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THE EUROPEAN INVESTMENT BANK AND ITS ROLE IN THE DEVELOPMENT OF INFRASTRUCTURE IN THE MEMBER COUNTRIES OF THE EUROPEAN UNION

Introduction

The aim of this paper is to analyse the experience of the European Investment Bank in its role as a key element of infrastructural development policies implemented by various bodies and institutions of the European Union. The matter is essential to Poland for three reasons. First, the state of Poland's infrastructure is far from satisfactory; secondly, Poland is currently seeking entry into the European Union, and thirdly, its possible accession to the Union will give it a much easier access to the European Investment Bank's loans and guarantees for the development of Poland's infrastructure.

Although used extensively, the term *infrastructure* has never been clearly defined. In the definition adopted in this paper, infrastructure is the part of national property which constitutes the foundation of the functioning and growth of individual elements and spheres of socio-economic life of a given state. Infrastructure includes three major components: economic, social and institutional. Economic infrastructure, which is the main focus of this paper, comprises facilities and installations of transport, telecommunications, energy, water management and environmental protection. Such a scope of economic infrastructure corresponds with the interpretation of the term *infrastructure* adopted by the European Investment Bank.

BIBLIOTEKA AE W Poznaniu

1. Infrastructural conditions for the integration of European Union member countries

In the initial period following the establishment of the European Economic Community, the predecessor of today's European Union, infrastructure did not constitute a barrier to integration. This is not surprising, since the condition of infrastructure in five out of the six countries comprising the Community at that time was estimated as excellent by European standards.[1] The only infrastructural shortcomings outside of the Alps region, where the development of transport infrastructure had been hindered by geographic conditions, were local in character and related to problems of regional development. The largest regional discrepancies at the time were found in Italy where underdeveloped infrastructure in the Mezzogiorno region (which accounted for approximately 40% of Italy's and approximately 10% of the European Union's total area) was among the major causes of the region's economic backwardness. Due to these regional discrepancies, the overall state of Italian infrastructure remained below the level of development achieved by other member countries.

A common infrastructural policy was not included among the main objectives envisioned in the Treaty of Rome. As to why this happened, we can only speculate that part of the reason was the limited popularity of the term *infrastructure* which did not become a household word until the 1960s. Another contributing factor was the traditionally prevailing view of the development of communications and energy as each state's own internal problem. Such an approach was reflected in the formulation of a common transport policy in the Treaty of Rome. In that policy the main emphasis was placed on improving the efficiency of freight traffic between member countries by streamlining regulations, stimulating efforts aimed at improving modes of transport, and unifying and standardising carrier fleets and building requirements pertaining to transport facilities. Yet, no goals aimed directly at improving transport infrastructure have ever been given a priority in the "common transport policy".

The first significant changes in the infrastructural conditions for integration came in 1973 with the firstly accession to the Community of Denmark, Ireland and the United Kingdom, and secondly with the "energy crisis" and all of its consequences.

Being completely or largely surrounded by sea, Denmark, Ireland and the United Kingdom are all geographically specific areas. Their accession to the

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[1] Cf. **A. Csernok, E. Ehrlich, Gy. Szilágyi**. A Hundred Years of Infrastructural Development: An International Comparison, Acta Oeconomica 1972, vol. 9, no. 1, p. 11-12.

European Union marked the end of the previously continental nature of the group. A number of problems had to be solved to ensure the development of infrastructural ties between the old and the new members of the Community.

The admission of the United Kingdom, and especially Ireland, to the Common Market substantially increased the proportion of poorly developed regions, at least by the standards of highly developed countries. The change in proportions also affected infrastructure. Ireland became the first member country of the European Community in which the problems considered local by other member states, including the problems of infrastructure, occurred on a national scale.

The second event of 1973, significant in terms of infrastructural conditions for integration, was the energy crisis. The dramatic rise in crude oil prices made decision-makers charged with formulating energy management policies realise both how economically irrational they had been and what large risks they had taken in approving projects designed to increase the consumption of primary energy by about 80%, mostly by means of increasing the use of crude oil. If put into effect, such plans would have led to a further rise in the Community's reliance on external sources of energy, which in 1973 was already nearing 60%.

Some of the main measures prompted by the energy crisis focused on:

1) increasing the use of nuclear power and other sources of energy alternative to crude oil;

2) intensifying research and other projects related to finding and utilising alternative sources of energy;

3) promoting and stimulating all measures designed to save energy.

The success of all of the above efforts was to a large extent contingent on changes in transport systems and in the energy industry. The key objectives pursued in improving transport systems included the expansion of facilities used for moving gas and electric energy, and the streamlining of other elements of transport infrastructures with a view to conserving energy sources, and particularly crude oil, in the transport sector.

The next two stages of the Community growth, namely the accession of Greece in 1981 and by Spain and Portugal in 1986, could be considered as two phases of the process of expanding Community's southward. Joint analysis of the impact Greece, Spain and Portugal had on the Community's infrastructure is justified not only due to the geographic proximity of these countries. Many similarities can also be found in their respective economic situations.

Greece and Portugal must be classified as the least developed countries of the Community. Both can be described as peripheral with regard to their geographical location as well as their economic situation. Since there is a close connection between the general level of socio-economic advancement and the level of infrastructural development, it is only natural that underdevelopment of infrastructure accounts for a large part of the shortcomings in the overall development of these

countries. As in Ireland, the development of Greece's and Portugal's infrastructure is a problem affecting these countries in their entirety rather than just selected regions.

We must also acknowledge the specific nature of infrastructural ties between Greece, Spain and Portugal and other member countries. Portugal's only connection with the rest of Europe, besides air and maritime transport, is through the neighbouring Spain. Both Portugal and Spain are linked with the other continental members of the Community across the geographically barrier of the Pyrenees Mountain range. Greece, in its turn, is the only state having no common land borders with any other member country. This fact poses considerable transport problems, largely aggravated in recent years following the break-up of the former Yugoslavia and the resulting war which engulfed the region.

The number of European Union member states remained unchanged from 1986 to 1995. The one event which proved significant for our analysis of infrastructural conditions for integration was the addition to the Union of the former East Germany following German reunification. Despite having the infrastructure most developed of all member countries of the former CMEA (particularly in terms of quantity), East Germany's infrastructure was still strikingly inferior to that of West Germany. According to pre-reunification estimates, bringing the infrastructure of the former East Germany up to the average standard of the western part of Germany would cost between DM 100 and 300 billion[2].

The next phase of European Community's expansion came in 1995 with the entry of Austria, Finland and Sweden. None of these countries brought any new problems in the area of infrastructural conditions for integration. However, due to the geographic location of Sweden and Finland, increased attention had to be given to the issues of natural barriers to integration.

Only two non-member European countries have infrastructures comparable with those of the leading (in terms of infrastructure) members of the European Union. These two countries are Norway and Switzerland. All of the remaining states, including the aspiring Union members in Central and Eastern Europe, have infrastructures corresponding in standard to those of the least developed member countries of the Union. A claim that poorly developed infrastructures constitute the principle reason of the Union's reluctance to admit such countries as Poland and Hungary would of course be far-fetched. Nevertheless, there can be no doubt that an awareness of these problems, and especially of the costs involved in solving them, may play a role in shaping the positions of some members of the Union, especially those benefiting the most from the funding designated for the

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[2] Le coût d'une mise au niveau Ouest-Allemande de l'économie de la RDA, Problemes Economiques, 7 mars, 1990, p. 8-13.

improvement of infrastructure systems by various institutions functioning within the framework of the Union.

2. The European Investment Bank's role in supporting the development of infrastructure

A special role in supporting the development of infrastructure in the European Union has been played by the European Investment Bank (the EIB), founded simultaneously with the establishment of the Community. Since much has already been said about the EIB's operating principles, I will limit myself to presenting two of the main points most relevant to the analysis of infrastructure. These are: 1) the lack of restrictions as to the geographical scope of operations, which distinguishes the EIB from other similar organisations (the EIB may offer financial assistance throughout the territory of the Community as well as in the associated countries and throughout the Mediterranean), 2) the high ceiling on the proportion of EIB funding in the total cost of a project – as much as 50% is permitted. All projects financed by the EIB, regardless of their nature and purpose, must meet strict profitability requirements. The criterion may be difficult to satisfy in the case of some infrastructural development projects and may prove absolutely prohibitive to many applicants seeking to obtain this prime source of funding in the Community.

Since 1978 the EIB has been managing the resources of the New Community Instrument (NCI), a new entity whose funds were earmarked for exclusive use within the Community's territory. The role of the NCI was to support the development of infrastructure in member countries and to promote their integration at the regional level and in the area of job creation. Since 1982 NCI funds have also been made available for financing mostly small and medium-sized investments outside of the area of infrastructure as long as the applicants could demonstrate that the investments contributed to the achievement of main NCI objectives. NCI was a special purpose fund controlled tightly by the Community's bodies. The European Council made most decisions regarding the designation of NCI funds and set the general rules for their utilisation, including the main criteria to be met by the projects financed. The European Commission would then approve or reject recommendations concerning the designation of NCI funds while the EIB, in its capacity as a manager of NCI resources, specified the amount and the terms and conditions of loans to be granted. Just as in the case of loans offered by the EIB, applicants for NCI funding were required to document the projected profitability of their projects. The NCI practically ceased activities at the end of 1991.

The extent of the EIB's activities (within the European Union) at various stages of the Union's operation has been illustrated in table 1. Besides the periods marked by the admission of new member countries, the table shows the period following 1990. As mentioned earlier, 1990 was the year of German reunification, which was also a highly significant event for the infrastructural conditions for integration.

Table 1

Financing provided from EIB and NCI funds from 1959 to 1995

Years	EIB	NCI	Total	
	in milion ECUs			in %
1959-1972	2,453.4	–	2,453.4	1.41
1973-1980	12,078.3	474.7	12,553.0	7.23
1981-1985	21,127.2	4,586.9	25,714.1	14.81
1986-1990	46,963.2	1,298.3	48,261.5	27.80
1991-1995*	84,586.6	39.2	84,625.8	48.75
Total	**167,208.7**	**6,399.1**	**173,607.8**	**100.00**

* NCI: only 1991.

Source: Author's calculations based on the European Investment Bank's Annual Reports: 1980-1995.

The increases in the amount of funding provided by the EIB, resulting both from the actual increase in the scope of its activities and from the effects of inflation, were accompanied by changes in the allocation structure of the funding. All of these trends are shown in table 2.

At the outset in 1972, the marked rise in the share of resources designated for the development of infrastructure in all funding offered by the EIB was the result of a substantial increase in the amount of funding allocated for the advancement of the energy sector. The trend was one of the consequences of a general redefining of energy policies by member countries in response to the energy crisis of 1973.

By mid-1980s, communications infrastructures were again brought into sharp focus. This regained prominence came as a result of analyses and discussions conducted since the 1970s[3] on the role of communications in the integration of

[3] Cf. Un réseau de transports pour l'Europe. Bulletin des Communautés Européennes – Supplement 1979, no. 8.

the Union. One of the main conclusions reached in these debates was that the generally high commitment of member countries to improving their internal communications systems has not always been backed by equally intensive efforts aimed at remedying the problems of infrastructural links between these countries. Therefore, little was accomplished in terms of removing the missing links and bottlenecks which stood in the way of creating a uniform Community-wide infrastructural network. However although such removal was an indisputable precondition for accomplishing other goals of integration process.

Table 2

Sectoral breakdown the financing provided by EIB and NCI from 1959 to 1995 (in %)

Years	Noninfra-structural Goals	Infrastructure			
		energy	communi-cations	other	total
1959-1972	41.0	18.3	38.4	2.3	59.0
1973-1980	21.5	38.2	23.5	16.8	78.5
1981-1985	27.4	35.0	22.8	14.8	72.6
1986-1990	33.7	21.3	31.2	13.8	66.3
1991-1995	26.0	18.5	41.1	14.4	74.0
1959-1995	**28.2**	**23.6**	**33.9**	**14.3**	**71.8**

Source: Author's calculations based on the European Investment Bank's Annual Reports: 1980-1995.

Table 3 illustrates the geographical structure of allocation of EIB resources.

One important fact illustrated in table 3 is the role of the least developed members of the Community, i.e. Greece, Ireland, Portugal and Spain, as beneficiaries of EIB assistance funds. Although these states have not been members of the Community for the entire period of its, and the EIB's, operation, they account for 29.6% of all means allocated for the development of infrastructure, and 33.9% during the 1991-1995 period. The latter figure becomes even more significant when compared with the above four states' share in the EIB's capital as of December 31, 1994. The share was 1.4% for Greece, 7.0% for Spain, 0.7% for Ireland and 0.9% for Portugal, adding up to a total of 10.0% (for comparison, Germany's share at that time was 19.1%).

Another significant factor to be discussed in connection with the role of the EIB in creating a harmonised system of infrastructure in the Community is the

Table 3

Breakdown country of financing provided by EIB and NCI for infrastructural development from 1959 to 1995 (in %)

	1959-1995		1991-1995	
	Infrastructure	Infrastructure except energy	Infrastructure	Infrastructure except energy
Belgium	1.7	1.6	2.3	2.4
Denmark[a]	5.6	5.4	5.5	5.7
France	11.4	13.4	9.9	13.4
Germany	7.6	8.8	10.2	11.0
Greece[b]	3.2	3.0	3.0	3.4
Ireland[a]	4.3	2.3	3.9	1.6
Italy	27.0	18.0	16.6	11.9
Luxembourg	0.1	0.1	0.1	0.1
Netherlands	1.3	1.8	1.7	1.9
Portugal[c]	5.1	7.0	7.5	8.1
Spain[c]	13.5	21.6	20.9	15.1
U.K.	16.9	14.6	15.2	13.3
Other[d]	2.3	2.4	3.3	2.1
Total	100.0	100.0	100.0	100.0

[a] Since 1973, [b] since 1981, c since 1986,

[d] loans granted to non-members of the Union for projects of immediate significance to the European Community + in 1995 loans granted to Austria, Sweden and Finland.

Source: As in table 2.

structure of resource allocation by economic policy objectives. The structure, described in EIB reports, includes a category labelled "Community Infrastructure" which stands for projects in the areas of infrastructure other than the energy industry and those of immediate significance to multiple states or the entire Community. The share of resources allocated for that purpose in total EIB funds designated for the development of transport and telecommunications infrastructure is shown in Table 4.

The sharp increase in the share of Community infrastructure in EIB-supported communications projects is due to causes mentioned earlier and to the resulting action taken to create a harmonised infrastructural network. Especially significant here are the decisions made since 1992 by the European Council, which led,

among other things, to formulating a list of priority infrastructural projects essential for the creation of the Trans-European Network (the so called TEN). The EIB has been designated as a key institution for their implementation. To facilitate EIB's work toward developing a harmonised infrastructure in the Community, the Bank's operating rules have been supplemented and modified accordingly.

Table 4

Share of resources designated for the development of community infrastructure in total loans allocated for transport and telecommunications infrastructure projects

Years	Share
1959-1972	7.2
1973-1980	27.8
1981-1985	19.2
1986-1990	58.0
1991-1995	80.6
1959-1995	**61.0**

Source: As in table 2.

The first such modification, made in a decision reached in the Edinburgh Summit of 1992, involved creating the "Edinburgh Facility". The prime purpose of this special fund, separated from other EIB resources, is to finance TEN development projects. Under the fund's rules, EIB funding may account for as much as 70% of the total cost of such projects.

The second modification to EIB principles, introduced in the Essen Summit, was the decision to formulate a separate set of rules to govern EIB participation in TEN projects. Such new rules would reflect specific features of these projects such as the long period of return on investment ("The TEN Special Window").

Finally, the third initiative involved the establishment, in June of 1994, of the European Investment Fund. The fund was to provide guarantees for key infrastructural projects, especially the projects related to the development of TEN. Although the fund operates outside of the EIB organisational framework, the Bank remains its main shareholder. Another connection with the Bank is the Chairman of the Fund's Managing Board, whose other capacity is to serve as the President of the EIB.

3. The EIB and the development of infrastructure in Eastern and Central Europe

As stated in the Introduction to this paper, the analysis of EIB's experience in assisting the development of infrastructure is a central issue from the standpoint of Eastern and Central European states seeking membership in the European Union.

Since the beginning of the 1990s, EIB has been granting loans for the development of infrastructure in Eastern and Central Europe as a part of its operations outside the Community's territory. Between 1990 and 1995, the EIB made available to the countries of Eastern and Central Europe an aggregate amount of 3,664 million ECUs, 76% of which, or 2,766 million ECUs, has been earmarked for the development of infrastructure. It may be appropriate at this point to ask how the above amount relates to the amount of funding one might expect if the countries of Eastern and Central Europe had the status of Union members. Let us use the examples of the Czech Republic, Hungary and Poland: the three countries aspiring to become the next entrants into the Union.

Our reference point will be the funds obtained in 1994 by Spain (option A) and Portugal (option B) in relation to the countries' populations. What warrants the comparison with Spain and Portugal is that the level of infrastructural development in the countries of Eastern and Central Europe is close to that found in the Iberian Peninsula. The results of the calculations are shown in Table 5.

Table 5

Actual and potential EIB loans for the development of infrastructure in the Czech Republic, Poland and Hungary in 1994 (in million ECUs)

Country	Loans obtained	Potential loans	
		option A	option B
Czech Republic	225	602	1139
Hungary	100	597	1131
Poland	320	2243	4248
Total	**675**	**3442**	**6518**

Source: Author's calculations based on the European Investment Bank's Annual Report: 1994.

The data shown in table 5 point to two major conclusions. First, membership of the Union seems to have the potential to radically increase the amount of funding obtainable from the EIB for the development of infrastructure. Countries

excluded from the Union's structures have access only to limited EIB resources. Second, it is understandable that Spain, Portugal and other economically weaker members of the Union could be opposed to its further expansion. From their perspective, every new entrant is a potential competitor for a share of all types of funds, including the resources of the EIB.

Conclusions

Ever since its establishment, the European Investment Bank has played an essential role in supporting the development of infrastructure in the European Community. The EIB is also increasingly involved in furthering projects aimed at the creation of a uniform and harmonised system of infrastructure throughout the European Union's territory. The trend to treat infrastructural investment projects on a case by case basis by considering their relation to projects conducted in other sectors of the economy has become stronger since the beginning of the 1990s.

Most of the EIB's involvement in the development of infrastructure takes place in the least developed member countries of the Union, which is where infrastructural problems are most pressing. With a few exceptions, infrastructural systems in non-member countries are poorly developed. A further expansion of the Union would thus entail a sharp increase in EIB funding designated for the development of infrastructure.

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