• In the event both The Commission and The Management Committee deliver unfavorable opinions about the proposed loan or guarantee, the Board of Directors may not grant the loan or guarantee.

Article 22: The Bank generates the funds necessary for its purposes by borrowing on the international capital markets. This includes borrowing on the capital market of any Member State. If the Member State does not have any legal provisions for this, the Member State and the Bank may reach an agreement about the individual loan. The Member State has the right to refuse to agree to the loan in the event it would cause a disturbance in the capital market of that Member State.

Article 23: The Bank generates funds to meet its obligations by the following:

• Investing in money markets
• Buying and selling securities issued by the Bank or by those who have borrowed from it
• Any financial operation linked to its objectives

The Bank cannot engage in currency arbitrage unless it is required to fulfill its obligations. The Bank will act in agreement with the bank or authorities of the concerned Member State.

Article 24: A reserve fund of 10 percent of the subscribed capital will be progressively amassed. The Board of Directors has the authority to grant additional reserves if the liabilities of the Bank justify additional reserves. The fund is developed from the interest received from loans granted by the Bank. This reserve fund is separate from the income required to meet the Bank’s obligations. The reserve fund will be invested in manner that allows quick availability (liquidity).

Article 25: The Bank can transfer its assets into the currency from one Member State to another Member State to perform its operations. These transfers should be avoided if the Bank already has cash or liquid assets in the currency required. The Bank cannot transfer its assets in the currency of a Member State to that of a third country without the Member State’s agreement. The Bank is free to dispose of any of its capital, which is paid up in convertible currency, and any currency borrowed on markets outside the Community. Members States are required to make currency available to
the debtors of the Bank, so that they may repay interest and commissions on loans to the Bank.

Article 26: A qualified majority of the Board of Governors may suspend service to a Member state if that State fails to meet its obligations to the Bank. These obligations include paying its share of the subscribed capital, granting special loans or servicing its borrowers. This suspension does not release the Member State from its obligations to the Bank.

Article 27: The Board of Governors, in the event of liquidation, will appoint the liquidators and instruct them on carrying out the liquidation. In the event of liquidation, the Bank operations will cease, except for those processes, which are necessary to preserve its assets and to settle its liabilities.

Article 28: The property of the Bank is exempt from any expropriation. The Bank will assume the most legal capacities under the law in each of the Member State, particularly those laws referring to acquiring and disposing of property.

Article 29: Disputes between the Bank and its creditors, debtors and others will be decided by the national courts, except where the jurisdiction lies with the Court of Justice. The Bank will have an address for its service in each Member State. Any property of the Bank is not liable to attachment or seizure except by a decision of a court.

Article 30: The Board of Governors acting unanimously can establish a European Investment Fund of which the Bank would be a founding member. The Board of Governors would also establish the Statute of The European Investment Fund, which would define the objectives, structure, membership, financial resources, auditing of the Fund, as well as the relationship between the Bank and the Fund.

The Bank would participate in the management of the Fund and contribute to its subscribed capital. The European Community may also become members of the Fund and contribute to its subscribed capital. The invitation to become a member is also open to financial institutions.

The protocol regarding privileges of the European Community would apply to the Fund and its members. The Fund is not subject to any form of taxation either when in operation or in the event of liquidation or dissolution. Any dividends, revenue or capital gains to members of the Fund, other than the Community and the Bank, will remain subject to applicable legislation. The Court of Justice will maintain jurisdiction over disputes within the Fund.

This protocol essentially establishes the European Bank and these principles are relatively unchanged, as is the structure the Bank. Review of
additional European Union documents will illustrate the minor changes that have been instituted with the Bank.

A decision of the representatives of the Governments of the Member States on the provisional location of certain institutions and departments of the Communities was signed in April 1965 and establishes the location of the EIB. The European Investment Bank will be located in Luxembourg and all meetings of the Bank will occur there. All activities of the Bank will be carried out from this location.

Member states are only liable to the amount of their share of the capital subscribed and not paid up. An addition of a new member will result in an increase of the subscribed capital corresponding to the capital brought by the new member. Board of Governors of the EIB may decide, unanimously, to increase the subscribed capital. A member’s share in the subscribed capital may not be transferred, pledged or attached.

Article 5: Subscribed capital shall be paid in by the member state to the extent of 7.50162895 percent on the average of the amounts defined in Article 4. In the event of an increase in subscribed capital, the Board of Governors may unanimously fix the percentage to be paid up and make arrangements for payments. The Board of Directors may require payment of the balance of subscribed capital in the event the Bank has to meet obligations to those who have made loans to the Bank. Each Member state would make payment in proportion to its share of the subscribed capital in the currency required by the Bank in order to meet its obligations.

Article 6: In the event the bank is unable to obtain the necessary funds on the capital markets for a specific project, The Board of Governors, acting on a proposal from the Board of Directors may decide that member nations grant special interest loans to the bank. These special loans may not be called for until the beginning of the fourth year after entry into force of this treaty. These loans may not exceed 400 million unit of account in aggregate or 100 million units of account per annum. The terms of special loans will be related to the term of the loan or guarantee the Bank proposes to grant, but will not exceed 20 years. The Board of Governors, acting on a proposal from the Board of Directors may decide on prior repayment of special loans. These special loans will bear an interest rate of 4 percent per annum, unless otherwise specified by the Board of Governors. The Member States will grant special loans in proportion to their shares in the subscribed capital of the Bank. The payment will be made in the national currency and due within 6 months of being called for. In the event the Bank would go into liquidation, these special loans will only be repaid to the Member Nations after all other debts of the Bank are settled.

Article 7: In the event a Member State’s currency value in relation to the unit of account defined in Article 4 is reduced, that State will adjust the
amount of the subscribed capital share in proportion to the change in value by making a supplementary payment to the Bank. Likewise, if the value of the currency increases, the Bank will make repayment to the State in proportion to this change.

Market rates determine the rate for converting Member State’s currency to the unit of account and vice versa. The Board of Governors acting on a proposal from the Board of Directors may alter this conversion method.

Article 8: The Bank will be comprised of a Board of Governors, a Board of Directors and a Management Committee.

Article 9: The Board of Governors consists of ministers appointed by the Member States and has the following duties:

15. Defines and insures implementation of the credit policy of the Bank. This policy should reference the objectives to be attained as progressing toward a common market.
16. Decides on whether to increase the subscribed capital (Article 4).
17. Decides on issues involving special loans (Article 6).
18. Authorizes investment loans outside the Member States (Article 18).
19. Appoints the Board of Directors and Management Committee, decides on compulsory retirement of those members and the duties of those members.
20. Has the authority to vary the number of members on the Management Committee.
21. Approves the annual report of the Board of Directors.
22. Approves the profit and loss account and the balance sheet.
24. Defines the unit of account of the subscribed capital.
25. May alter the method of converting from national currencies to the unit of account and vice versa.
26. Has the authority to suspend loans or guarantees to a Member States if that Member State has failed to meet its obligations of membership in the Bank.
27. Has the authority to decide to suspend the operations of the Bank.
28. In the event of liquidation, has the authority to appoint liquidators and oversee liquidation.

Article 10: Unless otherwise specifically stated in the Bank’s Statute, decisions by the Board of Governors require a majority of its members. The majority must represent at least 50 percent of the subscribed capital.

Article 11: Describes the duties and make up of the Board of Directors. The Board of Directors has sole power to make decisions regarding loans and guarantees and raising loans. It has the authority to fix interest on loans granted and commission on guarantees. The Board of Directors is
Appendix A : (Continued)

responsible for insuring the Bank is properly run and managed in accordance with the provisions of this Treaty and Statute and implementation of directives issued by the Board of Governors. The Board of Directors will also submit a report to the Board of Directors at the end of each financial year and publish it when the Board of Directors approves it. The Board of Directors consists of 25 Directors and 13 Alternatives and is appointed and can be renewed by the Board of Governors for a term of 5 years as follows:

- Three directors nominated by the Federal Republic of Germany
- Three directors nominated by the French Republic
- Three directors nominated by the Italian Republic
- Three directors nominated by the United Kingdom of Great Britain and Northern Ireland
- Two directors nominated by the Kingdom of Spain
- One director nominated by the Kingdom of Belgium
- One director nominated by the Kingdom of Denmark
- One director nominated by the Hellenic Republic
- One director nominated by Ireland
- One director nominated by the Grand Duchy of Luxembourg
- One director nominated by the Kingdom of the Netherlands
- One director nominated by the Republic of Austria
- One director nominated by the Portuguese Republic
- One director nominated by the Republic of Finland
- One director nominated by the Kingdom of Sweden
- One director nominated by the Commission

Alternatives will also be appointed and can be renewed by the Board of Governors for a term of 5 years as follows:

- Two alternatives nominated by the Federal Republic of Germany
- Two alternatives nominated by the French Republic
- Two alternatives nominated by the Italian Republic
- Two alternatives nominated by the United Kingdom of Great Britain and Northern Ireland
- One alternative nominated by mutual agreement between the Kingdom of Spain and the Portuguese Republic
- One alternative nominated by the mutual agreement of the Benelux countries
- One alternative nominated by the mutual agreement between the Kingdom of Denmark, the Hellenic Republic and Ireland
- One alternative nominated by the mutual agreement between the Republic of Austria, the Republic of Finland and the Kingdom of Sweden
- One alternative nominated by the Commission

Alternatives may take part in Board of Directors meetings, but have no right of vote unless they have replaced an appointed director. The President of the Management Committee or one of the Vice Presidents will preside over
the Board of Directors meetings, but will not have a vote. Directors and alternates are responsible only to the Bank.

Any Director may be forced into retirement if he no longer fulfills the conditions required by a qualified majority of the Board of Directors. Any vacancy arising on the board would result in a replacement for the remainder of term unless the entire Board of Directors is being replaced.

The Board of Governors determines the number of members on the Board of Directors and also acting unanimously determines what activities are considered incompatible with the duties of a director or alternate.

**Article 12:** Each director on the Board of Directors is entitled to one vote and can delegate this vote in all cases. Unless otherwise specified the decisions of the Board of Directors require a simple majority of members entitled to vote. A qualified majority (at this time) requires 17 votes in favor. The Rules of Procedure of the European Investment Bank determines the quorum required for the adoption of decisions.

**Article 13:** The Management Committee consists of a President and six Vice-Presidents appointed by the Board of Governors for a renewable term of 6 years. The Board of Directors, acting unanimously, may also alter the number of members on the management committee. A qualified majority of the Board of Governors acting on a qualified proposal of the Board of Directors may compulsorily retire a member of the Committee.

The responsibilities and duties of the Management Committee include preparing decisions of the Board of Directors regarding the granting of loans and guarantees, insuring these decisions are implemented. The Committee is responsible for the current business of the bank under the authority of the President and the supervision of the Board of Directors. The Management Committee will deliver opinions or proposals about loans and guarantees and will do so by a majority of the Committee.

All staff and officials of the European Investment Bank will work under the authority of the President of the Management Committee. Hiring and firing of staff will be the responsibility of the President and this staff will be of equitable representation of the Member States. The President or Vice President in the event the President is unable, represents the Bank in judicial, as well as other matters. The Management Committee and staff are only responsible to the Bank and are completely independent.

**Article 14:** The Board of Governors will appoint a committee of three members to annually verify the operations of the Bank. The verification of the books will include confirmation of the balance sheet and profit/loss statements reflect the position of the Bank.
Article 15: The Bank will conduct its business through the authority designated by the State and will have recourse to the bank of issue of the Member State concerned or another financial institution approved by the State.

Article 16: The Bank will cooperate with all international organizations similar to themselves and will establish contacts, in the interest of cooperation, with other banking and financial institutions in the countries where Bank operations extend.

Article 17: The Board of Governors, at the request of a Member State or The Commission or its own initiative, will implement the directives set forth in Article 9 of this Statute.

Article 18: The Bank will grant loans to its members or to private or public undertakings for investment with the European territories of the Member States, in the event funds are not available from other sources and with reasonable terms. The Bank may grant loans for investment outside the European territories when authorized by the Board of Governors acting on a proposal from the Board of Directors.

Loans or grants to a body other than a Member State, the loan or grant should be guaranteed by the Member State where the project is being carried out or other adequate guarantees. The Bank may also guarantee loans contracted by public or private entities as provided for in the Treaty. The total amount of loans and guarantees at any time will not exceed 250 percent of the subscribed capital of the Bank. The Bank has the authority to protect itself against risk by placing clauses in the loans and guarantees, as it considers appropriate.

Article 19: Interest rates on loans and guarantees shall be determined by the capital market and calculated to allow the Bank to meet its obligations and cover its operating expenses. The Bank cannot reduce interest rates. The Member State or another agency concerned may grant aid towards the payment of interest.

Article 20: The Bank shall adhere to the following operating principles in regard to loans and guarantees:

- Ensure that funds are used rationally in the interest of the European Community.
- The Bank may only grant loans or guarantees where the project increases economic production and promotes the goal of the common market. Loans and grants in the production sector can be covered by the operating profits of the Bank or by a commitment by the State where the project is carried out.
The Bank will not gain any interest in or assume any management responsibility of a project unless it is required to ensure repayment of funds to the Bank.

The Bank can dispose of its claims on the capital market and require its debtors to issue bonds or other forms of security.

The Bank or a Member State cannot require that funds lent by the Bank be used in a specific Member State.

Loans can be conditional on international tender being arranged.

The Bank may not under any circumstances finance a project to be carried out in a Member State where the project is opposed by that Member State.

Article 21: Procedures regarding attainment of loans and guarantees:

Applications can be made to the Bank through the Commission or Member State where the project will be carried out.

Applications made through the Commission will be submitted to the involved Member State for opinion: applications made through a Member State will be submitted to the Commission for an opinion.

These opinions must be submitted within 2 months of the application, no response will indicate to the Bank that there is no objection to the project.

Applications submitted by the Management Committee will be ruled on by the Board of Directors.

The Management Committee decides whether submitted applications comply with the Statute of the Bank. If in favor of granting the loan or guarantee, the Management Committee, will submit a draft contract to the Board of Directors. If the Management Committee is against an application for loan or guarantee, it will also submit this opinion to the Board of Directors.

The Board of Directors cannot grant the loan or guarantee if the opinion of the Management Committee is unfavorable, unless it is a unanimous decision by the Board of Directors.

This policy is the same for The Commission when delivering an unfavorable opinion, except when the Board of Directors votes on the loan application, the Director nominated by the Commission must abstain from the vote.

In the event both The Commission and The Management Committee deliver unfavorable opinions about the proposed loan or guarantee, the Board of Directors may not grant the loan or guarantee.

Article 22: The Bank generates the funds necessary for its purposes by borrowing on the international capital markets. This includes borrowing on the capital market of any Member State. If the Member State does not have any legal provisions for this, the Member State and the Bank may reach an agreement about the individual loan. The Member State has the right to
refuse to agree to the loan in the event it would cause a disturbance in the capital market of that Member State.

Article 23: The Bank generates funds to meet its obligations by the following:

- Investing in money markets
- Buying and selling securities issued by the Bank or by those who have borrowed from it
- Any financial operation linked to its objectives

The Bank cannot engage in currency arbitrage unless it is required to fulfill its obligations. The Bank will act in agreement with the bank or authorities of the concerned Member State.

Article 24: A reserve fund of 10 percent of the subscribed capital will be progressively amassed. The Board of Directors has the authority to grant additional reserves if the liabilities of the Bank justify additional reserves. The fund is developed from the interest received from loans granted by the Bank. This reserve fund is separate from the income required to meet the Bank’s obligations. The reserve fund will be invested in manner that allows quick availability (liquidity).

Article 25: The Bank can transfer its assets into the currency from one Member State to another Member State to perform its operations. These transfers should be avoided if the Bank already has cash or liquid assets in the currency required. The Bank cannot transfer its assets in the currency of a Member State to that of a third country without the Member State’s agreement. The Bank is free to dispose of any of its capital, which is paid up in convertible currency, and any currency borrowed on markets outside the Community. Members States are required to make currency available to the debtors of the Bank, so that they may repay interest and commissions on loans to the Bank.

Article 26: A qualified majority of the Board of Governors may suspend service to a Member state if that State fails to meet its obligations to the Bank. These obligations include paying its share of the subscribed capital, granting special loans or servicing its borrowers. This suspension does not release the Member State from its obligations to the Bank.

Article 27: The Board of Governors, in the event of liquidation, will appoint the liquidators and instruct them on carrying out the liquidation. In the event of liquidation, the Bank operations will cease, except for those processes, which are necessary to preserve its assets and to settle its liabilities.
Article 28: The property of the Bank is exempt from any expropriation. The Bank will assume the most legal capacities under the law in each of the Member State, particularly those laws referring to acquiring and disposing of property.

Article 29: Disputes between the Bank and its creditors, debtors and others will be decided by the national courts, except where the jurisdiction lies with the Court of Justice. The Bank will have an address for its service in each Member State. Any property of the Bank is not liable to attachment or seizure except by a decision of a court.

Article 30: The Board of Governors acting unanimously can establish a European Investment Fund of which the Bank would be a founding member. The Board of Governors would also establish the Statute of The European Investment Fund, which would define the objectives, structure, membership, financial resources, auditing of the Fund, as well as the relationship between the Bank and the Fund.

The Bank would participate in the management of the Fund and contribute to its subscribed capital. The European Community may also become members of the Fund and contribute to its subscribed capital. The invitation to become a member is also open to financial institutions.

The protocol regarding privileges of the European Community would apply to the Fund and its members. The Fund is not subject to any form of taxation either when in operation or in the event of liquidation or dissolution.

Any dividends, revenue or capital gains to members of the Fund, other than the Community and the Bank, will remain subject to applicable legislation. The Court of Justice will maintain jurisdiction over disputes within the Fund.

This protocol essentially establishes the European Bank and these principles are relatively unchanged, as is the structure the Bank. Review of additional European Union documents will illustrate the minor changes that have been instituted with the Bank.

A decision of the representatives of The Governments of the Member States on the provisional location of certain institutions and departments of the Communities was signed in April 1965 and establishes the location of the EIB. The European Investment Bank will be located in Luxembourg and all meetings of the Bank will occur there. All activities of the Bank will be carried out from this location.