EUROPEAN INVESTMENT BANK

CA/318/98
27/28 April 1998

DRAFT : Please provide the Secretariat, preferably in writing, with any requested amendments, if possible before the next meeting on 27/28 April

PV/98/04

BOARD OF DIRECTORS

Minutes of the meeting held in Luxembourg
on 24 March 1998 at 9:00

[redacted]

The CHAIRMAN, Sir Brian UNWIN, declared the meeting open at 9.10 a.m.

1. QUORUM

The CHAIRMAN noted that there was a quorum : 25 valid votes could be cast by Directors present or represented at the meeting.

SPECIAL STRATEGY DOCUMENTS MEETING

Introducing the papers on the day's agenda, the CHAIRMAN recalled that the Board of Directors had in previous discussions agreed that the recommendations on the capital increase and payout to the Member States should be submitted to the Board of Governors at the Annual Meeting in June in the context of an **overall strategy framework**. The purpose of the further three papers now presented was to take the formulation of that strategy further with a view to consideration at the April Board meeting of a composite paper covering all these issues.

The Bank's overall "strategy", both within and outside the Union, was basically, to a large extent, set for it, by the Statute, by requests and mandates from the European Council, and by decisions handed down over the years by the Board of Governors and the Board of Directors. Within this overall framework, the Management Committee and the Bank's staff had tried from time to time to develop aspects of the strategy and its implementation and to determine areas in which the Bank itself had discretion. The CHAIRMAN therefore suggested that, in essence, the current exercise was not so much about whether the Bank should pursue certain broad strategic tasks (such as regional convergence, pre-accession support etc), but how most efficiently, effectively and acceptably it should.

The Board had addressed the overall strategic framework a year earlier, when the general lines of the Bank's approach, as enshrined in the working paper that day – *The Framework for the Next 5-10 Years* – had been broadly endorsed. Indeed, as Document 98/108 on the day's agenda pointed out, some subsequent developments such as the Amsterdam Special Action Programme (ASAP) and the Pre-Accession Facility had validated core elements of that approach and the Bank's initiatives had been warmly welcomed by Member State governments.

Since then, apart from the considerable separate work in the Board of Directors on implementing ASAP and the Pre-Accession Facility, the Board had begun a series of discussions on topics within that framework, identified in the report of the Working Group. In February, it had discussed pricing policy, EIB/Commission cooperation, and the EIB/EIF partnership. On the day's agenda, the further three papers had been circulated for discussion. In addition, there had been circulated the first summary annual report of the Bank's new Evaluation Unit, which had general relevance to nearly all the issues under discussion, and which would soon be followed by three individual reports on *Industry/Regional Development*, *the Telecommunications Sector*, and *The Road and Rail Sectors*.

The CHAIRMAN suggested that, from the Board's point of view, the first paper (98/108) was clearly the most important. The Management Committee had given careful consideration to the views expressed by many Board members and was proposing (see section 5) that in future the Board should be presented around the turn of each year with a much more comprehensive "lending outlook" (Operational Plan) which would progressively serve as a framework for Board discussion of the evolution of priorities and, as it rolled forward, evaluation of the performance of the Bank. This was an important innovation which frankly recognised the point made by many Board members that, although they received a great deal of information, it was largely of an *ex post* nature and did not allow them to take a proper look at the Bank's forward strategy and priorities. More work needed to be done on it (e.g. on developing specific performance indicators) but he hoped the Board would welcome it as a constructive initiative and response by the Management Committee.

The CHAIRMAN acknowledged that, despite best efforts, it had still not been possible to cover everything that was relevant to the strategy. But it was also important to appreciate that strategy was never a frozen concept ; it could not be the subject of a once-for-all, discrete exercise; its formulation was a dynamic, ongoing process.

A case in point was the Bank's **External Operations**, carried out for the most part at the request of the Council of Ministers specifically in support of the Union's external aid and development policies. The Management Committee would be coming forward with a first orientation paper on this before the Annual Meeting, but it would need more mature reflection and discussion over the next few months as the question of renewal of external lending mandates approached once more. In the shorter term, the Bank's activity was set by the existing mandates and the Pre-Accession Facility, and its present priority must be to complete them as efficiently and effectively as possible. In the longer term, however, a number of important issues would need to be discussed relating to the Bank's general *external role*. The CHAIRMAN hoped that, for the purposes of the present strategy work, the Board would be content to proceed on this basis, with the issues identified for future discussion.

Following the discussion and subject to the Board's views, the CHAIRMAN proposed to prepare for the April meeting a paper encapsulating the strategy framework together with the formal proposals to the Board of Governors for the payment to Member States and the capital increase, as agreed at previous meetings.

2.1. <u>**Monitoring and Evaluating the Performance of the EIB, and setting its Lending priorities**</u>

- <u>**Evaluation Unit Report**</u>

Mr MASERA welcomed the paper and the constructive spirit behind it and endorsed its broad lines. However, he evinced concern as to the apparent conception on which it was based in regard to the respective rôles of the Management Committee and the Board of Directors, notably in regard to the duties and prerogatives of the latter. It was incumbent upon the Bank to provide the Board, which was assumed to have the necessary authority and expertise, with the information it needed for the purposes of monitoring and assessment.

In his view there were certain shortcomings in the paper, which might even be misconstrued as to the adequacy of the data supplied to the Board and should be developed further.

The CHAIRMAN, concerned to avoid any misunderstandings as to the object of the paper, stressed that the Management Committee was seeking first and foremost to identify those areas to which the Board itself attached the greatest importance ; it was not intended to be prescriptive but rather to clarify the information already set before the Board and to find more meaningful ways of presenting it.

Mr VANORMELINGEN echoed the sentiments of Mr MASERA. In particular, he wished to repeat his contention that the Board should receive particulars of the Bank's administrative budget, to enable it to appraise, control and approve it, this in his view not being a day-to-day function of management. The EIB was the only international financial institution in which the Board of Directors did not perform this function, or have the faculty of engaging in fundamental *ex ante* debate on budgetary questions. He considered this to be at odds with the dictates of the Statute (Art. 11.1) whereby it was for the Board to ensure that the Bank was "properly run".

While thanking the Management Committee for addressing the problem of the provision of information to the Board and endorsing the comments on the broad strategic framework (§1), Mr VANORMELINGEN would like to see a clearer statement of the Bank's commitment to operations outside the European Union, notably its rôle in the ACP and Mediterranean countries. He wondered, in the context of the present exercise, in what ways the Bank differed from other multilateral financial institutions. He would wish the Board to be kept fully apprised of developments in the Bank's monitoring procedures. Financing proposals should explain clearly, where economic rates of return where not stated, why this parameter could not be provided. He looked forward to studying the report he understood the Board was to receive regarding job creation under ASAP operations, preferably prior to the Annual Meeting of the Board of Governors. He hoped the present exercise would result in more timely involvement of the Board.

The CHAIRMAN assured him that a job creation paper was in hand. It was already clear that ASAP was facilitating activity in support of job-rich sectors. This would necessarily at the present stage be in the nature of a desk study ; definitive assessment was a longer-term undertaking. The EIB differed from most of other MFIs in that most of its activity was located in richer countries and that it went in support of both public and private investment.

The issue of the Bank's administrative budget touched upon the wider question of the governance of the Bank and hinged upon a factor that did not have an equivalent in other IFIs, viz. the existence of a third statutory tier in the decision-making organs of the EIB, the Management Committee. It should however be possible to develop further the provision to the Board of Directors of data in this area to enable it the better to gauge the Bank's budgetary allocations and performance, without however going as far as formal submission of the detailed administrative budget for Board approval. He continued to take the view that this was a function of the Management Committee.

Mr de VRIES, presently seconded by Messrs JOHANSSON and McINTYRE, reiterated his earlier *caveat* that, it being understood that the proposals on the capital increase and related matters were to be submitted to the Governors in a general strategic context, it was not a foregone conclusion that this could be done at the Annual Meeting on 5 June. He would prefer not to see the pace too much forced. An aspect of evaluation for Directors was possible discrepancies between Board-approved operations and changes that occurred as a result of subsequent negotiations with borrowers.

Mr de VRIES was very much in favour of the forward-looking element in the proposals in the paper, but he would advocate an approach that planned ahead in terms of policy objectives and priorities rather than the quantitative projection of likely demand for loans. It would be for the Board to examine and fine-tune the outlook on this basis, whereafter it would return, *ex post facto*, to consider actual performance. For him, however, a major gap in the paper was its failure to address the question of subsidiarity as a fundamental policy objective.

Clarifying the degree of independence for the Bank's Evaluation Unit was also a matter of importance for Mr de VRIES. He would like to see it sending its reports to the Board itself, as happened with other IFIs.

While not an advocate of detailed Board examination and approval of the budget, he thought there might be alternative solutions to this issue, such as the creation of a budget committee including Board members.

The CHAIRMAN said that, for reasons he had stated many times, he continued to believe that it was most important that the Governors should decide the capital increase at their Annual Meeting in June He would continue to work towards this objective. On subsidiarity, he observed that the second and third papers now before the Board related to the banking sector and were thus closely relevant to this issue. The Evaluation Unit's reports were indeed submitted to the Management Committee, which then discussed them before their transmission to the Board of Directors. As he had indicated, three such papers were due to be so submitted in the near future. As to changes in the terms of loans and projects following Board decisions, the CHAIRMAN stressed that this was an area where due diligence was exercised, in the first instance through a joint Management Committee/Heads of Directorate meeting after each session of the Board, precisely to deal with action points arising, and their follow-up, which included this aspect. He would ensure that the Board was also kept appropriately informed.

Ms GRÖHN considered the rôle of evaluation to be a pivotal issue, suggesting that the Bank's EV Unit should be upgraded and its staffing enhanced, partly to ensure closer collaboration with opposite numbers in the other IFIs. She favoured the proposals in the paper which promised to afford the Board greater operational insight and earlier involvement in the future. She would like to see more of a sectoral breakdown in the performance indicators. As on previous occasions, called for closer consideration of the risk factor, and specifically of the long-term capital needs of the Bank from this point of view, which in her opinion should – as already foreseen – be reassessed in 2000 or 2001 and on a more regular, possibly even six-monthly basis. She looked forward to more quantificaiton of these and other aspects as an aid to Board deliberations. She hoped that the expected paper on operations outside the Union would be available before the Annual Meeting, not least for consideration of prospective operations in the CEEC.

The CHAIRMAN reminded the Board that the recent creation of the Evaluation Unit had been a new departure for the Bank. It accounted for about 1% of the administrative budget, which was comparable with the level in other IFIs.

Mr JOHANSSON would have preferred to see more in the paper on putting concrete recommendations to the Board of Governors on setting the Bank's lending priorities, including clearer definition of sectoral priorities, for him a very important issue, whereas the paper seemed largely to confine itself to aspects of reporting. He would like also to see some coverage, as it were a "negative list", of areas of activity not commanding priority, including lending to large corporate borrowers and other areas affording low value added (seconded, Mr O'GORMAN).

He too would favour *ex ante* involvement of the Board in discussion of the administrative budget, albeit without prejudice to the prerogatives of the Management Committee.

Mr LANDÁBURU, recalling that at previous Board meetings he had called for Directors to be involved in setting objectives for the coming year, welcomed the fact that concrete, innovative proposals in this direction, approaching the outlook in terms of both policy objectives and sectoral breakdown, had now appeared. This was helpful ; it would make for greater transparency and effectiveness and enhance the Bank's image. He looked forward to the Board and the Management Committee joining in the work of defining value added as an operational objective, which would in turn help to get a clearer perspective on complementarity with other institutions, notably the Commission. Essential to the elaboration of the European Union's future cohesion policies were the establishment of priorities and the optimal use of resources from both the regional and the sectoral point of view. He agreed with Mr de VRIES that such priorities should form the subject of specific debate in the Board.

Mr LANDÁBURU endorsed the two main pillars of Bank policy as stated in the first chapter of the paper but wished to stress the importance of measuring all performance ultimately against these criteria ; he felt that there was a tendency to lose sight of this aspect in assessing activity and that the definition of criteria and methodology should take full account of this. He wished to know what form the documentation coming out of the proposals would take and in what way and for what type of debate they would be submitted.

The CHAIRMAN assured him that formal discussions of these aspects would follow. The paper (see Annex) served to remind the Board of the information already available and flowing to it ; the present aim was to determine with the Board the appropriate presentation of this and any other information in the lending outlook exercise around the turn of the year, when also the success or otherwise of policy objectives pursued during the previous year would be assessed. This would be an ongoing, iterative process.

Mr BOEHMER expressed satisfaction at the direction in which the paper pointed. He hoped, like Mr de VRIES, that the lending outlook would contain in some wise a business plan, with pointers to activity and some quantified objectives, presumably within prospective ranges where the volume of lending was projected. This in turn would serve as a tool for the planning of policy implementation and the management resources needed for its pursuit. Reporting to the Board would need to be revised from this point of view. He believed that there was a case for augmenting the existing information with more financial data and more details and pointers on risk management. On the qualitative side also he would wish to see more examination of the performance of the Bank's portfolio and of project outturn, viz. figures on the extent to which projects were completed on time and/or within budget ; their productivity/return on investment ; those that had given rise to problems and what remedial action had been taken. Percentage success rates might be deduced, as was the practice withn KfW and other IFIs. All this should be addressed via an aggregated approach rather than project-by-project.

He also welcomed the presentation on *ex post* evaluation, which he saw as a fine start for an activity still in its infancy at the EIB. He wondered however whether the breadth of sampling by the Evaluation Unit – around 15% of projects – was sufficient. Of great importance was the realisation of policy objectives and assessment of the extent to which the Union's regional policy aims were being served by the Bank, which he saw as a *lacuna* in the existing arrangements.

There needed to be current reporting on projects in hand as well as *ex post* assessment of completed ones. He would like to see some kind of IFI coordination group address the question of reaching agreed and comparable criteria for performance measurement.

Mr BOEHMER believed that the EIB should emulate other IFIs in the matter of calculating and posting Economic Rates of Return in all its financing proposals.

The CHAIRMAN said that he hoped that some concerns of Directors would be allayed by the reports they would receive by way of information from the Evaluation Unit. These would not look at individual projects, but at wider topics such as telecommunications, road and rail infrastructure and regional development It was still early days for the Evaluation Unit, but he felt that a 15% breadth of sampling was reasonable, given also the extent of *ex ante* evaluation that was carried out by the Bank.

Mr WIESER wished to return to the point raised by Mr MASERA on the respective rôles of the Management Committee and the Board of Directors : the whole issue of the governance of the Bank was at stake in the questions now being raised, between its shareholders on the one side and its administration on the other. These matters would have to be clarified before long.

For the immediate present, he felt the debate had raised useful points. It was incumbent upon the Bank to pursue its mission and deploy its capital as efficiently as possible, and to provide feed-back to its shareholders to enable them to assess and guide its activity.

He still felt that it had been odd for the Board to deliberate on the capital increase before addressing the strategic issues, although a single package was now emerging. Be that as it might, the Board now needed information and, with Mr de VRIES, he welcomed the prospect of it receiving the wherewithal to debate activity *ex ante* and to focus future operations on clear policy objectives. At the same time, he could foresee difficulties for the Board in closing the gap between general aims and operational specifics, for instance in the economically peripheral regions.

Mr FAINT reiterated his concern, expressed at previous meetings, that the Bank's external operations had yet to be discussed on the basis of a specific paper for the strategy presentation. With activity outside the Union currently accounting for some 20% by volume of EIB operations and 40% by number, he considered the coverage of these matters to be inadequate. While accepting that the framework for external cooperation was largely set by existing mandates, he would nevertheless like to see a two-stage process launched, with early discussion of strategic aspects and principles, to be reflected in the presentation to the Governors, whereafter the Board and the administration of the Bank could work together – as already in the case of ASAP - on preparing for the next generation of external lending mandates, such as the accord to follow the Lomé II *bis* Convention.

As regards evaluation and assessing the performance of the Bank, Mr FAINT endorsed the need for the provision of more information to the Board, e.g. for measuring value added and the various inputs in terms of the Member States' commitment. Greater publicity for the Bank's evaluation and completion reports would make for greater transparency. The Board should also have appropriate information on the Bank's project completion reports, perhaps in the form of an annual digest of these. On *ex post* evaluation, he would like to see increased collaboration between the Bank and other cofinancing IFIs. Finally, with previous speakers, he looked forward to the development of systems for improving feedback to the Board to enable assessment of the realisation of its objectives and policies.

The CHAIRMAN assured him that, while the immediate external financing terms of reference were already set by the current mandates and Pre-Accession Facility, the Bank was for instance already in conferral with the Commission on the terms of a post-Lomé accord. The intention was to include coverage of external cooperation in the paper to the Governors ; this must be constructive without pre-empting future policy decisions.

Mr PONTOLILLO endorsed the comments of Mr MASERA and seconded Mr de VRIES' views on the proposed Lending Outlook exercise, which should be akin to a business plan, setting priorities and guidelines for each coming year. It should also contain specific figures on projects under appraisal not yet brought to the notice of the Board.

In his view, the advantage of Board examination of the budget should be to free the Management Committee to concern itself with the day-to-day running of the Bank. Moreover, the Bank for International Settlements, Central Banks and others all were subject to Board approval of their budgets, often through the medium of joint budget committees. He believed budget approval to be prescribed in the case of the EIB by Article 13.3 of the Statute *("The Management Committee shall be responsible for the current business of the Bank, under the authority of the President and the supervision of the Board of Directors")*.

He would wish the information provided to the Board to enable it, for instance, to take a more active part in determining the capital adequacy of the Bank (§7).

The CHAIRMAN could not accept the analogy with the budgetary situation of other institutions, given that the EIB was not financed for its current operations out of budgetary funds and that it had a statutory executive Management Committee appointed by the Member States

Mr PAPAGEORGIOU took issue with those who considered the strategy discussion to have been neglected. In his view, the main areas of strategy had already been largely defined by the Board early in 1997, as was clear from the first section of the paper. The Board considered specific policy objectives within this overall strategy. There was a need to segregate the management and evaluation functions, however, and from this point of view he suggested that one aspect of the latter was in effect to evaluate the performance of the Management Committee itself, as regards its pursuit and achievement of the Union's policy objectives, but it was for the shareholders, not the Board of Directors, to conduct such evaluation.

He too saw the administrative budget as a yardstick or tool for performance evaluation, but he would prefer to concentrate on the qualitative aspects, looking broadly and in detail at the realisation of budget projections and rectifying deviations. As far as specific policy objectives were concerned, where a number of aims were already part of the Bank's *acquis* (e.g. SME financing), he could see a case for dedicated, regular sessions on the definition of of goals and objectives for the Management Committee.

Mr COLERIDGE saw the case argued by Mr PAPAGEORGIOU in the opposite light : for him, objectives had been well discussed but overall strategy neglected. He would advocate gauging the Bank's past and prospective activity in terms of the "accordability" of financing, viz. the level of value added involved. From this point of view he saw the paper and its proposals as a significant step forward, albeit with more needing to be done. The Board needed to use constructively the knowledge afforded by the lending outlook exercise so as to hand down measurable targets to the Management Committee and in turn to the Bank's staff. This hinged on the administrative budget and the use of the Bank's Balance Sheet, moving on to the sectoral breakdown of operations, which in turn suggested looking at the value-added aspect of every proposal. This applied both to lending and to operations in the euro capital markets, where new guidelines might be needed, for instance on the tools to be deployed and the intermediaries selected.

Mr COLERIDGE also called for a reduction in the Bank's percentage contribution to project financing, from an average of around 45% per loan to, say, in the region of 30% ; this presupposed a suitable methodology.

The CHAIRMAN made it clear that the paper was a first step : more needed now to be done to flesh out what it proposed.

Mr MARESCA appreciated the effort that had been taken to respond to the wishes of the Board and the acknowledgement that the flow of information left something to be desired from the qualitative point of view. He seconded previous speakers on the question of the budget, which for him was void of meaning if not discussed and approved by the Board. Similarly, he believed it should be for the Board, in that context, to approve resources for the Evaluation Unit and to guarantee its autonomy. He would see the best way ahead now to be the formation of a Board/Bank contact group to address such questions as these.

Mr McINTYRE lauded the intentions expressed in the paper, especially in regard to the articulation of objectives, but he was nevertheless disappointed at progress to date and (see Mr de VRIES, p.3) would advocate continuing efforts to arrive at an agreed, clearer, stronger statement of strategy even if this meant overrunning the target date of the Annual Meeting. He fully endorsed the definition of day-to-day management as given in § 3 of the paper (seconded, Mr O'GORMAN) and would favour this as a point of departure for elaborating specific objectives. He was not dissatisfied with the amount of information coming to the Board but needed to see how this could be evaluated and translated into objectives and priorities. He could thus endorse the proposals for the lending outlook exercise as set out in § 5 of the paper, but he had reservations on the earlier section on activity projections which appeared still to him to be too much demand-driven.

Mt McINTYRE would also like the Board now to consider what performance indicators should go into the annual exercise, and notably what measurements of value added, which should be mentioned quite specifically in the presentation to the Governors. The real economic contribution of the Bank needed to be assessed, especially in support of regional development and in global loan financing for SMEs. Outside the Union, elements to be weighed were the Bank's contribution to economic reform, transfers and preparation of accession countries for EU entry. Also to be covered should be the impact of EIB operations on the capital markets (he would suggest not overstating the Bank's rôle in the creation of the euro market – EMU might indeed have the opposite effect as the market opened up) and what leverage its activity exerted, for instance on overall investment. This should be increased and maximised.

The Bank's fundamental rôle, financing for investment projects in the EU *"to the extent that funds are not available from other sources on reasonable terms"* (Statute, Art. 18.1) should be restated in the strategy presentation, and reinforced by providing for the Bank to minimise its contribution to end projects, to the extent consistent with meeting with its objectives. Furthermore, Mr McINTYRE would advocate reducing the limit on the Bank's normal contribution to project financing from 50% to, say, 40%, which would send a strong signal to the market regarding flexibility and subsidiarity. He made it clear that he was not opposed to high levels for exceptional cases, as under ASAP. He stressed again the importance of focusing on the value added aspect of EIB operations. Like previous speakers he welcomed the prospective transmission of Evaluation Unit reports, which should also be included in the strategy document. He would appreciate a clearer statement on how this information was to be released and requested that the EV annual report should be circulated by way of feedback to the Board of Directors.

The CHAIRMAN stressed again that the paper was not presenting formal proposals but exploring ways of using more meaningfully information that was already largely available to the Board of Directors, at a time of transition and fiscal convergence when general expectations were focused on the Bank.

Mr von DEWITZ declared that the Bank could not and should not endeavour to do everything ; it needed to set priorities. Here, much remained to be done, as Mr LANDÁBURU had suggested, by ensuring maximum complementarity, subsidiarity and value added wherever possible, with the Bank targeting first and foremost ASAP, TENs and enlargement of the Union. He saw the proposed lending outlook exercise as a way of setting an annual template for this purpose, twinned with *ex post* evaluation. It was essential to ensure subsidiarity above all with the banking sector.

Mr MAYER shared the views of Mr McINTYRE, with whom he agreed that the volume of information conveyed to the Board was not critical ; it was rather a matter of how this was presented and used by the Board to set priorities and objectives, which needed to be handed down with clarity to the Management Committee and staff. The annual outlook and performance paper should contain quantified scenarios for the Bank's coming commitments, with sectoral breakdowns, for operations both within and outside the Union.

Mr MAYER saw the administrative budget issue as a question of the division of tasks between the Board of Directors and the Management Committee, on which it would be very helpful to hold a discussion in the Board covering the whole range of issues of staff recruitment, the wage bill, administrative costs and budgetary receipts and expenses, the Bank's prospective earnings and the return on investment.

Mr MAYER too would favour the transmission to the Board for discussion of the Annual report of the Evaluation Unit, although its function of providing feed-back to staff - under the aegis of the Management Committee and senior management - was actually more important.

Mr MAYER was also concerned about the Board's use of its time. The strategy and policy questions called for lengthy debate and he appealed to fellow Directors for self-restraint in their interventions on financing proposals. Much of the work involved could be delegated to their respective staff and Board discussion time minimised.

The CHAIRMAN thanked those who had spoken for the ideas put forward. He repeated that the Evaluation Unit's reports were submitted to the Management Committee and their findings fed back to the operational directorates concerned as part of a follow-up procedure. He proposed that the Unit's annual report should be put before the Board at the same time as the new lending outlook paper (Operational Plan).

He noted the extent to which Directors' views converged on the question of budgetary control. Without re-opening the debate on the formal question of budget approval, he felt the Board could be provided with data from the budget concerning the allocation of resources in connection with the lending outlook exercise. At the same time he stressed that the Management Committee kept very tight budgetary control, and that the Board already had the opportunity to discuss and comment on this

Mr TYBJERG suggested, notwithstanding previous speakers' remarks on the nature of the information provided to the Board, that Directors could in fact digest more than they currently received, although in the past 3 or 4 years this had improved markedly (financial evaluation figures, Loan Book etc). This however could be more analytically presented, could include more data on cooperation with other IFIs and should certainly provide the Board with *ex ante* options. The object of the exercise should be to measure the success of the Bank.

Mr O'GORMAN considered the paper, taken up from the list established at the previous strategy debate, to provide good coverage of its subject, which represented a vital function of the Board of Directors, but one which now called for a more appropriate framework. He would see the lending outlook exercise as a turn away from demand-driven activity towards defining a number of desired outcomes for the Bank. He could see the rôle that *ex post* evaluation could play in pursuing the fundamental need to establish lesser priorities along the lines proposed by Mr JOHANSSON. He targeted development-effectiveness as the key objective, which presupposed measuring the Bank's regional input.

On Mr MAYER's observation regarding the use of the Board's time, he felt that a new Board Working party or possibly a projects committee might be able to address the problem,.

Mr FERRER welcomed the paper and the direction of its proposals, which he felt had long been lacking. For him, the underlying factor in the proposals was the principle of subsidiarity, but due weight should also be given to the achievement of Union policy objectives and to the quality of the Bank's loans themselves.

As to the breadth of sampling by the Evaluation Unit, he felt that an alternative would be random sampling coupled with in-depth analysis. He shared the view of Mr COLERIDGE that the approach to strategy as such had thus far been too vague.

Mr SAUPE, reflecting on previous interventions, concluded that the need had emerged to institutionalise the strategy discussion, to establish priorities, as between ASAP, TENs, enlargement and structural policies, all growth areas for EIB activity. He had some hesitation however in accepting whether and/or how the Bank might rein in its activity in other areas and how the Board might establish suitable lending limits, at a time anyway when funds were to become increasingly scarce. In particular, he was doubtful as to whether the Bank's capital could continue to increase at the same rate and under the same conditions as in the past.

Mr NUGEE welcomed the work of the recently-established Evaluation Unit and its collaboration with its opposite numbers in other IFIs. He felt that the main thrust of *ex post* evaluation should be project outturn against projections, quantifiable benefits, lessons to be drawn and value added (whether and how achieved). He highlighted the need to establish the determining, indispensable rôle of the Bank in the projects it financed. He felt also that there was a case for increasing the participation of the Bank in those projects where it demonstrably provided added value.

Mr VOGT observed that many comments had been offered and the Board had largely achieved a meeting of minds on the issues raised. He shared with others a sense of unease that the Bank appeared to have pursued growth in terms of simple volume. Ressources would be dwindling, and even under the proposed new capital increase the highest growth scenario would only be 11% in 2003. This had a bearing on immediate priorities also, not least, with the existence of the single market, the need to operate in subsidiarity, especially in relations with the banking sector, and to avoid crowding out other players. He too attached great importance to the rôle of the Evaluation Unit.

Mr MASERA continued to feel unease about the point he had raised earlier on the respective rôles of the Bank's decision-making organs (see p.2). While the Governors lay down general directives for the credit policy of the Bank, it was the Board of Directors that had "sole power" to take decisions in respect of granting loans and guarantees (Statute, Art. 11). For him therefore decisions on strategic policy and single operations had to fall within a coherent framework, responsibility for which resided with the Board of Directors. For instance, he saw the work of the Evaluation Unit – ultimately – as evaluating the work of the Board and not the Management Committee. The function of the latter was to prepare the decisions to be taken by the Board of Directors, hence in his view it should not assert that these were Management Committee decisions, as the paper seemed to imply.

Similarly, Mr MASERA could not accept the suggestion the Board might be incapable, on the basis even of existing information, of understanding how individual operations fitted into the overall framework. Its members were indeed selected for their capacity to do this. He had no misgivings about what the Bank and the Management Committee had done in the past, but the environment was changing rapidly. He would moreover be prepared to help with document preparation, perhaps sitting on sub-committees of the kind that others had suggested and offering his views in that way.

The CHAIRMAN stressed in reply that there was no question in the present proposals of altering in any way the institutional relationship between the Management Committee and the Board of Directors, nor had he intended to give the impression that the Management Committee was seeking to usurp the Board's decision-makingb prerogatives There was however room for improvement in the flow and presentation of information to the Board for its discussions and decision-making processes, and the Management Committee, on the basis of the present debate, would do its best to accommodate the Board's needs.

Mr McINTYRE wished to emphasise the need to bring more concrete measures, for instance on ensuring subsidiarity, into the presentation to the Governors, the more fully to justify the capital increase proposal that was to be put to them.

Summing up the discussion, the CHAIRMAN noted that the Board of Directors generally supported the Bank's proposed approach to monitoring and evaluating its performance and establishing its priorities and objectives, as set out in Document 98/108. It welcomed the proposal that the Management Committee should submit to the Board of Directors for discussion at the turn of each year a new lending outlook paper (Operational Plan), which would not only serve as a basis for monitoring and evaluating the Bank's performance during the previous year, but also for establishing policy objectives and priorities (and the reverse) for the following year. There were clearly a number of more detailed aspects relevant to the assessment of performance and the establishment of priorities and objectives which would require further detailed examination and elaboration, and the Management Committee would consider these further. For example, there would need to be proper examination not only of the Bank's lending objectives but also of its role in the development of the capital markets.

So far as the Bank's administrative budget was concerned, while not proposing to submit the budget formally for Board approval, the Management Committee would seek to provide the Board, as part of the above exercise, with fuller data on expenditure and revenue to help the Board better to assess the Bank's performance.

In formulating and agreeing the Bank's annual budget the Management Committee would continue to be guided by the need for tight budgetary control, consistent with equipping the Bank with adequate resources to discharge effectively its functions.

The CHAIRMAN said that the Board of Directors also noted that, while external operations in the near future would largely depend on the present mandates, consideration would soon need to be given to the preparation of the next round of mandates and the policy on the Bank's external lending generally. It noted that the Management Committee would aim to circulate a first orientation paper before the April Board meeting.

The Board of Directors also noted that its attentions were increasingly preoccupied with consideration of policy issues and that further consideration should be given to the more economical use of time for considering specific project financing proposals. It noted that the Chairman would reflect further on this and revert to it at a later date.

Finally, the CHAIRMAN repeated that, in the light of the conclusions reached at this and previous Board discussions, he would circulate to the Board of Directors for consideration at their meeting at the end of April a comprehensive draft paper for submission to the Board of Governors at their meeting on 5 June. This would encapsulate the agreed strategy framework as it emerged from the deliberations of the Board together with the formal proposals to the Governors for the payment to Member States and the capital increase.

2.2. The Partnership between the EIB and the Banking Sector

2.3. SME Lending

The CHAIRMAN proposed simultaneous discussion of the second and third strategy papers. He introduced Document 98/109, which explained the Bank's developing relationship with the banking sector and suggested ways of developing it still further. That relationship varied from country to country but in every case there was a need for the EIB to externalise/mitigate risk ; a mutual search for efficiency (banking partners' local knowledge and expertise ; the EIB's wider perspective and technical know-how), and market complementarity.

The paper looked to the future and the rôle the Bank would still be called upon to play as the financial markets developed under EMU. The paper (§ 4) contained a number of guiding principles and offered an updated annual overview as well as fuller analysis in individual financing proposals. It also considered the question of the Bank's percentage contribution to individual financing operations, concluding that, while the existing ceiling should not be abandoned in favour of an arbitrary new one, the Bank should look more closely at deciding on the appropriate level of EIB financing, an aspect to which particular attention would be paid in the new annual lending outlook exercise.

Turning to Document 98/110, the CHAIRMAN stated that the purpose of the paper was to explain – especially for the newer members of the Board – the genesis and development of the Bank's present policy on the use of global loans, which indeed was not unique to the EIB : other IFIs deployed similar mechanisms. It was clear that the Bank could not provide financing for SMEs other than through the system of global loans without a substantial increase in resources. The Management Committee favoured the adoption of a portfolio approach with experienced intermediaries as described in the paper. The idea of extending global loan eligibility to "second tier" companies (§ 6) was floated in the paper purely to ascertain the views of the Board on this possibility.

Mr MAYER considered EIB operations in the banking sector to be essential and he believed that the Board in general could attest to good relations. On behalf of his absent colleagues Messrs POUILLIEUTE and RODOCANACHI he wished to underline once more the importance of subsidiarity in EIB activity. It was felt that to disengage the application of the principle from individual operations, e.g. loans to corporate borrowers, would be ill-advised. The Bank should endeavour to increase its cofinancing operations and to boost the allied principle of complementarity in that way. It should also try to take on more and more risk, especially in long-term financing and loans for very large projects.

Finally, those he spoke for wished again to register their espousal of the principle of retaining the normal limit on EIB financing for individual operations, but applying it solely to the element of external financing for any given operation, not to the entire financing package.

For himself, mindful of the morning's discussion of the division of tasks, Mr MAYER would favour a more flexible approach, with the Bank's contribution open to modulation both upwards and downwards. He could entertain the possibility of exceeding the 50% limit on a case-by-case basis for projects of European interest, and would favour an open and constructive approach. Downward modulation could reduce the Bank's contribution in other cases to 40% or even 30%.

The CHAIRMAN affirmed that cofinancing operations were on the increase. The Bank needed to be circumspect on the question of assuming increased risk, but it had already shown its openness to this approach in its ASAP arrangements and the terms of the Pre-Accession Facility, especially at the long end of the market. It found the 50% financing limit helpful, as a built-in disincentive to promoters that might otherwise apply pressure to obtain more.

Mr de VRIES felt that the first paper was lacking a specific chapter on value added, and that this element should be duly incorporated into the presentation to the Governors. He was not concerned with figures, which could always be adjusted, so much as the mental approach to the issues. He took the case of financing for the aerospace and telecommunications sectors, questioning the Bank's continuing activity in this area and the diversion of resources it entailed.

He reflected, with Mr SAUPE, that the forthcoming proposed increase in the Bank's capital might be the last time such a substantial escalation would take place with a view to the level of sustainable lending it implied. He did not foresee that any technical difficulties Germany might be having with the subscription would significantly affect the outcome : this was purely a matter of trust. As to the extension of global loans to medium-sized banking intermediaries (§ 4.1), he would prefer there to be demonstrable additionality in any arrangements concluded. He was in favour of cross-border global loans, and suggested that this instrument could be facilitated if Member States were prepared to give the Bank a once-for-all clearance to operate in this way. He would also like to see further exploration of the possibilities for expanding the Bank's normal operations with the banking sector and in SME financing along the lines developed with ASAP.

Mr TYBJERG approved of the proposed portfolio approach and accepted that the possibility of revising the definition of "SME" might be worth considering. He would prefer the Bank's relationship with the banking sector to be examined more closely and a wider statistical basis to be established for any conclusions drawn. In particular, he saw a need for more precise differentiation between public and private banks and for exploring and defining the concept of "intermediation".

On his final point, the CHAIRMAN observed that intermediation and on-lending were one and the same, and that it was not desirable to discriminate between public and private banking sector partners.

Mr VOGT was in full agreement with Mr de VRIES. He was particularly concerned as to where the value added for final beneficiaries resided in global loan financing ; how it could be identified and monitored and how market distortion could be avoided. In Germany, there was good EIB cooperation with the banking sector, with 8-10 intermediaries, but he wondered whether an increase in the number of intermediaries might tend to create distortion. There was full feed-back and monitoring on cooperation with banks on specific project financing operations, although certain avenues for cooperation were blocked by the size of the project or specific terms of reference.

He was content with the 50% normal ceiling on EIB financing, which was also used by KfW, even for major infrastructure and TENs projects, proceeding on a case-by-case basis. The Board needed to keep abreast of the details of EIB cooperation with the banking sector and of such parameters as job creation figures.

The CHAIRMAN pointed out that the Bank had to find the right balance in this side of its activity. It was not possible to vet all SME final beneficiaries : the Bank had to delegate and concentrate on the assessment of intermediary banks.

Mr LANDÁBURU commended the Bank on the document, in which he believed the aspect of value added was well covered as well as the Bank's approach to its share of financing, where flexibility was assuming increasing importance, within a range of 75% down to 30%. He felt that this should be applied in differentiation by sector, by region and by priority. The Commission naturally supported all efforts the Bank made in support of SMEs through global loans which offered the advantages of economies of scale. There was however room for improvement in the marketing of these services, the procedures followed, information on operations and reporting, not least on the impact of SME financing, for instance in terms of job creation.

One question that commanded attention, however, was the fact that the impact of global loans appeared to be less marked in the least favoured regions. The mechanism was seen as one of the best tools for the pursuit of regional development and its failure would raise fundamental questions. Referring back to the paper that he and Mr RAVASIO had provided in September 1997 (*Strengthening the rôle of the EIB in the Implementation of EU Policies*, circulated to the Board), he observed that the question of how the EIB could help the banking sector and through what synergies was all-important, as was always the pursuit of the optimum combination of loans and grants.

The CHAIRMAN agreed that more analysis would be helpful and that the departments concerned had scheduled time for this purpose.

Ms BARATA shared the view that the EIB's collaboration with the banking sector was sound and she could support the recommendations in the paper. At the same time, the paper was based on a somewhat static assessment of the last ten years ; thought now needed to be given to current and future developments in the market over the coming 5-10 years.

She could also endorse the paper on SME Lending and was interested in the pilot method for developing the portfolio approach. She would now like to see more concentrated proposals coming forward, especially to benefit assisted areas. She could see a case for bringing in second-tier beneficiaries, but would not favour this as a general practice. Any such extension embracing corporate borrowers would have to be handled carefully and gradually, through known and experienced intermediaries. Another aspect to be examined was the risk of saturation by the global loan instrument in beneficiary countries.

Mr VANORMELINGEN advocated retention of the 50% lending ceiling on the same, defensive grounds as those stated by the CHAIRMAN, with any departures to be discussed case by case. There could be no question of the desirability of maintaining the global loan mechanism in support of assisted areas. With the proposed portfolio approach, he wondered what quantifiable benefits this might offer final beneficiaries. He was unsure how justifiable it might be to loosen the definition of a "SME".

Mr PONTOLILLO, while seeing a growing rôle in the future for EIB partnership with the banking sector, wished to emphasise the importance of complementarity and of avoiding EIB involvement where no value added could accrue, in terms of new investment or job creation. He could for instance see no justification for financing where an institution of the same rating could provide the funds or where the operation consisted in the consolidation of short-term credits into long-term financing.

He supported the Bank's views on the future development of SME financing, notably the widening the intermediary network, cross-border global loans and the definition of the SME. However, he had some reluctance to go ahead with the portfolio approach, which he saw more as an administrative ploy than a genuine widening of access to the global loan instrument.

He was in favour of a cautious approach to extending the latter : he would be inclined not to proceed with second-tier beneficiaries, although there might be room for some opening up in assisted areas. His preferred route would be to build on experience with SME financing under ASAP, especially in regard to the division of tasks between the Bank and the EIF.

Seconding the views of Messrs de VRIES, VOGT and MAYER, Mr COLERIDGE reflected that the issue before the Board was not whether the Bank should be active in these fields but how ; collaboration with the banking sector was growing in importance. He suggested that one approach might be to seek feedback from banks as to how they viewed the EIB, possibly through the medium of a survey by a third party ("client survey").

The CHAIRMAN assured him that the Bank was in constant touch with its banking partners at all levels, but would give consideration to this proposal.

Mr FERRER saw subsidiarity as the key issue, but his preferred perspective was the efficient use of the Bank's resources. He was surprised (§ 3.7, Doc. 98/109) that the EIB actually accounted for only about 15% of the total cost of the projects it financed. He shared others' concern as to who ultimately received the benefit of global loans. He would not favour the portfolio approach to global loans or any change in the SME definition, preferring to retain that of the Commission.

Mr PAPAGEORGIOU, congratulating the Bank on the quality of the two papers, echoed the comments of Mr LANDÁBURU : global loans exerted little attraction in Greece, Portugal, Spain or Ireland, because they were not competitive with the facilities offered by intermediaries which had a captive clientèle.

The CHAIRMAN agreed, adding that this was why the Bank preferred to diversify its intermediary network and the spread of its global loans in Member Countries, to increase its outlets and bring in various specialised institutions.

Mr McINTYRE suggested that, for the presentation to the Governors, guiding principles necessary for the Bank to achieve its objectives, such as those enumerated in § 4.1.2 of Document 98/109, should be formulated.

Noting that the issue of the ceiling on EIB lending recurred in this context, he endorsed the defensive value of a ceiling as defined by the CHAIRMAN and proposed again that this be set at 40% other than where exceptions were expressly approved by the Board of Governors.

He could not agree with Mr LANDÁBURU on the case for upward modulation of the ceiling in assisted areas. For him, the Bank could still achieve its objectives in those regions while contributing anything from 40% down to 20% of the financing in given cases. He looked forward to the Board receiving the paper on other forms of partnership referred to in § 2.6 of Document 98/109.

On SME financing, a key factor for Mr McINTYRE was the proper, transparent selection of intermediaries in such a way as to obviate distortion of the market : here, the EIB should err on the side of caution.

The CHAIRMAN indicated that he would not be inclined at the present time to submit proposals for altering the normal ceiling on Bank financing. The Bank continued to try to spread as wide as possible the net of its global loan financing, and endeavoured to do so wholly without discrimination. The pilot approach commended by Ms BARATA had been applied successfully in the United Kingdom, where global loans had started with just one intermediary institution, since when the network had developed.

Mr JOHANSSON seconded Mr McINTYRE on the importance of enunciating guiding principles. He found the approach to SMEs somewhat complacent and market-driven ; he would like the Bank more actively to evaluate how the global loan instrument had performed, country by country, and he would favour some kind of system, perhaps under the portfolio approach, whereby rewards accrued to those intermediaries that achieved the greatest transparency.

The CHAIRMAN replied that, of the EIB's banking partners, KfW was a notable example of a global loan intermediary that was very much in control of its sub-loan portfolio, and the EIB chose its intermediaries generally for such competence and experience.

Mr O'GORMAN favoured a greater degree of flexibility and wondered how this might be applied to the 50% ceiling. He could endorse the general argument of the SME Lending paper, but would like further consideration to be given to the aspect of targeting of final beneficiaries. He also had reservations about bringing second-tier companies into the range of eligibility, which he saw as a step running counter to the interests of true SMEs. He would advocate adherence to the Commission definition of SME.

Mr MERINO commended the Bank on both papers. He wished to focus on the size of intermediaries and the Bank's tendency to work only with large banks ; it would be equally correct in his view to operate through smaller ones. Also on the aspect of size, he queried the apparent assumption that the SME was the archetypical European firm and wondered whether this was in itself a good or bad thing. More than 50% of EIB lending to industry was channeled through global loans, and yet the paper pointed out that these covered only 15% of all the investment towards which they were directed.

Mr MARESCA observed that the SME population represented the nearest equivalent to the hypothetical situation of "perfect competition". The mechanism served to achieve additionality, for instance, when the beneficiary was seeking a duration of loan longer than the intermediary might normally be able to provide. Although satisfied with the situation, he nevertheless saw room for further diversification in this very important field of EIB activity, for which purpose a better SME definition might prove helpful.

In conclusion, the CHAIRMAN noted the general support of the BOARD OF DIRECTORS for the Bank's perspective on its cooperation with the banking sector and the interlinked issue of SME financing, subject to general concern that the principles of subsidiarity and complementarity should continue to be earnestly pursued. In this connection, without altering the existing normal ceiling on EIB financing of 50% of project cost, the Bank would seek greater flexibility in the proportion of its financing for projects, having regard to such aspects as value added and programme financing (lower percentage). The Board in general also favoured further development of the Bank's portfolio approach to global loan financing for SMEs.

The Board of Directors was not in favour of authorising the Bank to extend its network of global loan beneficiaries to "second tier" companies, too large to fall within the Bank's existing SME definition. The Management Committee would defer the proposed procedural simplifications for cross-border global loan allocations to enable Directors to examine beforehand the opinion of the Bank's Legal Directorate. It would also give further consideration to the idea of a "client survey" to obtain more feedback on the banking sector's perception of the EIB.

In conclusion, the Chairman repeated that, although time was short, the Management Committee's intention remained to put a complete presentation, on which work would commence forthwith, containing both strategy implementation and proposals for the capital increase and payout to shareholders, to the Annual Meeting of the Board of Governors on 5 June. That presentation would flag up all the strategy topics that had been discussed as well as external operations. To finalise the paper, there had been planned the two-day meeting on 27/28 April and the stand-by arrangements for one further session, if necessary, on 7 May.

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