Deciphering the European Investment Bank

History, Politics, and Economics

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Chapter 1

A bank, not a fund

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Introduction

Since its creation in 1958, the European Investment Bank (EIB) has served as the financial institution of the European Economic Community (EEC), then European Union (EU). This chapter analyzes the origin of the EIB by tracing the discussions among its six founding members (the Six) between 1955 and 1957 that led to its creation.[1] The inception of the EIB should be understood by placing them in the negotiations leading up to the establishment of the EEC and considering the different aims its founding members pursued during these negotiations and how these differences were ultimately accommodated. Although the six countries together formed one of the highest developed regions in the world, with pronounced banking activity and investment, they realized a common need. This need resulted from a market failure in stimulating regions lagging in terms of development.[2]

The chapter firstly shows that the establishment of the EIB stemmed from the understanding that a financial institution would be required to direct capital toward underdeveloped regions and struggling industries to ensure a balanced transition to a common market – despite the marked differences between the economies of the member states – by deepening European economic integration. Beyond its institutional vocation – "work in close connection with the Commission of the European Economic Community and solely at the service of the Community"[3] – the member states sought equally market-making characteristics. They believed that such an institution would "contribute to the liberalization of capital movements[4] …[and] the progressive unification of the capital markets of member countries."[5] The idea of establishing an autonomous lending institution to improve the process of economic integration was consistent with the general attitude of the governments to the creation of the EEC – specific institutional measures would be required to minimize and offset the difficulties and negative effects that would predictably arise after the introduction of a common market.

Second, the chapter illustrates that, despite this common ground, no agreement existed on the exact function and structure of such a financial

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institution. At one end of the spectrum, the government of the Federal Republic of Germany led those who supported the creation of a bank that would borrow from the international capital market to finance projects of a bankable nature. At the other end, the government of Italy wanted the establishment of a fund that would lend financial assistance here to projects or give grants from national budgetary sources to achieve social aims. The negotiations that ultimately led to the creation of the EIB oscillated between these two poles. However, the negotiations proved even more difficult in reaching an agreement on what exactly this institution should be doing. Its priorities, the way that it would finance itself, and finally its governance and management had been strongly debated and negotiated among the founding members. Divergent views were grounded in different approaches to the common market.

The final decision to set up the EIB as a bank, rather than a fund, that could participate in international capital markets required the EEC members to not only provide the EIB with its own financial resources but also its own legal personality so that it could, by having autonomy of action, earn credibility within the capital markets.

The decisions taken at the outset concerning the EIB led to the creation of an institution with a unique dual nature, of a bank as well as a European body, which enabled: i) a perpetual self-financing ability, neither limited to nor burdening European and national budgets; ii) an availability of high volumes of funds to support ever-changing European objectives; iii) a tangible and lasting contribution to development as bankable projects are mostly viable, unlike those often funded through grants; iv) the liberalization of capital movements; and v) a participatory effort for the unification of European capital markets. Consequently, these decisions have had a long-lasting impact on European integration, visible to date.[6]

The origins of the EIB have already been examined by the academic community.[7] The chapter builds on the existing scholarly literature and is mainly based on archival sources, setting the stage for a book aiming to decipher the EIB. It posits that the need for establishing a financial institution at the European level had been felt well before the signing of the Treaty of Rome. The need had been generalized, albeit to different degrees, as evidenced by the proposals addressing the need put forward by both Southern and Northern countries of the Six.

The chapter follows a chronological order, structured around main areas of concern. First, the chapter links the common market to the need for a financial institution; second, it presents the discussions concerning the founding of a financial institution that took place around the Spaak Report; then the chapter showcases the compromise reached among the founding members for the creation of a financial institution and it addresses the elements that influenced the establishment of a bank instead of a fund; the main findings are presented in the conclusion section.

Centripetal forces linking the common market to a financial institution

In the aftermath of WWII, Western European countries headed toward regional economic cooperation for reconstructing their economies, fostering economic growth, and enhancing political and social stability. In the framework of the European reconstruction, the promotion of investment took center stage in the regional cooperation and integration plans in the 1950s. In 1949, the French government presented before the Organisation for European Economic Cooperation (OEEC) a schedule of investments to be carried out by a European investment fund. This suggestion, coined after the Minister of Finance as the Petsche Plan, foresaw a fund for increasing the competitiveness of European industries, promoting the member states' balanced development, and improving their economic and social cohesion. Being the first recipient of an International Bank for Reconstruction and Development (World Bank) loan,[8] France proposed an initiative inspired by the interventionist ideas of the intellectual leader such as Bretton Woods, John Maynard Keynes, and the Marshall Plan for post-war reconstruction efforts in Europe. The initiative responded to the beliefs that economic growth should be stimulated through investments and that the conditions of increased competition, following the establishment of an integrated common market, ought to be offset by specific instruments to enable the member states to adapt to the new environment. Liberalization of trade would have to be accompanied by measures favoring the economic convergence of the participating countries. This plan, however, did not receive the support of the entire French government, nor was it supported by the politicians outside France, who were opposed to the idea of harmonization and planning.[9]

In 1953, the Dutch Foreign Minister Johan Willem Beyen presented before the Council of Ministers of the European Coal and Steel Community (ECSC) a memorandum outlining a plan for wider economic integration through the establishment of a common market, also envisaging a European fund for modernizing and restructuring the economies of the member states.[10] As a follow up of the so-called Stikker Plan of 1950, the Dutch aimed to set up a reconversion fund rather than an investment fund, but like the French proposal, it was grounded on the belief that the conditions of increased competition ought to be tempered by specific instruments. In response to the Dutch plan, the French government again put forward a plan for stimulating investments to increase the productivity of the industrial sector. The Dutch memorandum was not accepted by the Council of Ministers of the ECSC, so both the Dutch plan and the French proposal came to nothing. While neither the Dutch nor French initiatives specifically described the methods by which their proposed funds would raise the required financial resources, both initiatives responded to the necessity for coupling the establishment of a common market with a finance institution to channel investments.[11]

In May 1955, the Benelux Countries submitted before the ECSC a memorandum based upon the Beyen Plan of 1953. The plan advanced the suggestion to establish a common market, called for the sectorial integration of electricity, transport, and nuclear energy, and also proposed the creation of a reconversion fund. At the ECSC Messina Conference of June 1955, the plan for creating a common market was added to the agenda of the Six, and the plan for an investment fund was again put forward within this framework.[12] The Italian delegation tabled a memorandum that emphasized that the countries forming a common market should facilitate the necessary adjustment of their economies through a reconversion fund and implement a policy favoring areas that lacked capital. Italy, therefore, called for the setting up of a European fund of integration, conceptualized in the Pella Plan, named after the incipient Italian minister who brought forward the proposal. An investment fund, which would channel the capital to regions – like the south of Italy – that traditionally lacked them.[13] The German delegation also called for the establishment of a fund that would encourage productive investments and contribute to lessening the wide and social disparities in living standards between the regions of the future member states, interested in supporting among others the "Zonenrandgebiet," the bordering areas of the Federal Republic of Germany facing difficulties in their supply chains.[14] Having already suggested a coordination of investments in 1949 and again in 1953, France welcomed the idea of an investment fund.[15]

The Messina Conference's final resolution called for a study on integration in the transport and energy sectors and the establishment of a common market.[16] The foreign ministers agreed that economic integration could be based on common institutions, a common market, coordinated social policies, a gradual fusion of national economies, and sectoral integration in the fields of energy and transportation. The resolution recommended suggested studying the possibility of creating a European investment fund aimed at Europe's development, in particular the growth of the lagging regions of the participant states.[17]

The need for establishing a financial institution at the European level has been acting as a centripetal force for closer cooperation and increased integration between the Six.

Centrifugal forces on the form and modalities

The Messina Conference also witnessed centrifugal forces. The Six arrived at a basic agreement that the differences in their respective national economic structures would present obstacles to any integration. Certain regions were more developed than others; productivity varied among regions, member states, and sectors, and there were vast disparities in the availability of infrastructure in different parts of the member states. In such a case, the intensification of competition would exacerbate the existing inequalities across regions, states, and sectors. To overcome these obstacles and ensure the smooth implementation of a balanced common market, large-scale investments were considered necessary. Thus, the establishment of an investment institution was widely regarded as a necessary corollary for the creation of a common market. Following the Messina Resolution, Foreign Ministers of the ECSC, therefore, agreed to set up an intergovernmental committee, headed by the Belgian Minister of Foreign Affairs Paul-Henry Spaak. The committee formed four commissions to deal with: i) conventional energy and nuclear energy; ii) transport and public work; iii) the common market; and iv) investments and social issues. The task to possibly establish an investment and reconversion fund was assigned to the last commission, and because of the technicalities involved in creating a new investment fund, the task of examining related issues was assigned to a subgroup of experts chaired by the Italian Giuseppe Di Nardi.[18] In preparing its report, the sub-group used as a reference point the Statute of the World Bank, the only international organization dealing with investments at that time. The report issued in October 1955 revealed a general agreement on the establishment of an investment fund. The agreement, however, ended there. Stances were polarized on functions, structure, governance, and management, and, broadly speaking, whether the institution had to be a bank or a fund.[19]

Germany and the Benelux Countries supported the creation of a fund that borrowed on the international capital market to finance its lending, which would be based purely on economic needs and limited to productive investments. According to this approach, the fund had to be a bank that would provide bankable loans, and not grants, run with business principles, and be independent from the political control of the member states. Germany firmly opposed the proposal for a fund financed by European and/or national budgets. Being the richest among the six countries in terms of GDP, Germany feared that it would be asked to make the greatest financial contribution to the fund's resources.[20]

Additionally, different countries had diverging views concerning the tasks of such a financial institution. The positions of France and Italy differed in important respects. For the French, the fund had to be established with a fairly broad function so that it could conduct operations in various fields, most notably regarding the rationalization of the productivity structure, the development of less-advanced regions, and the reconversion of enterprises. In principle, the fund would finance economically viable projects. This mode of financing would take a wide range of forms: from loans and guarantees to straight subsidies, as well as allowances for workers to help them find new employment. Thus, the French considered that the fund ought to play a significant role in the private sector – as evidenced by the need for reconversion – and should also provide not only loans and guarantees but also redeployment allowances and grants. In this sense, France wanted a hybrid financial institution that would perform a social role in curtailing the negative effects that would likely arise from the implementation of a common market. As for the financial resources, the fund would operate as a bank, with capital provided by the budget contributions of member states and the resources obtained by borrowing from the international capital market. France, therefore, wanted an institution that was essentially a bank, which could also act as a fund.[21]

Italy pressed for a fund that could lend resources drawn from the national budgets of the member states and would explicitly prioritize the development of less-advanced regions. Having the least-developed economy and many of the poorest regions in Western Europe, Italy was determined to enshrine regional development as one of the fundamental imperatives of the EEC and the fund. Moreover, social consideration was to be considered in the lending decisions, thereby promoting the financing of projects with a social dimension even if the financial return was expected to be low or nil.

The Italian government adopted a policy for broadening the scope of the prospective community by offering support for those regions lagging behind their neighbors in terms of economic and social development. One of the main tasks of the community would be to reduce regional imbalances by boosting the development of the less-advanced regions. In this context, the fund should serve as a source for investments in the south of Italy. This policy was reflected in Italy's position with respect to the creation of the fund and the use of its resources.[22] In short, according to Italy, the fund should channel capital to the south of Italy and consider social objectives and impacts when making any lending decisions.[23] The wide difference between the German and Italian position was well summarized by an official of the Italian Treasury, who suggested that while Italy longed for a kind of "Cassa per il Mezzogiorno," Germany wanted a bank.[24] These differences over the aims and functions of the investment institution inevitably trickled down to the negotiations on its structure and governance.

The compromise reached in the report of the sub-group on investments was then incorporated in the Spaak Report presented to the Ministers of Foreign Affairs of the ECSC in April 1956.[25] The Spaak Report adopted the view that a fund was required to channel investments into the less-developed areas to provide a steady economic development and minimize the regional and social imbalances caused by increased competition. A public institution would mitigate the market effects of eliminating the barriers to the free circulation of productive factors.

The Spaak Report put forward precise recommendations on the functions and structure of the proposed institution, adopting the German position over the Italian one. The institution would only finance investment projects that were expected to be productive in nature and might generate rental or other income. The sources for lending would be raised on the international capital market. This meant that the fund would operate as a bank and would be required to conduct itself as a credible borrower. Its creditworthiness would depend on its organization and governance as well as the bankable nature of the financed projects. The Spaak Report suggested that the initial capital of the investment fund would have to be subscribed by the member states; in comparison with the World Bank's basic capital of USD 10,000 million, the Spaak Report determined a figure of USD 1000 million for the new fund's initial capital. Rather than making the full payment upfront, the initial capital needs to be paid only to the extent of 25%. Ultimately, the report's model was designed with the intention of reducing as far as possible the need to call upon the member states to make additional contributions and requiring the fund to make every effort to raise the resources on the capital markets.

As for the structure of the fund, the peak body would be the Board of Governors, composed of representatives of the member states and of the European Commission. The Board of Governors would give directives to a managing board that would function according to accepted banking principles. In view of the fund's dual role that entailed participating in international capital markets while also implementing the European common market, its formal status was necessarily twofold: to be both an EEC body and a bank, an independent entity with legal personality.

Concerning the functions of the fund, the Spaak Report endorsed both France's and Italy's requests, suggesting three fields of activities. First, the fund would finance projects of European character and interest – though no definition of this notion was given – which, on account of their size or nature, could not easily be financed by the individual states themselves. The second task would be to promote the development of underdeveloped areas through investments mainly in the public sector, especially infrastructure such as roads, ports, and communication facilities. These investments were considered essential to generate greater employment opportunities and ensure a balanced and smooth implementation of the common market. The third field of action dealt with investments in the private sector and the reconversion and creation of new enterprises. This action was regarded as vital to help secure employment in conditions of increased productivity while enabling the best use of available resources. This policy was intended to prevent the closure of enterprises, worker dismissals, and work stoppages while increasing the prospects of re-employing workers who lost their jobs. Efforts to guarantee productive employment by refurbishing and/or restructuring enterprises or creating new ones were identified as priorities in view of their great social importance.[26]

The assumption evident in the Spaak Report's analysis was that an investment fund with its own capital and capable of operating in international markets as a borrower of the highest standing would be helpful to ensure the balanced implementation of the common market.[27] However, the Six had subsequent disagreements on the functioning, financing, and structure of the fund. Germany wanted to restrict the fund's field of activity, in contrast to France's position, and confine the fund to financing only bankable projects. Italy, in turn, wanted the fund to concentrate on the development of underdeveloped regions, considering social aspects in the due diligence process when financing decisions were to be made.[28]

The Venice Conference of the Foreign Ministers of the ECSC in May 1956 approved the Spaak Report and upheld it as the basis for the intergovernmental negotiations on the creation of the EEC. As a result, discussions among the ECSC Six proceeded with the Spaak Report serving as a sort of blueprint for building a European financial institution.[29]

Homogenizing the divergent positions

After the Venice Conference, the last phase of the negotiations to establish what would become the EEC and the European Atomic Energy Community (Euratom) commenced in Brussels by the end of June 1956 and ended in February 1957. The heads of the national delegations formed an organizing committee, chaired by Spaak, and set up two groups, one dealing with the creation of the common market and the other with the energy agency. Concerning the fund, the job of the Common Market Group (CMG) was to draft two articles defining the fund and its functions to be included in the Treaty of the EEC. A statute, to be annexed to the treaty, specifying all the characteristics of the fund was to be drafted by a subgroup.

The crucial point of the bargain was figuring out how to balance the interests of the likely recipient countries and regions with the financial burden of countries that were to subscribe the major part of the institution's capital. Italy considered the financial institution's loans or grants as a side payment by wealthy states for opening up the Italian market to foreign competition and deepening integration with more competitive countries. Thus, it worked toward maintaining the institution under the strict political control of the member states. On the contrary, Bonn held that the institution's autonomy was crucial for maintaining the confidence of the bondholders and ensuring that the bank would direct its own activities without becoming a burden on national budgets.

With respect to the fund's functions, Germany and the Benelux Countries were in favor of limiting the operational scope of the institution, while France and Italy preferred to extend it. The CMG essentially accepted the proposal advanced by the Spaak Report and agreed to entrust the fund with several tasks: to favor the development of underdeveloped regions; to support reconversion operations; to sponsor the creation of new enterprises; and to fund projects that, by their nature, could not be financed by any one member state on its own. Germany and the Netherlands wanted a general preamble in the treaty specifying that projects had to be of "European character" and interest if they were to qualify for financing. Italy and France, on the other hand, preferred the approach of the Spaak Report that had mentioned the "European character and interest" clause only with reference to works that by their nature could not be financed by one member state.[30] On top of this, France wanted the fund to have a broader role than that assigned by the Spaak Report, additionally having the authority to finance projects aimed at modernizing enterprises.[31] Italy supported France's position but simultaneously wanted the fund to prioritize the development of its less-advanced regions and have this priority clearly stipulated in the articles of the Treaty of Rome based on which the treaty would be implemented.[32] Luxembourg, France, and Germany opposed Italy's request, preferring instead to allow the fund a greater degree of freedom to decide its own lending policy.[33]

These differences over the function of the fund trickled down to other aspects of the institution. While Germany and the Netherlands wanted the fund to follow only the cost-effectiveness and economic utility criteria, Italy wanted it to also take social considerations into account, thereby allowing it to finance projects with a social dimension even if the financial return was expected to be low or nil. Thus, the fund could also grant financial aid and would not lend solely based on investment return.[34]

There was also disagreement with respect to the appropriate source of financial resources for the fund. The six governments agreed that the member states would, by subscription, provide the fund's initial capital, which, on German insistence, would be denominated in US dollars and would amount to USD 1000 million. France had initially preferred the capital be denominated in European Payments Union (EPU) units of account, known as u.a.[35] so that the fund would not be anchored to the currency of a non-member state. For the moment, the German stance prevailed, and the US currency was chosen to improve the fund's prospects for raising capital on the international market.[36] With regard to the resources, in Germany's view, the fund would have to obtain its financial resources on international capital markets. On the contrary, for France and especially Italy, the fund could lend resources drawn from the national budgets of the member states. Germany firmly opposed this stance on the grounds that it would weaken the incentive of the fund to raise capital on international markets. As the richest among the six countries in terms of GDP, Germany feared that it would be expected to make the greatest financial contribution to supply the bank's resources.[37]

Since the six governments neither agreed on the functions of the fund nor on the methods for raising its financial resources, they inevitably disagreed upon the structure of the fund. Germany and the Netherlands argued that, if the fund were to be recognized as a credible borrower on international capital markets, it had to be afforded independence from the nation states. Accordingly, Germany proposed the establishment of a Board of Governors, whose members, representing the member states, would lay down the principles guiding the fund. A representative of the European Commission could also attend the meetings of the Board of Governors in a consultative capacity for ensuring the integration of European policies' implementation. A Board of Directors with the right to decide on lending would be formed, together with an executive committee responsible for the fund's day-to-day management. Thus, the Netherlands and Germany wanted to set up an institution operating in the market, with salient banking features, similar in many respects to the World Bank, manifesting all the attributes necessary to confirm its autonomy and therefore credibility to the international capital markets.[38]

Italy wanted its institutional side to be more dominant, with the member states to maintain a more overt political control over the fund through the direct Council of Ministers of EEC and the Commission, thereby subjecting the fund to the political influence of the member states, which could shape the fund's credit policy in line with their priorities and preferences. In this way, member states could have a direct control over an institution, which would be afforded its own resources, its own legal personality, and majority voting rule.[39]

The difficulties encountered in determining the fund's structure stemmed from the need to reconcile two opposing dimensions. On the one hand, the fund had been conceived as an element within the framework of the common market, so its underlying character was to be part of the European governance architecture, with activities and functions linked to the EEC. On the other hand, as a financial institution that had to raise funds on the international capital market, the fund needed to have a structure that could achieve and maintain the best credit rating; hence, it had to be free from the political influence of the member states.

The final compromise: A dual entity

The final agreement on the financial institution was reached in February 1957. As negotiations on the common market neared their conclusion, the governments prepared themselves to make the concessions necessary to strike a final agreement. At its core was the prospect of the German government to compromise on the functions of the fund while maintaining its position on the financing policy and structure.

The first breakthrough was achieved when the six delegations agreed to drop the notion of "European interest and character" from the draft articles on account of its vagueness and geographical imprecision. At the same time, against France's and Italy's insistence that the institution should be permitted to finance projects for modernizing a particular branch of the economy, Germany decided to soften its opposition while keeping a firm attitude on the institutional structure on which the fund's credibility and hence capacity to borrow depended.

Germany accepted that the fund could be used to finance projects to support the reconversion, creation, and modernization of economic activities. However, it refused to accept Italy's demand that the fund be assigned a formal role in promoting the development of disadvantaged regions.[40]

Moreover, the ad hoc group agreed that the fund would normally finance projects located within the territory of the EEC members. However, as a concession to France, projects could also be located outside the territory of the member states if the EEC's Council of Ministers unanimously agreed to finance them. In the negotiations regarding the common market, France had requested that the former colonies be given a preferential trade association with the community and that the EEC members share in the financing of a development fund for those territories. The French government took a similar line in the negotiations concerning the fund and was ultimately successful in broadening the scope of the fund to certain projects outside the EEC.[41]

By the beginning of January 1957, Germany's stance on the structure of the fund was accepted. The Germans underlined the fund's need to have a bank-like character, insisting that its lending policy had to be defined by the fund's own organs. In this way, the fund would be identified as a credible borrower and not be a burden on the budget of the member states. Germany agreed that the member states had to be represented on the fund's governing body, but because of the capital markets' general distrust of political organizations, this organ had to be called the Board of Governors, as it is named in the World Bank, rather than the Council of Ministers, and had not been formally made a part of the EEC's political governing structure. National governments could control the fund, but through an organ of the fund that avoided giving the impression that it was dependent upon an external political institution, namely the EEC's Council of Ministers. As a result, the EEC Council of Ministers would act as the fund's Board of Governors but would be an organ of the fund, formally distinct from the EEC's Council of Ministers even though it would follow the same procedures and voting rules.[42]

The decision on the Board of Governors opened the door to an agreement on the organ that would have the exclusive competence to approve loans and capital market operations, the Board of Directors, and on the connected question of the proportion of the capital to be paid by the shareholders.

The Board of Directors would be appointed by the Council of Ministers or Board of Governors, which practically meant that each member state would appoint its own representatives. Germany wished its members to be independent of member states, while Italy wanted a stricter control on them. On voting procedure, Germany, France, and the Benelux Countries supported a weighting of votes according to the capital subscribed. Italy, on the contrary, held that each member of the council should have one vote.[43]

The six countries agreed that they would pay up 25% of the capital to subscribe, as France had suggested. They also agreed on the respective share each state had to subscribe. Initially, the President of the CMG, the German representative Hans von der Groeben, suggested that 1 billion u.a. would be set as the bank's start-up capital, with France and Germany each subscribing 325 million, and Italy and the Benelux Countries providing 175 million each. As Germany and France would pay up more capital than Italy and the

Benelux Countries, the former would be entitled to appoint more representatives to the Board of Directors: Germany and France would appoint three directors, while Italy and the Benelux Countries would nominate two each. Italy, which desired to play a greater role in the bank and had sought equality with France and Germany during the negotiations concerning the other EEC institutions, opposed these suggestions. It wished to have the same number of members on the Board of Directors as France and Germany and was also disposed to subscribe a higher share of capital. At the same time, Luxembourg requested for a reduction in its subscription of capital, for which it was prepared to renounce its right to appoint a member to the Board of Directors.[44] Eventually, the ad hoc group agreed on the share of capital that member states would subscribe according to the GDP of each shareholder and political agreements.[45] Each state's subscription would be determined based on its GDP, its economic and political importance, and the overall mission of the fund. It also decided that France and Germany would subscribe the same share.[46]

The final decision was made in 1957 by the Conference of the Ministers of Foreign Affairs, which decided that Germany and France would subscribe 300 million u.a., Italy – 240 million, Belgium – 86.5 million, Luxembourg – 2 million, and the Netherlands – 71.5 million. The Board of Directors would consist of 12 members: France, Germany, and Italy would each nominate three directors, the Benelux Countries two, and the commission one. The European Commission would be represented with a right to vote, and the members of the Board of Directors would be independent in carrying out their functions. As Italy had requested, the votes would not be weighted, instead each member would have one vote.[47]

As for deciding on the name of the institution, differences had arisen.

A suitable name was paramount to communicate to international markets the character, credibility, and functionality of the institution. During the negotiations, the term "fund" was employed to describe the institution. However, differences remained as to whether to adopt this term or the term "bank." The same problem had cropped up when the World Bank was established in 1944. Its initially chosen name had been the International Investment Fund. After receiving an unenthusiastic response from American bankers, who had misgivings about the name in terms of the institution's credibility as a borrower, the moniker "bank" had been adopted instead. Similarly, Germany and the Netherlands wanted the new institution to be called the EIB.[48] The other member states also agreed that, as Germany had suggested, the fund be called the EBI in the hope of enhancing its credibility on the capital market.[49]

Contrary to what had been decided in the CMG, the ad hoc group dismissed the adoption of the US dollar as the reference currency. In line with France's suggestion, it adopted the EPU u.a. so that the fund could have a European anchor and not be pegged to the currency of a non-member states.[50]

As a result of the negotiations, the EIB was established based on Articles 129 and 130 of the Treaty of Rome. The organizational characteristics of the bank were mentioned in the statute annexed to the treaty. The EIB was given the role of promoting investments in the EEC by providing loans and guarantees, funded mainly by borrowing from international capital markets. Article 129 enumerated the types of projects that the EIB could finance: projects of regional interest; projects of interest to entire industrial sectors or to more than one member state; projects stimulating the development of the less-advanced regions of the EEC; projects to modernize, convert, or create European firms; and projects of common interest to more than one member that could not be financed some other way. However, Article 130 limited the role of the bank by specifying that financial support for firms would be provided only when the size or nature of the investment project exceeded national financing capabilities. It is worth noting that Italy did not succeed in its attempts to include in the treaty a formal recognition for prioritizing underdeveloped regions. However, the preamble of the Treaty of Rome and Article 2 referred to the reduction of regional imbalances as a fundamental objective of the EEC. Moreover, in the protocol concerning Italy, attached to the Treaty of Rome, the Six recognized that Italy's development would be a common objective of the EEC and that an adequate share of the EIB's resources had to be allocated toward this aim.[51]

The EIB would be overseen by a Board of Governors composed of the ministers designated by each member state, usually their finance ministers. It had the task of shaping the general directives on lending policy, approving financial statements (including the balance sheet) and the annual report, making decisions on financing operations outside the EEC, and determining capital increases. The Board of Governors was responsible for appointing the Board of Directors, the Management Committee, and the Audit Committee. In appointing the members of the Board of Directors, the Board of Governors would accept nominations from the member states as well as the European Commission. The Board of Directors had exclusive competence to decide upon the lending and borrowing operations, which would be based on majority voting. The third organ, the Management Committee, was the collegiate and resident executive board. Under the authority of the President and the supervision of the Board of Directors, it managed the day-to-day business at the bank, recommended decisions to the Directors, and was responsible for carrying them out. The President, or in his absence one of the Vice-Presidents, chaired the meeting of the Board of Directors.

Conclusion

The idea for establishing a financial institution was not new. It had already surfaced in the framework of the OEEC and was grounded on a common need, engendered from a market failure in stimulating economic growth and achieving integration by balancing out the development of economically backward regions and by redressing recessed economic sectors with appropriate funding.

When the EIB was finally established, the nascent institution had unique features. The aim of establishing a bank that should borrow on international capital markets led the EEC members to afford this institution its own financial resources, legal personality, and majority voting. Moreover, because of the crucial role the new institution was expected to play in ensuring the smooth and balanced transition to the common market, the EIB was created to be immediately effective and operational. This outline made the EIB a trustworthy actor on the international capital market. The choice to set up an institution with its own legal personality and capital gave the EIB the credibility to assume a leading role in the financial market and receive the triple-A classification reserved for top-class issuers.

The EIB was negotiated by balancing two exigencies: establishing an EEC body – linked to the objectives and economic policies of the member states – and creating a bank equipped to operate in the international capital markets. The resulting dual nature of the EIB has been its main feature. Since 1958, the scope of the EIB's activities has expanded considerably and has evolved to adjust to the new environment and challenges.[52] As the EEC/EU extended its field of action and developed an enlarged set of common policies, the EIB did the same by adapting its lending operations to the new circumstances. In the 1960s and 1970s, the action of the bank was focused on regional development. In the 1980s, the bank broadened the scope of its lending to the fields of energy and environmental conservation and support to technological innovation of small and medium enterprises. While regional development projects remained the EIB's major responsibility, the bank diversified and extended its activities to new sectors corresponding the priorities relevant to the umbrella organization, the EEC/EU. In this regard, the EIB showed that it was able to adapt to new circumstances and priorities filtering down from policy decisions made at the EEC/EU level.

All in all, the decision enshrined in the Treaty of Rome to establish a financial institution independent of, but linked to, the EEC through the Boards of Governors and Directors has allowed the EIB to adapt itself in a flexible and pragmatic fashion to the new policies and problems concerning the EEC/EU while maintaining its credibility in the international capital market.

Notes

1. Some material in this chapter is drawn from Lucia Coppolaro "Setting up the Financing Institution of the European Economic Community: The Creation of the European Investment Bank (1955–1957)," Journal of European Integration History, Vol. 15, issue 2, 2010, 87–104. Originally, the six members of the European Coal and Steel Community (ECSC).

2. European Investment Bank (EIB), “Annual Report 1958” (Luxembourg: EIB, 1959), 16.
3. Ibidem.
4. Ibidem.
5. Ibidem, 39.
6. Helen Kavvadia, “Small words, big changes: Understanding the European Investment Bank through its business model” chapter 6 in this volume.
7. Éric Bussière, Michel Dumoulin, and Émilie Willaert (eds.), “*The Bank of the European Union: The EIB, 1958–2008”* (Luxembourg: EIB, 2008); Lucia Coppolaro, “Setting up the Financing Institution of the European Economic Community,” 87–104.
8. World Bank, “The World Bank 1946–1967. The World Bank as Builder and Engineer”, available at: https://www.worldbank.org/en/archive/history.
9. Concerning the early attempts to create a European investments bank, see Mathias Kipping, *La Banque Européenne d'investissement, de l'idèe à la realité (1949–1968)*, in Ministere de l'Economie, des Finances et de l'Industrie, *Le rôle des ministères des Finances et de l'Economie dans la construction européenne (1957–1978)*, Comité pour l'Histoire Economique et Financière de la France. Acte du colloque tenu a Bercy, mai 1999, pp. 526–542; Éric Bussière et al. *The Bank of the European Union,* 23–35, which presents the most complete work on the history of the EIB.
10. Regarding the Dutch plan, see Richard T. Griffiths, “*The Beyen Plan,”* in: R. T. Griffiths (ed.), *The Netherlands and the Integration of Europe, 1947–1957* (Amsterdam: NEHA, 1990), 165–182.
11. For more on the Dutch initiative, see Historical archives of the European Union – Florence (Italy) (hereinafter HAEU), Négociations du traité instituant le CEE et la CEEA (hereinafter CM3 – NEGO 3), Mémorandum du Gouvernement des Pays-Bas concernant la Communauté européenne, 5 March 1953. Regarding the French initiative, see Ministère des Affaires Étrangères Français (hereinafter MAEF) Documents diplomatiques français (hereinafter DDF) 1955 (I) – Document 301, Note du Département «Plan Beyen», 26.05.1955.
12. HAEU CM3 – NEGO 3, Mémorandum des pays Benelux aux six pays de la CECA, 21.04.1955.
13. HAEU CM3 – NEGO 3, Mémorandum du Gouvernement italien sur la poursuite de l'intégration, 1.06.1955. For more on the Italian attitude in Messina, see Enrico Serra, “*L'Italia e la conferenza di Messina,*” in: Enrico Serra (ed.) *Il Rilancio dell' Europa e i Trattati di Roma*, (Bruxelles: Bruylant; Milano: Giuffrè; Paris: L.G.D.J; Baden-Baden: Nomos, 1989), 93–124.
14. HAEU CM3 – NEGO 3, Mémorandum du Gouvernement fédéral sur la poursuite de l'intégration, 1.06.1955.
15. MAEF DDF 1955 (I) – Document 301, Note du Département «Plan Beyen», 26.05.1955 and ibidem Document 332, Circulaire 49, Pinay, Ministre des Affaires Etrangères aux représentants diplomatiques de France à l'Etranger, 10.05.1955. Concerning the French role in the setting up of the EIB, see Bernard Gordon, “Banking the European Dream. The French presence and influence at the European Investment Bank (1958–2018),” chapter 2 in this volume.
16. The literature on the Messina Conference is very extensive. See, among the others, Enrico Serra (ed.), op.cit.
17. For more on the Messina Resolution, see HAEU – CM3 NEGO 3 - Réunion des ministres des Affaires étrangères, Messine, 01-03.06.1955.
18. MAEF DDF 1955 (II) – Document 22, Télégramme n.452 à 458, M. Rivière, Ambassadeur de France a Bruxelles à M. Pinay, Ministre des Affaires Etrangères, 9.07.1955 and ibidem Document 48, M. Rivière, Ambassadeur de France a Bruxelles à M. Pinay, Ministre des Affaires Etrangères, 20.07.1955.

19. HAEU – CM3 NEGO 43 Conférence Intergouvernemental créé par la conference d Messine, Rapport Présenté par M. le Professeur G. Di Nardi au nom de la sous-commission des investissements à la Commission du Marché Commun des Investissement et des problèmes sociaux, 29.10.1955.
20. HAEU – BEI Création de la BEI- G. Sertoli 1000, Témoignage Sertoli, 28.10.1994.
21. France's position is described in HAEU – CM3 NEGO 39 – mémorandum de la délégation française sur l'établissement d'une marche commun, 14.09.1955 and MAEF DDF 1955 (II) – Document 207, Note de la Direction de Affaires Economiques et Financières (service de coopération économique «Etablissement d'un marché commun général», 13.10.1955.
22. HAEU – CM3 NEGO 2 – PV de la Réunion des Ministres des Affaires Etrangères des Etats Membres de la CECA, Messina 1.06.1955 and ibidem NEGO 43 – Conférence Intergouvernemental créé par la conference d Messine, Note de la délégation italienne «Fonds européen d'investissements», 19.07.1955.
23. HAEU – BEI – 1021 Conférence Intergouvernementale pour le Marché Commun et l'Euratom – Groupe du Marché commun, Rapport sur les travaux du Groupe ad hoc chargé d'élaborer le Statut du Fonds d'Investissement, 27.11.1956. This document summarizes the attitudes of the ECSC Six since the beginning of the negotiations. For an account of Italy's attempt to insert a social provision in the Treaty of Rome, see Antonio Varsori, (ed) Il Comitato Economico e Sociale nella costruzione europea (Venezia: Marsilio, 2000).
24. Éric Bussière et al. *The Bank of the European Union*, 38.
25. For the Spaak Report, see HAEU – CM3 NEGO 89 Intergouvernamental Coomittee of the Messina Conference – Report by the Heads of Delegations to the Foreign Ministers, 21.04.1956.
26. Regarding the French effort to include this aspect among the tasks of the EIB, see HAEU, EIB Annual Report 1958.
27. For the position of the six governments during the discussions over the Spaak Report, see HAEU – CM3 NEGO 42 PV de la Conference des Ministres des Affaires Etrangères des Etats Membres de la CECA, Bruxelles, 11-12.02.1956.
28. For more on the French position, see MAEF DDF 1956 (II) – Document 265, Note de la Direction Générale des Affaires Economiques et Financieres «Marché commun», 21.04.1956; on the Italian position, see MAEF DDF 1956 (II) – Document 377, Project de Procès-verbal de la Conférence des ministres des Affaires étrangères des états membres de la CECA, Venise, 29-30.05.1956.
29. For the declaration of the Venice Conference of the Ministers of Foreign Affairs, see MAEF DDF 1956 (II) – Document 377, Project de Procès-verbal de la Conférence des ministres des Affaires étrangères des états membres de la CECA, Venise, 29-30.05.1956.
30. HAEU – BEI Création de la BEI - G. Sertoli 1004 Conférence Intergouvernementale pour le Marché Commun et l'Euratom – Groupe du Marché commun: PV du procès-verbal des réunion des 24-26.09.1956 (MAE 361) and HAEU – CM3 NEGO 248 Conférence intergouvernementale: histoire de l'article 129 du traité instituant la CEE, Groupe du Marché Commun, PV du Groupe du Marché Commun, 24-25-26.09.1956.
31. HAEU – BEI – 1003 Conférence Intergouvernementale pour le Marché Commun et l'Euratom – Groupe du Marché commun, Proposition de rédaction des articles 63 à 65 présenté par la délégation française, 24.09.1956.
32. HAEU – CM3 NEGO 248 Conférence intergouvernementale: Histoire de l'article 129 du traité instituant la CEE, Groupe du Marché Commun, PV du Groupe du Marché Commun, 24-25-26.09.1956; HAEU – BEI – 1001 Conférence Intergouvernementale pour le Marché Commun et l'Euratom – Groupe du Marché commun, Proposition de rédaction des articles 63 à 65

présenté par la délégation italienne, 24.09.1956; HAEU – BEI 1002 Conférence Intergouvernementale pour le Marché Commun et l'Euratom – Groupe du Marché commun: Comité des Chefs de Délégation «Note présentée par la délégation italienne sur les questions à soumettre aux Ministres des Affaires étrangères», (MAE 329), 26.09.1956.

33. HAEU – CM3 NEGO 248 Conférence intergouvernementale: Histoire de l'article 129 du traité instituant la CEE, Groupe du Marché Commun, PV du Groupe du Marché Commun, 24-25-26.09.1956
34. HAEU – BEI 1004 Conférence Intergouvernementale pour le Marché Commun et l'Euratom – Groupe du Marché commun: PV du procès-verbal des réunions des 24-26.09.1956 (MAE 361).
35. 1 u.a. = 0.88867088 grams of fine gold, EIB, "Annual Report 1958," 2.
36. HAEU – BEI – 1001 Conférence Intergouvernementale pour le Marché Commun et l'Euratom – Groupe du Marché commun, Proposition de rédaction des articles 63 à 65 présenté par la délégation française, 24.09.1956.
37. HAEU – BEI 1001 Conférence Intergouvernementale pour le Marché Commun et l'Euratom – Groupe du Marché Commun «Exposé présenté par le Porte-parole allemand», (MAE 326) 24.09.1956 and HAEU – BEI 1004 Conférence Intergouvernementale pour le Marché Commun et l'Euratom – Groupe du Marché commun: PV du procès-verbal des réunion des 24-26.09.1956 (MAE 361). On this quarrel, see HAEU – BEI témoignage Sertoli, 28.10.1994.
38. HAEU – BEI 1001 Conférence Intergouvernementale pour le Marché Commun et l'Euratom – Groupe du Marché Commun «Exposé présenté par le Porte-parole allemand», (MAE 326) 24.09.1956 and HAEU – BEI 1004 Conférence Intergouvernementale pour le Marché Commun et l'Euratom – Groupe du Marché commun: PV du procès-verbal des réunion des 24-26.09.1956 (MAE 361).
39. HAEU – BEI 1002 Conférence Intergouvernementale pour le Marché Commun et l'Euratom – Groupe du Marché commun: Comité des Chefs de Délégation «Note présentée par la délégation italienne sur les questions à soumettre aux Ministres des Affaires étrangères», (MAE 329), 26.09.1956 and HAEU – BEI 1005 Conférence Intergouvernementale pour le Marché Commun et l'Euratom – Groupe du Marché commun: Exposé du président du Groupe de Marché commun Hans von der Groeben, (MAE 373), 3.10.1956.
40. HAEU – BEI 1007 Groupe ad hoc pour le Fonds d'investissement: Résumé des travaux du 8 octobre 1956; HAEU – BEI 1008 Groupe ad hoc pour le Fonds d'investissement: Résumé des travaux du 9 octobre 1956; HAEU – BEI – 1015 Groupe ad hoc pour le Fonds d'investissement: Résumé des travaux du 25 octobre 1956 and HAEU – BEI – 1021 Conférence Intergouvernementale pour le Marché Commun et l'Euratom – Groupe du Marché commun, Rapport sur les travaux du Groupe ad hoc chargé d'élaborer le Statut du Fonds d'Investissement, 27.11.1956.
41. HAEU – BEI 1012 Groupe ad hoc pour le Fonds d'investissement: Résumé des travaux du 16.10.1956.
42. HAEU – BEI 1009 Groupe ad hoc pour le Fonds d'investissement: Résumé des travaux du 10.10.1956 and HAEU – BEI – 1021 Conférence Intergouvernementale pour le Marché Commun et l'Euratom – Groupe du Marché commun, Rapport sur les travaux du Groupe ad hoc chargé d'élaborer le Statut du Fonds d'Investissement, 27.11.1956
43. HAEU – BEI 1010 Groupe ad hoc pour le Fonds d'investissement: Résumé des travaux du 11 octobre 1956; HAEU – BEI 1020 Groupe ad hoc pour le Fonds d'investissement: Résumé des travaux du 14.11.1956; HAEU – BEI – 1021 Conférence Intergouvernementale pour le Marché Commun et l'Euratom – Groupe du Marché commun, Rapport sur les travaux du Groupe ad hoc chargé d'élaborer le Statut du Fonds d'Investissement, 27.11.1956.

44. HAEU – CM3 NEGO 250 Conférence Intergouvernementale pour le Marché Commun et l'Euratom – Groupe du Marché commun, Comité de Chefs de Délégation, PV de la réunion des chefs de délégation, 4-5.01.1957; ibidem Propositions du Président concernant les points à régler pour la Banque européenne d'Investissement, 27.12.1956 and ibidem, PV de la réunion des Chefs de Délégation, 26-27-28.01.1957.
45. This principle to determine the capital to be subscribed was also employed when the EIB acquired new shareholders as a result of EEC/EU enlargement. Regarding how it was applied in the first enlargement, see Lucia Coppolaro, "The unknown institution: The United Kingdom and the EIB (1973–1999)" chapter 5 in this volume.
46. HAEU – BEI 1008 Groupe ad hoc pour le Fonds d'investissement: Résumé des travaux du 9 octobre 1956; HAEU – BEI – 1015 Groupe ad hoc pour le Fonds d'investissement: Résumé des travaux du 25 octobre 1956. HAEU – BEI – 1021 Conférence Intergouvernementale pour le Marché Commun et l'Euratom – Groupe du Marché commun, Rapport sur les travaux du Groupe ad hoc chargé d'élaborer le Statut du Fonds d'Investissement, 27.11.1956.
47. HAEU – CM3 NEGO 250 Conférence Intergouvernementale pour le Marché Commun et l'Euratom – Groupe du Marché commun, PV de la réunion des Chefs de Délégation, 26-27-28.01.1957.
48. HAEU – BEI – 1015 Groupe ad hoc pour le Fonds d'investissement: résumé des travaux du 25 octobre 1956; HAEU – BEI – 1021 Conférence Intergouvernementale pour le Marché Commun et l'Euratom – Groupe du Marché commun, Rapport sur les travaux du Groupe ad hoc chargé d'élaborer le Statut du Fonds d'Investissement, 27.11.1956.
49. HAEU – CM3 NEGO 115, Conférence Intergouvernementale pour le Marché Commun et l'Euratom – Groupe du Marché commun, Comité de Chefs de Délégation, PV de la réunion du 13-14.12.1956 and ibidem CM3 NEGO 250 Conférence Intergouvernementale pour le Marché Commun et l'Euratom – Groupe du Marché commun, Comité de Chefs de Délégation, Propositions du Président concernant les points à régler pour la Banque européenne d'Investissement, 27.12.1956.
50. HAEU – BEI 1008 Groupe ad hoc pour le Fonds d'investissement: Résumé des travaux du 9 octobre 1956; HAEU – BEI – 1015 Groupe ad hoc pour le Fonds d'investissement: Résumé des travaux du 25 octobre 1956. HAEU – BEI – 1021 Conférence Intergouvernementale pour le Marché Commun et l'Euratom – Groupe du Marché commun, Rapport sur les travaux du Groupe ad hoc chargé d'élaborer le Statut du Fonds d'Investissement, 27.11.1956.
51. HAEU, EIB Annual Report 1958.
52. For a historical overview of the EIB since 1958, see É. Bussière et al. (eds.), op.cit. Helen Kavvadia, 'Small words, big changes: Understanding the European Investment Bank through its business model', chapter 6 in this volume.