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El papel de las Instituciones Financieras Internacionales

Un análisis de la política de préstamos del Banco Europeo de Inversiones

Ana Lara Gómez Peña

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Directores:

Judith Clifton

Daniel Díaz-Fuentes

Universidad de Cantabria, Universidad de Oviedo y Universidad del País Vasco

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rethinking the European Investment Bank lending practice

Ana Lara Gómez Peña

University of Cantabria

Advisors: Judith Clifton and Daniel Díaz-Fuentes

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To my parents, Ana & Francisco

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List of Abbreviations and Acronyms

ADB: Asian Development Bank

AfDB: African Development Bank

AIIB: Asian Infrastructure Investment Bank

BCIE: Banco Centroamericano de Integración Económica

BDR: Banco de Desarrollo Regional

BEI: Banco Europeo de Inversiones

BERD: Banco Europeo de Reconstrucción y Desarrollo

BID: Banco Interamericano de Desarrollo

BIRD: Banco Internacional de Reconstrucción y Desarrollo

BMD: Banco Multilateral de Desarrollo

BNDES: Brazilian Development Bank

CABEI: Central American Bank for Economic Integration

CAF: Andean Development Corporation / Corporación Andina de Fomento

CAP: Common Agricultural Policy

CE: Comisión Europea

CEB: Council of Europe Development Bank

CECA: Comunidad Europea del Carbón y del Acero

CEE: Comunidad Económica Europea

CPI: Consumer Price Index

DSE: Democratic Army of Greece

EBRD: European Bank for Reconstruction and Development

EC: European Commission

ECJ: European Court of Justice

ECSC: European Coal and Steel Community

EEA: European Economic Area

EEC: European Economic Community

EIB: European Investment Bank

EIF: European Investment Fund

EPU: European Payments Union

ERDF: European Regional Development Fund

ERP: European Recovery Program

ESF: European Social Fund

EU: European Union

EUA: European Unit of Account

EUI: European University Institute (of Florence)

FAO: Food and Agriculture Organization of the United Nations

FGLS: Feasible Generalized Squares

GATT: General Agreement on Tariffs and Trade

GDP: Gross Domestic Product

HAEU: Historical Archives of the European Union

IADB: Inter-American Development Bank

IBRD: International Bank for Reconstruction and Development

ICAO: International Civil Aviation Organization

ICO: Spanish Official Credit Institute / Instituto de Crédito Oficial

IDA: International Development Association

IDB: Islamic Development Bank

IFI: International Financial Institution / Institución Financiera Internacional

ILO: International Labour Organization

IMF: International Monetary Fund

IMO: International Maritime Organization

IO: International Organization

IR: International Relations

ITO: International Trade Organization

ITU: International Telecommunication Union

MDB: Multilateral Development Bank

NATO: North Atlantic Treaty Organization

NDB: National Development Bank

NPI: Non-Profit Institution

OECD: Organization for Economic Cooperation and Development

OECE: Organización Europea para la Cooperación Económica

OEEC: Organization for European Economic Cooperation

OI: Organización Internacional

OTAN: Organización del Tratado del Atlántico Norte

PCSE: Panel Corrected Standard Errors

RDB: Regional Development Bank

SME: Small and Medium Enterprise

TEN: Trans-European Network

UE: Unión Europea

UK: United Kingdom

UNESCO: United Nations Educational, Scientific and Cultural Organization

US: United States (of America)

USSR: Union of Soviet Socialist Republics (Soviet Union)

WHO: World Health Organization

WTO: World Trade Organization

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SUMMARY

After the Second World War, International Financial Institutions (IFIs) became a crucial instrument supporting investment and economic development. In light of capital constraints and the need to bolster economic growth, and under the example set by the International Bank for Reconstruction and Development (IBRD or, today, World Bank), IFIs were increasingly perceived as efficient solutions to these problems. In the European case, this went even further to the inclusion of a third role: the promotion of regional integration. The creation of a regional IFI, or Regional Development Bank (RDB), would provide a mechanism to fight inequalities and enable the European integration project to succeed.

Actually, Europe became the main precedent for the establishment of a RDB in charge of promoting regional integration through investments and the promotion of the economic development of its members with the creation of the European Investment Bank (EIB) in 1957. Shortly afterwards Latin and Central America followed. The Inter-American Development Bank (IADB) was established in 1959, while the Central American Bank for Economic Integration (CABEI) was established in 1960. In the European case, the EIB emerged as a clear requirement for the European project to succeed, given that contemporary economists like Nurkse (1953) or Myrdal (1957) had argued that, without measures to avoid it, integration would lead to a polarization or divergence between the development of rich regions and poor ones.

Due to the economic and financial crisis, the lack of funding has raised heightened debate over the role of RDBs like the EIB. The cuts on public expenditure and the need to find efficient solutions to fund long-term productive investments have brought RDBs back to the forefront. In fact, there has been an upsurge in the criticisms on RDBs performance questioning their actions and projects financed. However, despite criticisms, it is surprising the scarce attention addressed to some of these public banks given their importance for the economy. Integration would have hardly been conducted without them

and, still, few independent studies have analysed their activities. Nevertheless, studies on the evolution and performance of RDBs have been greatly facilitated in recent years thanks to the requirements imposed upon the banks to make publicly available data on their lending practice. The time is ripe to study the role of RDBs like the EIB and their contribution to regional integration.

Moreover, IFIs (and RDBs) have long lacked a theory of the manner in which these organizations change. The orthodox framework considers markets failures as the reason for IFIs to exist. Their existence is justified by their capacity to fix time-inconsistent preferences, information asymmetries, non-competitive markets, principal–agent problems, or externalities, such as the lack of funds and investors for general interest projects. However, this perspective overlooks IFIs evolution and the role IFIs play in *shaping* and *creating* markets (Mazzucato and Penna, 2016). Further research is needed.

In this light, this PhD thesis aims to analyse the European experience in the creation of RDBs for the promotion of regional integration projects and not just investment and economic development *per se*. We focus, therefore, on the EIB evolution and performance since its creation in the late fifties to our days. This research aims to contribute to our understanding of RDBs and their potential role for economic integration policies by drawing lessons from the EIB (the largest international lender as for loans volume). We focus on the EIB performance as compared to its official discourse and rely on qualitative and quantitative analysis to gain fresh insights on the role it played (and plays) in the European economic integration project.

This PhD thesis is structured as follows. Chapter 1 sets out both the object of study and the aims of the research. In chapter 2, we review the historical background of the EIB and the debates linked to its origins. Chapter 3 provides a first comprehensive qualitative and quantitative analysis of EIB loans from its origins to the end of the Cold War (1958-1995). To do so, lending patterns have been reconstructed drawing on extensive archival work. Instead, chapter 4 focuses on the years 1991 to 2015. The chapter also provides combined qualitative and quantitative analysis of EIB lending, exploring EIB performance under an adapted framework for the comparative study of lending International Organizations (IOs). Hence, building on previous research it contributes to the emerging literature on comparative policy analysis and provides the guidelines needed to analyse and compare highly criticized lending IOs like the EIB. Building on chapters 3 and 4, chapter 5 investigates how the transformation of the European institutional financial landscape with the establishment of the European Bank for Reconstruction and Development (EBRD) in 1991, after the fall of the Berlin Wall, affected the EIB. The chapter aims to analyse EBRD relationship with the older EIB, created in 1957. This doctoral dissertation concludes with a discussion of the theoretical and practical implications of our findings.

Despite the limitations of this research, discussed within each chapter, our findings may help to increase our understanding of the EIB, which, in turn, may help to understand how RDBs may contribute to improve regional integration policies and economic development policies more broadly. First, our results suggest, overall, that the role of the EIB went beyond that of regional integration (through investment and the promotion of economic development) to become policy entrepreneur (and not only policy-taker). Second, our findings also suggest an evolution of EIB activities. While the EIB would have been the first IFI to place integration and development above the alleviation of capital constraints, we find that this trend changed after the Cold War. Our results reveal there was a progressive mechanization of EIB loans at the expense of securing the institution's mission. Finally, our results suggest that the intended supplementarity the EBRD was meant to accomplish with the EIB evolved towards a synergy between both institutions (mutually reinforcing their actions). This is in line with growing empirical evidence suggesting that a variety of economic, social and environmental forces, with changes and mutually reinforcing responses at different levels, may exert an influence on RDBs evolution and adaptability. In this light, our findings support, we believe, the increasing claim among the scholars to rethink the performance of RDBs and their potential role within the present economic international scene beyond traditional practices. RDBs are in a unique position to affect policy making and they are not receiving enough attention.

RESUMEN

Tras la Segunda Guerra Mundial las Instituciones Financieras Internacionales (IFI) se convirtieron en un instrumento clave para apoyar la inversión y el desarrollo económico. Ante las restricciones económicas existentes y la necesidad de fomentar el crecimiento económico, y bajo el ejemplo establecido por el Banco Internacional de Reconstrucción y Desarrollo (BIRD o, más comúnmente hoy en día, Banco Mundial), las IFI comenzaron a percibirse como una solución eficiente para afrontar dichos problemas. En el caso europeo, además, se incluyó un tercer papel: la promoción de la integración regional. La creación de una IFI regional, o Banco de Desarrollo Regional (BDR), proveería un mecanismo que permitiría afrontar las desigualdades regionales y, así, llevar a cabo el proyecto de integración europeo.

De este modo, Europa se convirtió en el principal precedente en establecer un BDR con el objetivo de impulsar la integración regional a través de inversiones y la promoción del desarrollo económico de sus miembros gracias al establecimiento del Banco Europeo de Inversiones (BEI) en 1957. Latinoamérica y Central América siguieron poco después. El Banco Interamericano de Desarrollo (BID) fue establecido en 1959, mientras que el Banco Centroamericano de Integración Económica (BCIE) fue establecido en 1960. En el caso europeo el BEI surgió como requisito claro para que el proyecto de unificación tuviese éxito, puesto que los economistas contemporáneos como Nurkse (1953) o Myrdal (1957) defendían que, sin medidas para evitarlo, la integración económica llevaría a una polarización o divergencia en el desarrollo económico entre las regiones ricas y pobres.

Como consecuencia de la crisis económica y financiera, la falta de fondos ha dado lugar a un creciente debate sobre el papel de los BDR como el BEI. Los cortes en el gasto público y la necesidad de encontrar soluciones eficientes para financiar inversiones productivas de largo plazo han vuelto a poner a los BDR en el foco de atención. De hecho, las críticas a la actuación de los BDR han aumentado, cuestionando sus acciones y los proyectos financiados. Sin embargo, a pesar de dichas críticas, es sorprendente la escasa atención prestada a algunos de estos bancos públicos, especialmente teniendo en cuenta la gran importancia que tienen para la economía. La integración económica difícilmente se habría llevado a cabo sin ellos y, pese a esto, pocos estudios independientes han analizado sus actividades. No obstante, los estudios sobre la evolución y actuación de los BDR han sido facilitados en gran medida gracias a las políticas públicas sobre transparencia adoptadas en los últimos años. Ha llegado el momento de estudiar la labor de BDR como el BEI y su contribución a la integración regional.

Por otra parte, este tipo de organizaciones (IFI y, más concretamente, BDR) ha carecido durante mucho tiempo de una teoría sobre la forma en la que dichas organizaciones evolucionan. El marco teórico ortodoxo considera que las IFI existen como consecuencia de fallos de mercado. Su presencia, por tanto, se justifica por la capacidad que estas instituciones tienen para solucionar problemas relacionados con preferencias incoherentes en el tiempo, asimetrías de la información, mercados no-competitivos, problemas entre principales y agentes, o externalidades, como la falta de fondos e inversores para proyectos de interés general. Sin embargo, este punto de vista pasa por alto la evolución y el papel que las IFI juegan a la hora de dar forma y promover la creación de mercados (Mazzucato y Penna, 2016). Más investigación al respecto es necesaria.

En este contexto, esta tesis doctoral pretende analizar la experiencia europea en la creación de BDR para la promoción de proyectos de integración regional y no solamente inversión y desarrollo económico *per se*. Nos centramos por lo tanto en la evolución del BEI y su actuación desde su creación a finales de los 50 hasta nuestros días. Esta investigación aspira a ampliar nuestro conocimiento sobre BDR y su potencial papel en las políticas de integración económica a través del estudio del BEI (el mayor prestamista internacional en razón del volumen de préstamos). Nos centramos, por tanto, en la actuación del BEI, contrastando sus acciones con el discurso oficial mediante análisis cualitativo y cuantitativo a fin de obtener nuevas perspectivas sobre el papel que ha jugado (y juega) en el proyecto de integración europeo.

Esta tesis doctoral se estructura como se indica a continuación. El primer capítulo establece tanto el objeto de estudio como el propósito de la investigación. En el capítulo 2 revisamos el contexto histórico del BEI y los debates que se produjeron en sus orígenes.

El capítulo 3 provee un primer análisis cualitativo y cuantitativo de los préstamos del BEI desde sus orígenes hasta el final de la Guerra Fría (1958-1995). Para ello, y haciendo uso de una minuciosa labor de archivo, se han reconstruido los préstamos del BEI. A continuación, el cuarto capítulo se centra en el periodo comprendido entre 1991 y 2015. El capítulo también provee un análisis cualitativo y cuantitativo combinado de los préstamos del BEI, explorando la actuación del Banco bajo un marco teórico adaptado al estudio comparativo de las organizaciones internacionales (OI) de préstamo. Por tanto, basándose en investigaciones previas, el capítulo contribuye a la literatura emergente en el análisis comparativo de políticas y ofrece pautas para analizar y comparar OI de préstamo altamente criticadas como el BEI. Partiendo de los capítulos 3 y 4, el capítulo 5 investiga cómo afectó al BEI la transformación del entorno institucional financiero con el establecimiento del Banco Europeo de Reconstrucción y Desarrollo (BERD) en 1991, tras la caída del muro de Berlín. El capítulo analiza la relación entre el BEI, creado en 1957, y el BERD. La tesis doctoral concluye con una discusión sobre las implicaciones teóricas y prácticas de nuestros resultados.

A pesar de las limitaciones de esta investigación, abordadas en cada capítulo, los resultados presentados contribuyen a aumentar nuestro conocimiento sobre el BEI, lo que, a su vez, en un plano más amplio aumenta nuestra compresión de los BDR y contribuye a mejorar las políticas de desarrollo económico e integración regional. En primer lugar, nuestros resultados sugieren que, en conjunto, el papel del BEI fue más allá de la integración regional (con inversiones y la promoción del desarrollo económico) para convertirse en un formulador de políticas (y no sólo receptor de políticas). En segundo lugar, nuestros resultados también sugieren una evolución en las actividades del BEI. Mientras que el Banco habría sido la primera IFI en situar la integración y el desarrollo económico por encima de la reducción de las restricciones de capital, encontramos que dicha tendencia cambió tras la Guerra Fría. Nuestros resultados revelan que hubo una progresiva mecanización de los préstamos del BEI a expensas de preservar el mandato del Banco. Finalmente, nuestros resultados sugieren que el papel previsto para el BERD como institución suplementaria del BEI evolucionó hacia una sinergia entre ambas instituciones (reforzando mutuamente sus acciones). Esto se ajusta a la creciente evidencia empírica sugiriendo que distintas fuerzas económicas, sociales y ambientales, con cambios y respuestas que se refuerzan entre sí, pueden influir en la evolución y flexibilidad de los BDR. Bajo esta perspectiva, creemos que nuestros resultados respaldan la afirmación, cada vez más extendida entre académicos, de tener que replantearse la actuación de los BDR y su potencial papel en el presente escenario económico internacional más allá de las prácticas tradicionales. Los BDR están en una posición única para influir el diseño de políticas y no están recibiendo suficiente atención.

1 INTRODUCTION: INTERNATIONAL FINANCIAL INSTITUTIONS IN A GLOBAL PERSPECTIVE

1.1 Introduction

Today, it appears that International Financial Institutions (IFIs) – comprehending the universe of multilateral and regional development banks - are as necessary as they were seventy years ago, when they were first established, after the end of World War II. Despite the dramatic evolution of financial markets, there is still a huge lack of funding for long-term and high-risk investments. Even in the best of times, when prosperity often dominated in the post-war decades, access to long term capital was not always forthcoming. The private sector's aversion to risk acts as a brake on its involvement in uncertain investments, primarily because of their concern that their involvement might not return the expected profits.

IFIs have gradually increased their role in the economy (Mazzucato and Penna, 2016). Their traditional function was to leverage public funds, acting as catalysers for private investment when capital was scarce, while they also played a countercyclical role, providing access to capital during economic downturns, as opposed to private investors. During recent years, however, the capacity of IFIs to step into emerging new areas is increasingly recognized. IFIs are increasingly taking the lead into areas where, despite the huge potential societal benefits, the private sector is slow to invest, such as infrastructure, new technologies or the emerging global green economy (Griffith-Jones and Cozzi, 2016).

In particular, IFIs are gradually taking up the mantle of providing funding directed to innovation, which is subject to higher risks than other activities, and which also entails potentially huge benefits. Challenges on this kind of investment – from which private investors may shirk, need to be handled from a long-term perspective, providing an initial push to attract private capital. Just as the internet revolution emerged as a tool for military purposes and was, hence, state-funded, innovation needs to be nurtured and developed. IFIs are proving well suited to cover private investment gaps, and to adopt a complex long-term mission-oriented policy rather than a short-term approach.

Actually, according to mainstream economics IFIs emerged as a solution to address market failures. Drawing on the First Fundamental Theorem of welfare economics, the allocation of resources resulting from a competitive equilibrium would be 'Pareto optimal' (i.e. no person can be made better off without making someone else worse off) under three conditions: 1) complete markets, so that each actor has perfect information and goods and services are traded at publicly known prices; 2) price-taking behaviour; and 3) 'weak' local non-satiation of preferences. But if these conditions were violated, market failures would occur and, as long as gains would outweigh costs, public intervention would be justified, and thus, IFIs (Mazzucato and Penna, 2016).

Under this perspective, IFIs deal with four types of market failures. First, in case of information asymmetries leading to coordination failures and to a too pro-cyclical behaviour by agents, IFIs play a countercyclical role and provide finance on downward economic circumstances. Second, whenever public information to select good borrowers is not available (leading to adverse selection or moral hazard), IFIs investment attempts to identify potentially good borrowers, which otherwise would lack financial support (such as SMEs), and promote economic diversification. Third, when projects with 'public goods' characteristics and positive externalities are not funded by private investors or situations of imperfect competition arise (for example, natural monopolies), IFIs can step in. Private markets may underfund socially desirable investments with high positive externalities that would never be funded if it were not for IFIs. And fourth, negative externalities, such as pollution or traffic congestion, for example, may be addressed also by IFIs mission-oriented investments that try to internalise such costs (Mazzucato and Penna, 2016).

From a heterodox perspective, however, the market failure justification does not completely account for all roles played by IFIs. The main criticism is that this approach underestimates or ignores the role of IFIs as institutions that *shape* and *create* markets. From this point of view, IFIs direct funding to productive opportunities, encouraging transformative change and the development of social capabilities. They provide 'patient, long-term, committed financial capital' that bolsters innovation (Mazzucato and Penna, 2016, p.40).

In practice, some of the key roles of IFIs include not just long-term funding (at a low cost) but also technical assistance and policy advice. They hold a unique position in the international domain as coordinators and influencers of international policy responses. Hence, IFIs, which are able to mobilize huge financial resources thanks to their member's contributions and their capacity to leverage private resources, are well suited to fulfil a number of key roles in the global scene. As mentioned, they exert a countercyclical response in times of economic slowdown. They provide the necessary funding to stimulate the economy, promoting innovation and high-risk investments where the private sector may not dare to enter. Global public goods, such as a clean environment, health or knowledge, where the private initiative may not have incentives to invest, can benefit from IFIs investment. But also IFIs play a key role in encouraging large-scale policies and programmes, such as cross-regional infrastructures to promote *regional integration*. They enjoy the technical and country expertise necessary to provide advice and policy support, which in turn shapes international decisions. Therefore, IFIs, including the ensemble of Regional Development Banks like the EIB, act both as ‘entrepreneurs’, by fostering innovation, leading-edge technology and high-risk investments, and as ‘policy makers’, by shaping policy decisions.

In this chapter we will briefly review the main types of IFIs and we will concentrate on a particular type: Regional Development Banks (RDBs), to which the EIB, our focus of attention, belongs. Therefore, the next section will give an introduction into the main IFIs (section 1.2) and on this basis we will introduce RDBs from a global perspective, including the most well-known RDBs (section 1.3). This will not only provide an overall perspective of our study but it will also provide the foundations that underlie the study of RDBs like the EIB and a wider understanding of the policy implications derived from the performance of such institutions. Section 1.4 introduces the subject matter of this dissertation, the EIB, one of the most important and neglected European institutions to date. Next, we introduce our main research questions that stem from the discussion in the preceding sections and discuss the theoretical and practical contributions of this dissertation (section 1.5), as well as its value for both the European regional integration policy and the scholarly work on RDBs and IFIs as such (section 1.6). The final section of this chapter will provide an outline of the dissertation (section 1.7).

1.2 Types of IFIs

IFIs embrace a variety of different actors. Three broad main groups are to be highlighted: national, regional and multilateral IFIs. The former includes National Development Banks (NDBs) promoting the domestic economy. The Brazilian Development Bank (BNDES) or the German KfW are examples of NDBs. Regional IFIs, referred to as Regional Development Banks (RDBs), instead, focus on a specific region, and its shareholders tend to be drawn from that region (sometimes together with major donor countries from other regions). The Central American Bank for Economic Integration (CABEI), the European Bank for Reconstruction and Development (EBRD) or the European Investment Bank (EIB) were all born regional IFIs (even if the EIB has acquired the competences of a multilateral IFI, as we will see). Finally, multilateral IFIs, or Multilateral Development Banks (MDBs), have a wider action range. With large memberships, they have an international scope to provide financing and professional advice (subject to international law). This would be the case of the World Bank.

Despite this diversity, here we focus on RDBs, which do not seek to maximize profits but to prioritize certain type of investments, usually linked to regional economic development. Whether these investments follow a ‘market’ perspective or a ‘social’ one hinges on the institution’s nature: generally speaking, some RDBs tend to favour more ‘pro-market’ projects, such as infrastructure investments, while others prioritize development goals such as reducing economic inequality. The distinction is not so clear-cut. It can be linked to the constitutive moment when the bank was created and to the needs of the founding members.

1.3 Regional Development Banks

RDBs have commonly been established to invigorate the economic activity of a specific group of countries. Despite their growing importance, insufficient scholarly attention has been directed to understand their impact upon the success, or otherwise, of regional economic integration. For example, the growing importance of economic integration processes, including regional trade (Fitzgerald, 2002), has brought the provision of regional public goods to the forefront of international attention and discussion. Given that long-term trans-national investments are underfunded by the private initiative and also by the public sector, which finds difficult to coordinate its efforts with other States, RDBs are playing an increasing role at this aspect of the economic integration processes. RDBs are well-suited to intervene in the provision of trans-national infrastructure, a crucial element (but underfunded) in the economic integration of a territory.

However, RDBs are also increasingly important beyond their region. Taking the example of the EIB, in this dissertation we will observe how RDBs are slowly evolving into a broader role, and may be understood to be partly superseding MDBs.

Griffith-Jones *et al*. (2008) argue that the main advantages of RDBs vis-à-vis MDBs can be summarized in the following four points. First, when compared with their multilateral counterparts, RDBs may be better positioned to give a voice to their members, particularly when these are small or medium-sized countries which struggle to have a voice in a larger institution. Second, RDBs are expected to be more flexible than multilateral ones, relying more on informal mechanisms of peer pressure than harder conditionality. The closer relationship between an RDB and a country tends to lower risk of failure to service debt. Third, reaching agreement through negotiation may be easier in the RDBs since members are often both lenders and borrowers. Fourth, RDBs tend to be better placed to respond to the needs and demands of the region, especially those supporting regional integration, such as the requirement of large-scale investment for huge, cross-border infrastructure projects, the development of regional capital markets, and the facilitation of regional innovation programmes. One of the major exercises of this dissertation is to explore these stated advantages of RDBs and see to what extent they are relevant in the EIB case, whilst looking for new advantages or disadvantages, contributing therefore to the theoretical and empirical state of the art.

1.3.1 Regional Development Banks: a chronology

RDBs are created at times of economic and political change. They were born in the post-war period, and flourished in the 1960s, as the demand of developing countries for institutions that would take into account their concerns grew. Multilateralism was presented, at that time, as a solution to free development finance from political interests, but according to White (1970; 1972) developing countries perceived they were still kept in a subordinate position, only the power was now exerted in a more subtle way. Concretely the main RDBs we have today were created after the Second World War, the Cold War and in times of ‘shifting wealth’ and ‘under-representation’. In this section we highlight the major ones to provide an overview of the current RDBs and understand the importance of their study from a more global perspective. Therefore, next we very briefly review the establishment of the following nine RDBs: European Investment Bank (1957), Inter-American Development Bank (1959), Central American Bank for Economic Integration (1960), African Development Bank (1966), Asian Development Bank (1966), Andean Development Corporation (1970), Islamic Development Bank (1974), European Bank for Reconstruction and Development (1991) and Asian Infrastructure Investment Bank (2014).

After World War II, the project for a united Europe gained strength, and so it did the creation of a RDB. Not only had a united Europe made sense from a political perspective, to maintain peace, but also from an economic point of view, to open markets and increase competitiveness. European integration would re-invigorate its members’ economies, backed by the United States (US), which supported the idea with the expectation of augmenting its exports while avoiding the spread of communism. But the project needed financial support. The *European Investment Bank (EIB)* became the main precedent for the establishment of a regional bank in charge of promoting the economic development of its members[1]. Without such an institution, it was feared that the least developed members would be reluctant to join due to concerns of increasing inequalities. The EIB, established in 1957, provided a mechanism to fight inequalities and enabled the integration project to succeed. It became the central element of the integration process,

[1] The Council of Europe Development Bank (CEB) was established earlier, in 1956, but it had the only aim to help refugees and other displaced persons after the Second World War. It later expanded the scope of its activities and today it aims to promote social cohesion.

granting the Bank renown and prestige, as we will see. It created a precedent and set the example for other RDBs, thereby the importance of its analysis.

On the other side of the Atlantic, a somehow similar evolution of events took place. Also the idea of a regional bank for the development and industrialization of Latin America emerged, and it did even earlier than in Europe, in 1939. The first formal proposal was delivered in 1940 under the aegis of the US, although it was not ratified by Congress. Nevertheless, again in 1948 the need for an Inter-American bank was raised on the grounds that the existent MDB, the International Bank for Reconstruction and Development (IBRD), was focused on Europe and did not pay attention to Latin American problems. Despite American opposition (backed by some countries), by 1954 most Latin-American countries sustained that the existent IFIs were insufficient to serve Latin-American needs. After long negotiations, and once the idea gained US support, the *Inter-American Development Bank (IADB)* was established in 1959 (Marichal, 2011), just two years after the EIB was created.

In parallel to the establishment of the IADB, policy-makers in Central America became increasingly strong advocates for regional economic integration, particularly from the 1950s onwards. Since Central American countries had operated as a unified territory for some years after they gained independence from Spain (1821)[2] and it was perceived that unity would favour their economic policies, there was an interest to establish a Central American common market, very much like the EU integration project (Bulmer-Thomas, 1987). In 1960, this culminated in the signing of the 'General Treaty on Central America Economic Integration', which included the establishment of the *Central American Bank for Economic Integration (CABEI).* Indeed, during the 1960s, efforts were made to establish a monetary union, but the project did not succeed due to the lack of political support and institutional capacity (Desruelle and Schipke, 2008).

[2] Before the independence, Central America was known as Captaincy General of Guatemala, or the kingdom of Guatemala, a colonization for the Spanish empire since 1609. It included Costa Rica, El Salvador, Guatemala, Honduras, Mexico, and Nicaragua (Reichert, 2014).

Similarly, the *African Development Bank (AfDB)* was born in the 1960s, when most African countries had the opportunity to break free of European colonialism (for example, after suffering internal revolutions, the Democratic Republic of Congo and Ivory Coast gained independence in June and August of 1960, respectively) (Bertocchi and Canova, 2002). Dissatisfied with the political atmosphere, they started to depart from Europe and the Cold War political orientation. At the Conference of the Peoples for Africa held in 1960, a resolution was approved to create an investment institution, or RDB, on a continental scale. The agreement was prepared, and was signed by 22 African states in 1963 at the 'Conference of African Ministers of Finance' in Khartoum (Sudan) (AAI, 2015). It came into effect in 1964 and the AfDB, with headquarters at Abidjan, started operations in 1966. This RDB was initially composed by only African countries. However, later on, from 1979, a decision was adopted to admit non-regional members as long as the Bank would preserve its 'African character' (Schiavone, 1997).

Shortly after the setting up of the AfDB, in 1966, the *Asian Development Bank (ADB)* was established with the support of Japan and the US. Asia and the Pacific were key territories where the fight between capitalism and communism had been focused during the 1950s. In the aftermath, the need for investment was huge. The idea to launch a RDB on a continental scale arose during the second part of the 1950s but it was not materialized until the 1960s. Japan, interested to gain influence over the Asian continent, proposed to create a development bank for Asia. The support of the United States was needed, though, to make the project financially viable. Even though initially the US was not convinced (as the new institution would compete with the World Bank), it ended up supporting the bank's creation faced with the war in Vietnam[3] and the fear of communism (Dutt, 2001). The Cuban revolution (1953-1959) emphasized the need to encourage economic development to avoid the spread of communism and, similarly to the establishment of the IADB, the US became one of the main investors in the ADB. Therefore, in 1966, 31

[3] The ADB would allow the US to help (at a lower cost) the Asian nations in their capacity to defend themselves against the communist threat, which fitted the US plans to assist Asia in the wake of the increasing US military support for South Vietnam (Dutt, 2001).

countries signed the Charter to establish the ADB with headquarters in Manila to the disappointment of Japan (Hamanaka, 2016).

Back in Latin America, a second RDB was established immediately after the creation of the IADB, this time composed by the Andean states. The *Andean Development Corporation (usually referred to as CAF, or Corporación Andina de Fomento)* emerged as an instrument to foster the economic integration of the Andean Group. Thanks to the efforts of the Chilean and Colombian presidents, Eduardo Frei and Carlos Lleras, who believed that integration would bring the prosperity needed, the Andean integration project went ahead. The signing of the Declaration of Bogotá in 1966, which emphasised the differentiated treatment that less developed countries deserved in trade deals, marked a watershed for the establishment of a RDB. In 1969, the Agreement of Cartagena officially established a customs union (the Andean Community) comprising Bolivia, Chile, Colombia, Ecuador and Peru and, one year later, Venezuela. The CAF was established to support the financial realm. With its headquarters in Caracas (Venezuela), the CAF started to operate in June 1970 to promote sustainable development and regional integration.

The Organisation of Islamic Cooperation (OIC), founded in 1969 as ‘the collective voice of the Muslim world’ (OIC, 2018), also decided to establish a RDB, the *Islamic Development Bank (IDB)*. The objective was to foster the closer co-operation among member countries to achieve a more efficient utilization of resources and promote economic development (Meenai, 1989). Founded in 1974 with the support of the king of Saudi Arabia at the time (Faisal), its headquarters were established in Jeddah, Saudi Arabia. The objective was to provide funds, free of interest and based on *Shariah* principles, for development projects in member countries (Ariff, 1988).

After the end of the Cold War, new challenges emerged in Europe. Central and Eastern European countries were faced with a huge financial shortage, which the European Economic Community (EEC) was keen on remedying to help countries transition towards a market system and keep communism at bay. The idea, promoted by the French president François Mitterrand, to create a new RDB, gained strength. While the EIB would focus on the EEC member countries, the new institution would support the transition of Eastern and Central Europe towards democratic regimes. As a result, the *European Bank for*

Reconstruction and Development (EBRD) emerged in 1991 as a supplementary institution of the EIB, founded by representatives of 40 countries plus the EIB itself and the EEC with the objective of fostering market economies, as we will see.

The most recent RDB has been established in Beijing. The *Asian Infrastructure Investment Bank (AIIB)* was set up in 2014 to cover the infrastructure financing gap in developing countries in general and developing Asia in particular. But, in reality, it reflects the ongoing hegemonic transition from the United States to China. In the absence of political will to change the voting power of existent multilateral and regional institutions under US hegemony, China decided to take action. First strategically proposed by the Chinese President Xi Jinping and Premier Li Kequiang in 2013, the AIIB was finally established with a capital of US$100 billion and 57 founding members, who increased to 77 once the United Kingdom officially proclaimed its accession in 2015. The AIIB started to operate in 2016 but it has already attracted the accession of most major advanced economies except the United States and Japan.

1.4 Case study: the European Investment Bank

Despite their importance in the economy, there has been relatively little detailed study of RDBs. RDBs remain understudied, particularly as compared to the body of scholarship on MDBs.

In this dissertation we will focus on a particular RDB: the European Investment Bank (EIB), which was named purposely as an investment and not a development bank. The institution is managed by the rich for the rich, with a minimal part of its resources addressed to the poor countries (outside the European Union). Within the Union, though, the least developed are not necessarily benefitting most. Pisaneschi (2004) found that for the period 1995-2001 the loans granted are not directly influenced by countries lower economic growth (GDP), with countries like Greece and Ireland receiving less than more developed member states. Along the same lines, in a recent study Clifton *et al.* (2014b) highlighted the gradual change in the Bank from providing development finance in its origins to becoming an instrument to ‘make’ markets, rather than to support the least developed. It seems the Bank became a first-mover some time ago, which provided the institution with a different role than initially planned (Pinder, 1986). This transformation is not unique of the EIB, though; RDBs evolve through time acquiring new roles and the study of the EIB shall contribute to understand this broader, common feature of RDBs.

Recently, in fact, a few renowned scholars, such as Kampffmeyer (2000) and Griffith-Jones *et al.* (2008) have argued for a larger and enhanced role for RDBs like the EIB. According to these authors, the EIB, among other RDBs, could play an important and valuable complementary role to multilateral lending by providing counter-cyclical finance when private flows dry up, helping to develop innovative market instruments that better share risks, and providing regional public goods. The idea would be to foster complementarities.

Despite the few studies on the EIB to date, studies on the comparative evolution and performance of the Bank have been greatly facilitated in recent years thanks to the requirements imposed upon RDBs to make publicly available data on their lending practice. The time is ripe to study the EIB's performance from a long-term perspective. This dissertation aims to fill this gap, providing an overall analysis of EIB lending practice. It attempts to throw light on EIB activities and the influence and importance the institution has on the EU policy making and implementation. From a broader perspective, the study of the EIB intends to reflect issues from a wider debate: that of RDBs. The intention, therefore, is that a much broader debate will be initiated in which the potential role of RDBs is challenged and enhanced.

1.5 The present study: research question and contributions of this dissertation

Within this dissertation we attempt to examine the case of a European, often neglected, RDB: the EIB. By drawing upon the study of IFIs performance, we analyse how the EIB actually behaved through time and test it empirically. In particular, we investigate whether the EIB complies with its mandate, which leads to the core research question of this study: *Has the EIB performed in accordance with its public discourse and official records?*

Our guiding research question will be addressed and operationalised in four interrelated research questions.

a) Background and establishment of the EIB: how did the institutions origins influenced its development and its lending practice? Was it marked by social or market concerns?

b) According to the official discourse, EIB lending prioritised three overarching objectives – development, integration and investment – during the period 1957 to 1995. Did EIB loans fulfilled each objective in practice?

c) According to the official discourse, for the period 1991 – 2015 the EIB maintained its original objectives – development, integration and investment – and added two more, the reduction of unemployment and the concern for the environment. Did the EIB fulfil these five objectives in practice? Did EIB's lending practice change after the Cold War?

d) After the Cold War, the institutional financial landscape in Europe changed: the EBRD was set up with a view to supplement the EIB. Both Banks officially agreed to collaborate. However, since both institutions had the capacity to lend to the same group of countries, did the EBRD really supplement the EIB? What did it happen in practice?

Specifically, in this dissertation we investigate the real behaviour of the largest worldwide lender as for volume of loans. To do so we consecutively contrast EIB's official discourse with its performance through a set of research questions that offer deep insights into the 'little known' institution. We first examine EIB background and the reasons leading to its establishment, so as the discussions that took place among the founder countries (*research question a*). Next, we focus on a first period, from its establishment in 1957 to 1995, a turning point in terms of the economic conditions that gave birth to the EIB due fundamentally to the end of the Cold War, the reunification of Germany (1990) and the signing of the Maastricht Treaty (1992). We inquire whether the EIB fulfilled its Mandate during this period (*research question b*). With the enlargements and increased number of objectives, the EIB faced new challenges during the period 1991 – 2015. We indeed observe a change in its policy and the way the institution attempts to fulfil its Mandate (*research question c*). Finally, we acknowledge the change introduced by a new institution: the EBRD, meant to supplement the EIB. Thus, we analyse EBRD and EIB loans to the countries with capacity to borrow from both institutions (during the period 1991 to 2015) and whether both institutions effectively supplement each other (*research question d*). Table 1.1 provides an overview of how these research questions relate to the four essays which build the core chapters of this dissertation. All four have been presented at international conferences, and are either accepted for publication or already published in leading SSCI listed international peer-reviewed journals or as book chapter.

Until recently, few scholars have investigated the EIB, yet even fewer have engaged in the empirical testing of its official discourse. This dissertation challenges RDBs research by questioning the often assumed compliance of RDBs Mandate. Hence, we analyse a crucial European institution that remains under-researched and we empirically test its lending and performance. Therefore, the major theoretical contribution of this dissertation is twofold. On the one hand, this dissertation constitutes a first approach to an independent analysis on the long-term practice of the EIB. It deepens the knowledge on the institution, crucial for the European regional policy and also, from a broader perspective, it deepens the knowledge on RDBs, crucial in the present economic environment of shortage. On the other, to the best of our knowledge it represents the first attempt to empirically analyse EIB lending practice. Thereby, it not only provides useful insights on the EIB performance and how this could affect regional integration in the EU context, but also provides a valuable and innovative extension of RDBs studies by considering a way to empirically test RDBs actions. This should be helpful in the comparative analysis of RDBs and lending IFIs more widely.

Table 1.1 Overview of the dissertation

	Chapter title	Research question	Publication status
1)	Introduction: International Financial Institutions in a global perspective	-	-
2)	The origins of the European Investment Bank	Research question a	Published in *Orígenes de la globalización bancaria: experiencias de España y América Latina*. El Colegio de México.
3)	European Investment Bank lending practice (1957 – 1995): an investment bank?	Research question b	Published in *Journal of Common Market Studies*, 56(4), pp. 733-750.
4)	European Investment Bank lending practice (1991 – 2015): an analysis of its effectiveness	Research question c	Published in *Revista de Economía Mundial*, 47, pp. 21-42. Awarded with the X José Luis Sampedro prize to the best paper presented at the XIX World Economy Meeting.
5)	Institutional Complementarity theory: an analysis of the EBRD and EIB relationship	Research question d	Forthcoming in *Regional Development Banks in the long term*. Oxford University Press.
6)	Conclusions	-	-

1.6 Why studying the EIB?

We can advance that the analysis of the EIB will allow eradicating some ideas about the nature, organization and behaviour of some RDBs. Among other reasons, because this institution has greatly evolved through time. We will observe that it is difficult to extract generic characteristics beyond the RDBs common broad purpose to promote economic development and support regional cooperation. It is complicated to obtain general guidelines that can be easily extrapolated to all RDBs. The historical path and the context faced by each RDB shape and determine its performance, bringing more complexities than one would initially expect. Still, the analysis of the EIB is useful beyond its importance as a European institution and an international policy player. It is possible to identify some elements and particular features of interest to other RDBs. We recognise EIBs weaknesses and strengths. But also particularities each RDB faces, which lead us to identify the areas for potential improvement and the vulnerabilities RDBs should tackle in the near future.

Our aim has been to discover the real reasons behind the EIB establishment (also as a reflection of other RDBs) and the evolution followed by the Bank in order to survive. The need to adapt to the historical circumstances has undoubtedly marked the institution path and its present policy. Beyond the discourse provided by the EIB itself, we attempt to identify its real performance and the underlying reasons driving its acts. We identify, therefore, the key phases the EIB has faced. We see that the Bank does not really have a predefined long-term strategy; instead, the EIB bases its decisions on pragmatism, which is shaped by the historical context. Indeed, EIB expansion has been a long and slow process, influenced by the external environment.

Never more than today, it is necessary to question the potential of the EIB, and RDBs more broadly, in the international scene. The EIB's performance is increasingly subject to criticism and its traditional lack of transparency has been put into question. Society demands the EIB to reconsider its role and adapt to the new challenges, for which a comprehensive study of its performance is necessary. Such challenge requires a global perspective, a mission, and most of all, an understanding of the role played by the EIB in the past but also of what role will that be in the future.

This study attempts to analyse how the EIB evolved to accommodate the several enlargements and the arising EU challenges and how the end of communism in Central and Eastern Europe resulted in the establishment of a new institution, the European Bank for Reconstruction and Development (EBRD), which would supplement the EIB. The European experience, in fact, served as an example of integration for the establishment of other RDBs: the world needs now to learn from this experience.

1.7 Outline

In this dissertation we report from a series of empirical essays that analyse the performance of a fundamental European institution like the EIB. All the chapters investigate EIB lending practices as opposed to the public discourse. Therefore, the framework of RDBs and IFIs, more generally, provides us with the theoretical foundations to test our hypothesis.

In chapter 2, we review the historical background of the EIB and the debates linked to its origins. The chapter seeks to explain the logic leading to the creation of the institution. It also attempts to reflect how the discussions in the formation of the EIB influenced its future development. Hence, this chapter sets the scene for the following empirical essays. It provides the foundations to understand the logic guiding the first years of the EIB and its future developments, reflecting how throughout the period 1957-2015 the EIB augmented its role both as a lender and as a borrower, while its contribution as an economic and political instrument of the EU grew in importance. In fact, the chapter places us in the perspective of understanding the tensions and challenges faced by the institution.

Chapters 3 and 4 look at the EIB lending practice in more detail. In particular, chapter 3 provides a first comprehensive qualitative and quantitative analysis of EIB loans from its origins to the end of the Cold War. To do so, lending patterns have been reconstructed drawing on extensive archival work. Results show that the EIB was the first IFI to place integration and development above the alleviation of capital constraints. Instead, chapter 4 focuses on the years 1991 to 2015. The chapter also provides combined qualitative and quantitative analysis of EIB lending, exploring EIB performance under an adapted framework for the comparative study of lending International Organizations (IOs). Hence, building on previous research it contributes to the emerging literature on comparative policy analysis and provides the guidelines needed to analyse and compare highly criticized lending IOs like the EIB. The chapter argues the EIB shows signs of bad performance: EIB lending does not fulfil the institution’s goals as appeared in the Statutes. The chapter concludes by stressing the progressive mechanization of EIB loans at the expense of securing the institution’s mission.

Building on chapters 3 and 4, chapter 5 investigates how the transformation of the European institutional financial landscape with the establishment of the EBRD in 1991, after the fall of the Berlin Wall, affected the EIB. The chapter aims to analyse EBRD relationship with the older EIB, created in 1957. Though the EBRD was set up with a view to supplement the EIB, analysis of EBRD and EIB loans to those countries borrowing from both institutions (during the period 1991 to 2015) shows that in practice the EBRD gradually complemented the EIB in the form of synergy. Classifying countries as EU Member, EU candidate Member, other European or non-European, the chapter finds that recipient countries progressively get lending either from the EIB or the EBRD in a mutual strategy where both institutions reinforce each other enhancing the synergy of their actions, as opposed to the intended supplementarity for which the EBRD was set (where EBRD loans would fill the gaps of EIB loans). We see that the resulting synergy, despite unintended, brought institutional coherence to the new setting created with the establishment of the EBRD and mutually reinforced both EIB and EBRD actions.

Finally, chapter 6 discusses the practical and theoretical implications in the light of the empirical findings from previous chapters.

2 THE ORIGINS OF THE EUROPEAN INVESTMENT BANK

This chapter is a version of Clifton, Díaz-Fuentes and Gómez (2017a).

2.1 Introduction

International Financial Institutions (IFIs) have received significant attention in the international scientific and political sphere; however, the bulk of research and publications has focused on the IFIs that sustained the second phase of globalization[4] after the Bretton Woods agreements from 1944: World Band and International Monetary Fund (IMF)[5]. In contrast, very few researchers have paid attention to the European Investment Bank (EIB) despite being the largest IFI since 1991[6], in the third globalization phase. In practice, a good share of the literature about the EIB has been promoted or published by the Bank itself, with few independent publications. It can be asserted that the EIB is one of the few IFIs that, despite the capacity to impact the global economic and political scene, has barely been studied. This is shocking for the fact that the EIB has always been more than an IFI for reconstruction and development. From the beginning, it was a key instrument in the most important process of international integration that has occurred from the post-war period onwards in three ways: promoting economic development through investment and cohesion mechanisms, acting as a financial intermediary and promoting the European integration project.

The main studies relative to the EIB can be classified in four groups. In the first place, those that, as we mentioned, have been promoted by the institution itself, as it is the case of the work published by Bussière *et al*. (2008) about the first 50 years of the Bank, and which places the emphasis on the benefits of the EIB in the European integration. Second, the studies describing the global functioning of the Bank, so as its performance in sectors or programmes encouraged by its financing policies. Within this line of research, one of the first studies dates from 1969, when Joseph Licari (1969) analysed the institution and the conditions under which it had been created. This was followed by contributions about the role of the EIB in the European integration (Käser, 1984) and the distribution of its

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[4] First globalization phase: 1870-1914, second globalization phase: 1950-1980, third globalization phase: from 1980 onwards (World Bank, 2002a).

[5] See Alacevich (2008); Barro and Lee (2002); Bird and Rowlands (2001); Birdsall (2000); Dreher *et al*. (2009); Feldstein (1998); Kersting and Kilby (2016); Knight and Santaella (1997); Clifton *et al*. (2014a).

[6] Year in which the EIB overtook the World Bank in loans volume (EIB Annual Report, 1991).

loans (Lewenhak, 1982). Until the 90s scholars do not pay too much attention to the EIB funding of projects. A renewed interest arises then, with Honohan (1995) and Pinder *et al*. (1995) works. Recently, there has been an upsurge in the criticisms on the performance of several IFIs, including the EIB, which has revived the analysis of the Bank in such questions as the disagreements between countries during its founding negotiations (Coppolaro, 2009), the characteristics and operative methods of the Bank (Fernández Álvarez, 2012), or the infrastructure financing (Clifton *et al.*, 2014b). Third, part of the literature about the Bank examines its role in the promotion of economic development in the non-European countries, to which the EIB addresses a small percentage of its operations (less than 12% of the loans total volume) (Griffith-Jones and Tyson, 2012, 2013; Langan, 2014). Finally, a fourth group of studies has emerged due to the current debate instigated by the current crisis, which considers the EIB as a potential instrument to face the European economic and financial crisis and highlights the potential catalysing role of the EIB for the recovery (Robinson, 2009; Kollatz-Ahnen, 2013). One misses, though, a study of the long term international funding of the EIB that integrates and complements the mentioned contributions. In this sense, this chapter attempts to provide an historical perspective of the Bank, the 'EU's neglected institution' (Robinson, 2009), in the European integration and the globalization process.

With this study, we aim to examine in an objective way the performance of the EIB in the European integration since its creation to the present. To anticipate our results, we find that the EIB ceased to be an IFI for the funding of integration and development projects in the least developed members to become, since the end of the Cold War, a programmatic instrument supporting the distribution of loans according to each country subscribed capital and its weight in the European Economic Community-European Union (EEC-EU)[7] economy.

The rest of the chapter is divided into six sections. The next section briefly describes the main database employed, including a summary-table of each country's capital subscribed in the EIB and the loans each country received in every corresponding period. The third

[7] We use the term EEC-EU to unify the different names and embrace all periods: EEC (1957-1993), European Community (1993-2009), EU (2009-2018).

section sets out the context and history of the Bank's establishment, in the second post war, coinciding with the second globalization phase (in which the main IFIs emerged setting the bases for the creation of a new global economic system), and enquires how the initial arrangements influenced the way the EIB operates, including its lending policy, and the EEC-EU policy. The fourth section examines the origins of the Bank and the reasons for its creation. To do that, the section takes a closer look at the discussions that took place during negotiations, considering the agreements reached. The fifth section provides some insights into the evolution of the Bank and advances the analysis performed in chapters 3 and 4 on the loans granted to EEC-EU member countries. EIB loans to non-member countries or countries outside the EU are out of the scope of this dissertation. Finally, the sixth and final section takes the example of Spain, one of the largest recipients of loans from the EIB, to highlight the importance of this funding in the promotion of both public and private projects.

2.2 Database

In this dissertation, we introduce an originally compiled database (Clifton *et al.*, 2017c) of EIB lending, covering more than 180 countries over the period 1958 – 2012. This database, constructed through the gathering of information extracted from the EIB Annual Reports and documents available at the Historical Archives of the European Union (HAEU), will contribute to a deeper understanding of EIB lending. The database, available at www.historyglobalfinance.unican.es, recognizes three different categories of borrowing countries. Following the classification made by the EIB itself in the Annual Reports, we have EEC-EU Member countries, candidate countries and third countries. While the first group embraces 27 Member Countries, the second considers those candidate countries interested in joining the EU (some in fact transformed in Members) and the third those countries that for geographical, historical or strategic reasons are not expected to join the Community but do receive loans. Data includes detailed information, classified by sectors and subsectors, of all the loans made by the EIB at a regional level, so as the borrowing operations (with its respective interest rates) made by the EIB from

1961[8] to 2012, exchange rates and subscribed capital. Hence, the database provides a good picture of the magnitude and lending changes and it will allow scholars to deepen on the knowledge of the EIB.

Because of the changes in accounting criteria and the complexity involving sector classification, the database remains a work in progress. The coding rules employed may not always accurately capture the extent to which the EIB influences credit allocation. We have relied heavily on official documentation provided by the Bank itself.

2.2.1 Construction of the database

The database has panel structure and covers more than 180 countries from 1958 to 2012. The data can be useful for researchers and analysts willing to deepen into the knowledge of the EIB. It provides a useful tool to analyse and test the EIB's performance.

The main source of data are the EIB Annual Reports taken from the HAEU at the European University Institute (EUI) of Florence[9] (1958-2004) and the more recent EIB publications website[10] (2004-2012). The individual projects signed (available in the HAEU) were also consulted when the information from the Reports was not enough.

In the database, we distinguish between three different categories of borrowing countries. These categories are taken following the classification made by the EIB itself in the Annual Reports, which discerns between its EEC-EU Members, candidate countries and third countries. First, EEC-EU Members are those countries that are effective members of the EEC-EU in the year considered. In principle, though they are the smallest group, these are the main beneficiaries of EIB lending, reaching 27 Member Countries in 2012.

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[8] In 1961 takes place the first bond issue.

[9] Reports were made available online in 2011 thanks to the Framework Partnership Agreement signed in Florence to promote consultation of the EU archives.

[10] www.eib.org

This, indeed, is the group with decision-making power over EIB policy, since these are also the countries subscribing capital for the operation of the Bank. Second, candidate countries embrace those (non-Member) countries with an interest (shared by the EEC-EU) to become Members. They constitute, therefore, the group of potential countries (31 in total) to enlarge the EEC-EU, which means that actual Members (except for the founder Members) were once in the group of candidate countries[11]. Finally, third countries embrace those that are not searching to join the EEC-EU but nonetheless get lending from the Bank (more than 140 countries and 15 regions)[12]. Initially all those ex colonies with whom the EEC-EU had a high interest to maintain relationships mostly compounded this group; but gradually its scope extended to include other targets.

The database presents detailed information on the loans given to the three groups of countries. Specifically, the year, project description, enterprise in charge of the project, country, country code, region, sector, subsector, amount (in nominal terms)[13] and intermediaries (if present) are included for all three groups.

- *Year* - The year the project has been approved.
- *Project description* - This provides a brief description of the project to be implemented with the Bank´s lending (whose resources are raised by calling on the capital markets and its own resources).

[11] Out of the 31 countries that make our list, 18 are EU Members by 2012 and 13 are still candidate countries.

[12] It is important to note that in some cases geographical borders have changed, while in others it is the name of the country that changes but not the geographical area where the loan is addressed (for example Serbia and Serbia and Montenegro; or Samoa and Western Samoa). Caution therefore is required when considering lending to this group of countries.

[13] The EIB uses the unit of account as defined in Article 4 of its Statute. The value of this unit of account is 0.88867088 grammes of fine gold. However, one should be aware that activities have been based on different conversion rates: official parities between 1958 and 1971, central rates in 1972, effective conversion rates adopted for statistical purposes in 1973, and the conversion rates defined from 1974. Moreover, from 1981 the activities of the Bank have been recorded in ECUs and from 1998 in Euros.

- *Enterprise* - The institutional unit producing goods and services. The term enterprise may refer to a corporation, a quasi-corporation, an NPI (non-profit institution) or an unincorporated enterprise.
- *Country* - The nation state where the project is being implemented.
- *Region* - Tract of land with more or less definitely marked boundaries, which often serves as an administrative unit below the level of the country.
- *Sector* - groupings of economic activities based on the types of goods or services produced. Details on the breakdown of sectors are provided in table 9.2 (appendix 9.1), while the detailed activities included in each sector are provided in table 9.1 (appendix 9.1).
- *Amount* - The amount (in millions) committed to the project from the EIB, in units of account from 1958 to 1980, ECUs from 1981 to 1997 and Euros from 1998 onwards. The percentage covered by the grant varies from project to project.
- *Intermediaries* - intermediaries refer to the case where the loan or guarantee is to be carried out through intermediary of the Member State, the national institution overseeing the correct implementation of the project and the management of the funds.

Further, whether the loan is part of the ordinary operations[14] or the special operations[15] is also specified in the case of loans to candidate and third countries.

Exchange rates as reflected in the Annual Reports (EIB Annual Report, 1958-2012) are also provided in the database, so as information on EIB borrowings and subscribed capital. Exchange rates exclusively refer to those appeared in the Annual Reports each year. Since the list expands through time, some rates are only provided for the more recent years. In the case of EIB borrowings, information on the year, place of issue, subscription

[14] Ordinary Operations: those carried out at the Bank´s own risk.

[15] Special Operations: those carried out from funds of the Member Countries or of the Community (EEC-EU).

currency, nature of the loan, amount (nominal terms), term of the loan and nominal rate are provided from 1961 (when the first bond issue takes place)[16] to 2012. Finally, the subscribed capital with the amount paid, the guarantee capital, statutory reserve, supplementary reserves (if any), special supplementary reserves, provision for risks on loans and guarantees, and total liabilities are also provided in the database.

The database can be downloaded in Excel format from www.historyglobalfinance.unican.es[17]. As compared to the official EIB database, this new database provides a more detailed description of EIB loans, which not only are classified by country but also by region, providing a much richer picture of EIB lending.

2.2.2 Descriptive statistics

The database covers a diverse range of countries, both in terms of size and levels of economic development. Of the more than 180 countries in the dataset, 40 belong to the European region (27 EU Members and 13 candidate countries by 2012) and more than 140 to Africa, Asia, Caribbean and South America.

The database covers a period of 55 years, from 1958 to 2012. Summary statistics for EIB lending to EEC-EU Members, candidate countries and third countries are in table 9.3 (appendix 9.1). It seems clear that the bulk of lending is addressed to EEC-EU Members and their loans are, on average, larger than those addressed to the other two groups of countries. Table 9.4 (appendix 9.1) reports EIB lending to EEC-EU Members, candidate countries and third countries by year, evidencing the much larger quantities addressed to the group of EEC-EU Members. Not surprisingly, the countries subscribing capital are the ones benefiting the most from EIB funding. Nevertheless, all three groups experience an upward trend in the lending received.

[16] 'In 1961, the EIB launched both its first bond issue and floated its first public loan' (Lewenhak, 1982).

[17] For free access please write to the following address: analara.gomez@unican.es

To examine the more specific case of EIB Members we plot the loans by country and year. Figure 9.1 (appendix 9.1) shows the distribution of lending in the 27 countries, which highlights the relatively larger weight of loans addressed to France, Germany, Italy, Spain or United Kingdom. Interestingly, as reflected in table 2.1, particularly from the 90s loans skew towards countries subscribing the largest shares of capital.

Table 2.1. Subscribed capital versus capital received in form of loans, by statutory changes and enlargements

	EIB Statute 1957 - EU6				*EIB Statute 1973 - EU9*				*EIB Statute 1981 - EU10*				*EIB Statute 1986 - EU12*			
	Subscr. capital		Loans		Subscr. capital		Loans		Subscr. capital		Loans		Subscr. capital		Loans	
Members	u.a.	%	1958-1972	%	u.a.	%	1973-1980	%	u.a.	%	1981-1985	%	ECU	%	1986-1990	%
Belgium	86.5	8.65	362	2.6	118.5	5.9	1148	2.3	414.75	5.8	732	1.6	1527	5.3	714	0.8
France	300	30	3047	22.2	450	22.2	7027	13.9	1575	21.9	6724	14.4	5509	19.1	11911	13.2
Germany	300	30	1703	12.4	450	22.2	2304	4.5	1575	21.9	1370	2.9	5509	19.1	5576	6.2
Italy	240	24	7921	57.7	360	17.8	18722	36.9	1260	17.5	21640	46.2	5509	19.1	31498	35
Lux.	2	0.2	54	0.4	3	0.1	-	-	10.5	0.1	25	0.1	39	0.1	56	0.1
Netherlands	71.5	7.15	223	1.6	118.5	5.9	255	0.5	414.75	5.8	94	0.2	1527	5.3	1731	1.9
Denmark	-	-	-	-	60	3.0	1150	2.3	210	2.9	2566	5.5	773	2.7	4026	4.5
Ireland	-	-	-	-	15	0.7	4025	7.9	52.5	0.7	2719	5.8	193	0.7	1837	2
UK	-	-	-	-	450	22.2	13267	26.2	1575	21.9	5709	12.2	5509	19.1	14298	15.9
Greece	-	-	424	3.1	-	-	1046	2.1	112.5	1.6	3220	6.9	414	1.4	1919	2.1
Portugal	-	-	-	-	-	-	1101	2.2	-	-	767	1.6	267	0.9	4977	5.5
Spain	-	-	-	-	-	-	-	-	-	-	928	2.0	2025	7.0	10366	11.5
Austria	-	-	-	-	-	-	527	1.0	-	-	-	-	-	-	197	0.2
Finland	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Sweden	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Cyprus	-	-	-	-	-	-	-	-	-	-	95	0.2	-	-	7	0
Czech Rep.	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Estonia	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Hungary	-	-	-	-	-	-	-	-	-	-	-	-	-	-	222	0.2
Latvia	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Lithuania	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Malta	-	-	-	-	-	-	30	0.1	-	-	-	-	-	-	78	0.1
Poland	-	-	-	-	-	-	-	-	-	-	-	-	-	-	176	0.2
Slovakia	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Slovenia	-	-	-	-	-	-	28	0.1	-	-	90	0.2	-	-	262	0.3
Bulgaria	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Rumania	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Croatia	-	-	-	-	-	-	48	0.1	-	-	117	0.3	-	-	224	0.2
TOTAL	1000	100	13736	100	2025	100	50677	100	7200	100	46796	100	28800	100	90077	100

	EIB Statute 1991 - EU12				*EIB Statute 1995 - EU15*				*EIB Statute 1999 - EU15*				*EIB Statute 2003 - EU15*			
	Subscr.capital		Loans		Subscr. capital		Loans		Subscr. capital		Loans		Subscr. capital		Loans	
Members	ECU	%	1991-1994	%	ECU	%	1995-1998	%	Euro	%	1999-2002	%	Euro	%	2003	%
Belgium	3054	5.3	2491	2.2	3054	4.9	4918	3.6	4925	4.9	1692	1.2	7387	4.9	648	1.4
France	11017	19.1	14653	12.8	11017	17.8	16082	11.7	17766	17.8	16791	11.7	26650	17.8	4762	10.2
Germany	11017	19.1	12486	10.9	11017	17.8	21144	15.4	17766	17.8	25888	18	26650	17.8	7735	16.6
Italy	11017	19.1	24316	21.3	11017	17.8	23102	16.8	17766	17.8	22515	15.7	26650	17.8	7099	15.2
Lux.	77	0.1	138	0.1	77	0.1	402	0.3	125	0.1	428	0.3	187	0.1	221	0.5
Netherlands	3054	5.3	1826	1.6	3054	4.9	2884	2.1	4925	4.9	1969	1.4	7387	4.9	627	1.3
Denmark	1546	2.7	4957	4.3	1546	2.5	4514	3.3	2494	2.5	4385	3.1	3740	2.5	1078	2.3
Ireland	387	0.7	2056	1.8	387	0.6	1473	1.1	623	0.6	1439	1	935	0.6	752	1.6
UK	11017	19.1	15021	13.1	11017	17.8	16982	12.3	17766	17.8	13292	9.3	26650	17.8	3901	8.4
Greece	828	1.4	2999	2.6	828	1.3	4041	2.9	1336	1.3	6351	4.4	2004	1.3	1429	3.1
Portugal	534	0.9	8164	7.1	534	0.9	8029	5.8	861	0.9	7564	5.3	1291	0.9	1975	4.2
Spain	4050	7.0	20842	18.2	4050	6.5	16782	12.2	6531	6.5	19568	13.6	9796	6.5	7543	16.2
Austria	-	-	255	0.2	1516	2.4	2448	1.8	2445	2.4	3342	2.3	3667	2.4	1081	2.3
Finland	-	-	93	0.1	871	1.4	2061	1.5	1405	1.4	2659	1.9	2107	1.4	937	2
Sweden	-	-	24	0	2026	3.3	3984	2.9	3267	3.3	3003	2.1	4901	3.3	1069	2.3
Cyprus	-	-	80	0.1	-	-	287	0.2	-	-	530	0.4	-	-	282	0.6
Czech Rep.	-	-	767	0.7	-	-	1985	1.4	-	-	2054	1.4	-	-	1461	3.1
Estonia	-	-	73	0.1	-	-	62	0.0	-	-	174	0.1	-	-	36	0.1
Hungary	-	-	698	0.6	-	-	1099	0.8	-	-	1473	1	-	-	890	1.9
Latvia	-	-	8	0	-	-	128	0.1	-	-	266	0.2	-	-	48	0.1
Lithuania	-	-	16	0	-	-	210	0.2	-	-	172	0.1	-	-	120	0.3
Malta	-	-	25	0	-	-	29	0	-	-	25	0	-	-	-	-
Poland	-	-	1288	1.1	-	-	2295	1.7	-	-	3669	2.6	-	-	1615	3.5
Slovakia	-	-	283	0.2	-	-	732	0.5	-	-	757	0.5	-	-	251	0.5
Slovenia	-	-	139	0.1	-	-	352	0.3	-	-	973	0.7	-	-	161	0.3
Bulgaria	-	-	390	0.3	-	-	485	0.4	-	-	548	0.4	-	-	72	0.2
Rumania	-	-	338	0.3	-	-	1217	0.9	-	-	1829	1.3	-	-	574	1.2
Croatia	-	-	-	-	-	-	-	-	-	-	278	0.2	-	-	204	0.4
TOTAL	57600	100	114426	100	62013	100	137729	100	100000	100	143634	100	150000	100	46571	100

	EIB Statute 2004 - EU25				*EIB Statute 2007 - EU27*				*EIB Statute 2013 - EU28*			
	Subscr. Capital		Loans		Subscr. Capital		Loans		Subscr. Capital		Loans	
Members	Euro	%	2004-2006	%	Euro	%	2007-2012	%	Euro	%	2013-2015	%
Belgium	7387	4.5	2557	1.7	7387	4.5	10207	2.5	10865	4.5	5664	2.7
France	26650	16.3	16013	10.4	26650	16.2	36030	9	39195	16.1	24949	11.9
Germany	26650	16.3	25358	16.5	26650	16.2	51401	12.8	39195	16.1	22902	10.9
Italy	26650	16.3	21966	14.3	26650	16.2	58294	14.5	39195	16.1	33246	15.8
Lux.	187	0.1	453	0.3	187	0.1	1340	0.3	275	0.1	392	0.2
Netherlands	7387	4.5	2649	1.7	7387	4.5	8996	2.2	10865	4.5	5745	2.7
Denmark	3740	2.3	1645	1.1	3740	2.3	2204	0.5	5501	2.3	2193	1
Ireland	935	0.6	1902	1.2	935	0.6	3771	0.9	1375	0.6	2468	1.2
UK	26650	16.3	13547	8.8	26650	16.2	32956	8.2	39195	16.1	21304	10.1
Greece	2004	1.2	4335	2.8	2004	1.2	10253	2.5	2947	1.2	4429	2.1
Portugal	1291	0.8	5834	3.8	1291	0.8	17754	4.4	1899	0.8	3819	1.8
Spain	15990	9.8	27439	17.8	15990	9.7	64920	16.1	23517	9.7	35800	17
Austria	3667	2.2	4066	2.6	3667	2.2	10917	2.7	5393	2.2	5971	2.8
Finland	2107	1.3	2899	1.9	2107	1.3	6672	1.7	3099	1.3	3648	1.7
Sweden	4901	3	2360	1.5	4901	3	9300	2.3	7208	3	4750	2.3
Cyprus	183	0.1	623	0.4	183	0.1	1650	0.4	270	0.1	765	0.4
Czech Rep.	1259	0.8	3427	2.2	1259	0.8	10466	2.6	1851	0.8	2441	1.2
Estonia	118	0.1	152	0.1	118	0.1	1628	0.4	173	0.1	470	0.2
Hungary	1191	0.7	4298	2.8	1191	0.7	11522	2.9	1751	0.7	2968	1.4
Latvia	152	0.1	360	0.2	152	0.1	1826	0.5	224	0.1	349	0.2
Lithuania	250	0.2	120	0.1	250	0.2	1667	0.4	367	0.2	815	0.4
Malta	70	0	16	0	70	0	414	0.1	103	0	25	0
Poland	3411	2.1	7334	4.8	3411	2.1	30657	7.6	5017	2.1	17439	8.3
Slovakia	428	0.3	775	0.5	428	0.3	3185	0.8	630	0.3	2221	1.1
Slovenia	398	0.2	1093	0.7	398	0.2	3323	0.8	585	0.2	1386	0.7
Bulgaria	-	-	162	0.1	291	0.2	2777	0.7	428	0.2	1029	0.5
Rumania	-	-	2108	1.4	864	0.5	5547	1.4	1270	0.5	1434	0.7
Croatia	-	-	656	0.4	-	-	2477	0,6	891	0.4	1629	0.8
TOTAL	163654	100	154145	100	164808	100	402154	100	243284	100	210252	100

Notes: Subscribed capital in millions (real terms) and loans in millions 2005 US$. u.a.: units of account, Lux: Luxembourg.
Source: EIB Statutes (EIB Statute 1957, 1972, 1981, 1986, 1991, 1995, 1999, 2003, 2004, 2007, 2013), EIB Annual Reports (EIB Annual Report, 1958-2015).

2.3 Historical context

To understand the origins and foundations of the EIB and to what extent social and market concerns were important, one should understand first the context on which the European Economic Community was established and to what extent the particular social, economic and political context permanently influenced its constitution and evolution.

2.3.1 The Second World War and Bretton Woods

The Bank emerged from a particular international economic and political context preceded by the creation of the main IFIs after the Second post war. In this light, the first attempts to cooperate (economically and financially) and put an end to the conflict started in 1944 at the United Nations Monetary and Financial conference held in Bretton Woods. The objective was to establish a new international economic and financial system that would contribute through IFIs to the European reconstruction and recovery and to the world economic development, avoiding in this way the problems generated by the lack of cooperation after the first post-world war (Temin, 1994). Forty-four countries took part in the Bretton Woods negotiations, included the Soviet Union (as well as the United States, United Kingdom and China), but the main foundational visions emerged from two proposals: on the one hand, the British from John Maynard Keynes[18] and, on the other, one from the U.S. Treasury Secretary, Harry Dexter White (Ocampo, 2017). Beyond the different perspectives, the main contributions included the creation of two new IFIs as part of four pillars unified under the United Nations. On the one hand, an International Bank for Reconstruction and Development (first and main institution of the World Bank) to contribute to the European reconstruction and the world economic development

[18] Keynes, who’s General Theory (1936) was created during the Great Depression (1929-1932), defended Government intervention. After the War, he saw his own ideas consolidated over those of Hayek (member of the Chicago School) who was in favour of free-market capitalism and against socialism and central planning, the common thought at his time. As Keynesian policies were broadly accepted, Hayek would not see its own ideas implemented until the election of Margaret Thatcher in 1979 in the UK.

through lending facilities. Second, an International Monetary Fund (IMF) to maintain stability and end with the detrimental 'beggar thy neighbour' policies through fixed rates (with the US dollar as reserve currency) in order to promote monetary cooperation and trade (Stiglitz, 1998). Third, an International Trade Organization (ITO) to set international trade regulations, which was never ratified but constituted the seeds of the General Agreement on Tariffs and Trade (GATT) signed in 1948 and replaced in 1995 by the World Trade Organization (WTO). Fourth, and last, other United Nations specialized agencies meant to promote global cooperation in areas of social welfare such as food and agriculture (FAO), labour relations (ILO), education and science (UNESCO), health (WHO), maritime (IMO) and air transport (ICAO), or telecommunications (ITU), among others[19] (Haq *et al*., 1995).

Indeed, nowadays those four pillars continue at the core of the present system under the umbrella of the United Nations (IMF, World Bank Group, WTO and United Nations agencies, respectively) (United Nations, 2012). The main two IFIs (World Bank and IMF) were the result of Keynes and White ideas, even if their proposals were far different from the final scheme. Nevertheless, since their creation to the end of the 80s, the Soviet Union (USSR) saw these IFIs as an instrument to the capitalist hegemony and a menace to its planned economy. For this reason, the Soviet Union rejected to join them, establishing somehow the rupture between economies and countries, namely, between West and East.

Because of this confrontation, since the post-war the Soviet Union became a new challenge for the United States. The Yalta conference resulted in the reorganization of the countries liberated from Nazism and, by the end of World War II, the division moved from 'the Axis versus the Allies' to 'Capitalism versus Communism' (Harbutt, 2010). From the US view, it was perceived that European countries in economic ruin were highly vulnerable to the spread of communism, which was undesirable for political and

[19] FAO: Food and Agriculture Organization of the United Nations; ILO: International Labour Organization; UNESCO: United Nations Educational, Scientific and Cultural Organization; WHO: World Health Organization; IMO: International Maritime Organization; ICAO: International Civil Aviation Organization; ITU: International Telecommunication Union.

economic reasons: it not only choked off democracy, but it would also replace markets with closed, planned economies (LaFeber, 1999).

As it has been noted, originally the IBRD was created to aid rebuilding Europe after World War II. However, it was soon seen that aid provided had only a marginal effect and it would not be able to face the European monetary needs. And what´s even more significant, Truman´s government realized the importance of exports for the American economy and the opportunity to 'put Europe in a position to fulfil American plans' (Eichengreen, 1995, p. 71). The United States then, decided to implement the Marshall Plan (called European Recovery Program or ERP) as a short term bilateral aid measure from the US to Western Europe (1948 – 1951) and the IBRD was thus forced to switch 'to its second mission: promoting the development of poorer member countries' (Alacevich, 2008, p. 2). Therefore, the Marshall Plan administered dollar aid to Western European countries [20] (the Soviet Union rejected it) through a new institution, the Organization for European Economic Cooperation (OEEC), established in 1948 for this purpose (Rose, 2005). The American aid for the reconstruction of Western Europe was administered through OEEC technical committees such as food and agriculture, coal, energy, raw materials, transport, international trade, balance of payments and intra-European payment clearing. These last financial actions, coordinated by the OEEC, led to the creation of the European Payments Union (EPU)[21] in 1950, whose core objectives were to facilitate the convertibility of the European currencies, eliminate restrictions to capital movements and do without bilateral trade practices. The EPU encouraged the creation of a compensating fund that allowed balancing the intra-European current account deficits. In less than a decade, the EPU reached its goals and by 1958 all European currencies were declared convertible to dollars, providing the European financial markets of relative normality.

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[20] The OEEC evaluated and administered the American aid to seventeen European countries (Austria, Belgium, Denmark, France, Greece, Ireland, Iceland, Italy, Luxembourg, the Netherlands, Norway, Portugal, the United Kingdom, Sweden, Switzerland, Turkey and Western Germany).

[21] The OEEC created the EPU to replace bilateral with multilateral trade, favouring trade expansion.

Nonetheless, the Soviet Union rejected the American aid plan and the cooperation through the OEEC[22] (Rose, 2005). The Marshall Plan entailed a big advertising campaign in the US (to persuade Americans to finance it) and in Europe, where it was received with both happiness and mistrust from Americans real intentions (Sorel and Padoan, 2008). However, the ERP was an economic success in that it helped Western Europe to recover relatively quickly (Maddison, 2007) by providing funds addressed towards the establishment of capitalist economies (De Long and Eichengreen, 1991). It seems that the coordination and peer review of the economic policies implemented by Members, and coordinated by the OEEC, helped to consolidate a market economy across Europe (Clifton and Díaz-Fuentes, 2011b). In consequence, western nations turned to a common market-driven philosophy with a common economic (but also political) goal, to stop the spread of communism, which led to the signature of the North Atlantic Treaty Organization (NATO) in 1949.

As a result of the economic and political confrontation, two ideological blocs arose: the US and its NATO allies, on the one hand, and Communist countries (forming the 'Treaty on friendship, cooperation and mutual assistance', usually known as Warsaw Pact[23]), led by the Soviet Union, which was quickly joined by China in 1949, on the other hand.

In this context, the explosion of the Korean War[24] in 1950 intensified the fear of communism and prompted the US to send military aid to Europe (linked to the German rearmament) in order to fight against a possible attack (Stueck, 1997). In this context and fearing the rearmament of Germany, Churchill called for the creation of a European army (Salmon and Shepherd, 2003). Though the creation of a European Defense Community failed, it prompted the interest in a European union that would guarantee peace and

[22] The OEEC (1948) became the Organization for Economic Cooperation and Development (OECD) in 1961 (Clifton and Díaz-Fuentes, 2011a, 2011b).

[23] Countries that in 1955 signed the Warsaw Pact: Soviet Union, German Democratic Republic, Albania, Bulgaria, Czechoslovakia, Hungary, Poland and Romania.

[24] The Second World War led to the division of Korea into North Korea, occupied by the Soviet Union, and South Korea, occupied by the United States.

capitalism, and hence ‘cleared the way for further negotiations on European economic integration’ (Dedman, 2010, p.81).

2.3.2 Origins of the European Communities: ECSC - EURATOM

The first precedent of the European economic integration was the European Coal and Steel Community (ECSC), the supranational institution administering those sectors, promoted by Robert Schuman and Jean Monnet and created through the Treaty of Paris in 1951.

The Monnet Plan had among its objectives to adapt technologically the French economy, getting priority access to the Ruhr´s resources of coal and coke (Berger and Ritschl, 1995). In this way, Germany and France would jointly manage the access and production of strategic minerals and energy raw materials. Reconciliation came under the Schuman Plan, which created the ECSC in 1951, calling for cooperation and allowing France to access the Ruhr´s resources. ‘The ECSC created a common market for coal, steel, coke, iron ore and scrap between six countries: France, the Federal Republic of Germany, Italy, Belgium, the Netherlands, and Luxembourg’ (Best *et al*., 2008, p. 2). This was perceived as a win-win situation: Germany would be respected and accepted into the club, France (and the other countries) could control access to the raw materials. Paradoxically, this economic union would guarantee a political objective: to consolidate a European market and to create a supranational government that would regulate the economic relations among its member countries.

It is important to note that the ECSC marked a watershed. Its creation entailed ‘the need for a new and effective method going beyond intergovernmental paralysis’ (Devuyst, 1999, p. 109): its government structure was inspired by federalism, whereby cooperation and agreement could be obtained under a ‘High Authority’. The US actively supported the creation of a European market as a means of guaranteeing peace, avoiding communism, whilst also ensuring a large market for exports. The idea was to transform Europe into some kind of United States of Europe, promoting economic and political integration, that is, promoting ‘the increase of actual or potential competition, and the benefits flowing from this' (Pelkmans, 2006, p.12), and keeping markets in Europe open to their industries. Thus, the US encouraged the six to create the European Economic Community (EEC) against UK´s willingness, who was afraid of a federalist Europe, particularly, of a Franco-German 'super state' (Dedman, 2010, p. 59, 82).

Finally, the six EEC founding members[25], pushed by Spaak, a convinced federalist (President of the inter-governmental committee establishing the EEC), and the US, ratified the Treaty of Rome (1957) establishing thereby the EEC. Essentially, it would be a common market in manufactured goods with a Common Agricultural Policy (CAP) that would be the pillar of the European Communities along with the ECSC and Euratom, a supranational authority governing the exchanges of nuclear materials and energy, providing equal access to stocks of uranium (HAEC for Coal and Steel, 1957).

ECSC, EEC and Euratom, with specific 'tasks' and supranational authorities, were the pillars of the so called 'European Communities' at the time, which would integrate the re-named European Community (EC) since 1993.

2.4 Origins of the European Investment Bank

The establishment of the EEC entailed the agreement among the six pioneer countries upon different economic issues including agriculture, energy, migration and common tariffs. Negotiations were not easy because of the different interests revealing the huge problem of regional disparities among and within members. Contemporary economists as Nurkse (1953) or Myrdal (1957) had argued that, without measures to avoid it, the process of economic integration would cause richer nations to become even richer at the expense of the poorer ones. This could embed into Europe a poverty trap. It was agreed that, in order that the Common Market worked effectively, means had to be taken to avoid making the gap bigger between countries. In practice, policies to foster cohesion were required, cohesion being understood as the reduction or at least the avoidance of

[25] Belgium, France, Italy, Luxembourg, the Netherlands and the Federal Republic of Germany.

divergence and increasing inequality. This policy was not only morally defensible, it was also practical: without this approach, poorer countries would not be willing to join.

Taking as a benchmark the Italian case, the unification of the country in 1870 had resulted in sharp disparities between the richer north, and the underdeveloped south, with high rates of unemployment. Due to this, within the EEC, Italy supported the free movement of labour and guarantees from the Community in line with the needs of the least developed economic areas. So, when the Treaty of Rome (EEC Treaty, 1957) was signed, Italy influenced on the negotiations to include measures in favour of interregional cohesion. Therefore, the Treaty included an agreement on the setting up of the EIB to facilitate credit to fund investments where there was a lack of resources, typically the most needed areas. It also included the creation of a European Social Fund (ESF), concerned with employment, to support the creation of jobs in underdeveloped regions (Dedman, 2010).

2.4.1 Two competing positions: Fund or Bank?

As a result, the EIB was set up to facilitate European integration through the provision of resources, given the lack of funding and the huge investment needs after the War, and the reduction of economic disparities among regions. The creation of the EIB meant a negotiation and a compromise due to the different interests of the member countries.

Two polar positions were assumed by members: Italy and France on the one hand, Germany and the Benelux countries on the other. The first group, wanting the creation of a Fund in charge of redistributing the resources put at its disposal by the budgets of Member States (HAEU, 1994) to contribute to economic growth and channel aid to the less developed regions. In contrast, the second wanting the creation of a Bank based in economic needs, able to raise money on capital markets to finance profitable projects (HAEU, 1956, Article 19). Therefore, globally, there were two approaches: social versus market-driven, headed by Italy (who wanted the institution to take into account social worries) and Germany (who wanted loans to be driven by rationality and economic utility) respectively (HAEU, 02/10/1956).

That does not mean those two blocks of countries agreed about everything. Each country had its own interests and positions differed widely concerning different questions. As for the structure, France wanted an institution under their influence, so the Board of Directors would represent Members interests, but the rest of States (specially Germany and the Netherlands) wanted an institution similar to the IBRD, largely independent (to favour efficient credit and, thus, borrowing at low rates on the capital markets) (HAEU, 27/11/1956). Indeed, under this light, Germany and the Netherlands argued the convenience of naming the institution ‘Bank’ instead of ‘Fund’, much more appropriate to reflect its independence in international markets (HAEU, 15/11/1956). On the other hand, Italy did not want votes to be dependent on capital subscribed (HAEU, 15/11/1956) but, not having managed this objective, it would end up changing the amount of capital subscribed to equal France or Germany´s power. Also small details were controversial, such as the number of years Directors were appointed for. France saying two and all the others seven (HAEU, 15/11/1956), in the end they had to reach a half-way point, set at five years (EIB Statute, 1957, Article 11). Next, we will see what type of institution was created with the agreements finally reached.

2.4.2 Statutory agreement

Taking the Statute of the IBRD set in 1944 as a source of inspiration and only foundational reference (HAEU, 27/11/1956, Annex B, Article 63), there was an agreement to create an IFI with a dual nature: on the one hand, the bank would be an official institution of the EEC, whose loans and investment policy would be oriented by its member countries; on the other, an independent bank, able to raise money on the capital markets at the best possible conditions (EIB Statute, 1957, Articles 11, 13).

Overall, to reach an agreement, concessions were made in different directions. The Bank would function under market principles, granting loans solely where ‘interest and amortization’ were ‘guaranteed’ (EIB Statute, 1957, Article 20). Borrowing would be achieved through international capital markets, but there would not be explicit mention of the preference for resources to be given to less developed regions (HAEU, 26/09/1956) as Italy had requested. However, Italy did succeed in attaching a Protocol whereby there was a specific agreement to help its country´s economy (EIB Statute, 1957). For its part, Germany accepted countries would exert some indirect control on the Bank through the creation of a Board of Governors elected by the Finance Ministers of the Member States: the bank would therefore be subject to national political interests although in a subtle way, so it would not damage the autonomous market's perception and it could still borrow at a low rate on global capital markets (HAEU, 27/11/1956, Annex B, Article 4). Moreover, thanks to French and Belgian pressure, former colonies could also be recipients of bank loans (Bussière *et al*., 2008).

2.4.3 Organizational structure

Like any other international organization constituted as a result of striking a compromise between diverse member states, the bank exhibits some inconsistencies around its fundamental characteristics. For one thing, it is to be 'independent' from countries interests: despite the fact the constitutive document praises the benefits of such independence, the bank is actually ruled by representatives selected from the Member States themselves.

In its origins, this Board of Governors would take decisions by simple majority unless it was specified otherwise, where a qualified majority was necessary (EIB Statute, 1957, Article 10). At present, the 28 members (usually the Ministers of Finance from each State) adopt decisions by double majority: majority of their members and majority of subscribed capital. The Board of Governors is in charge of the policies carried out by the Bank, and also of setting up the Board of Directors (originally, 12 directors, each assisted by an alternate; at present, 29 directors and 19 alternates) and the Management Committee (originally, 1 chairman and 2 vice-chairman; at present, 1 chairman and 8 vice-chairman). Just like at its inception, the Board of Directors is responsible for granting loans and guarantees and it takes decisions by simple majority (unless specified), while the Management Committee is responsible for management affairs and loans decisions, taking decisions by simple majority (with few exceptions) (EIB Statute, 1957; EIB, 2015a).

However, power among member States is unevenly distributed. At first, while Germany, France, and Italy appointed three directors each, Benelux countries appointed two in common, and a twelfth one was appointed by the Commission. Such representation was connected to budgetary contribution: Germany and France 30%, Italy 24%, and Benelux 16% (EIB Annual Report, 1958). Indeed, Italy upped the contribution initially expected[26] of it in order to be entitled to three full Director Positions, the same number of Directors as Germany and France (Bussière *et al*., 2008) to equal their power. In fact, capital subscribed by each country has changed with the enlargements to incorporate the new members, but the basic structure of the Bank has remained relatively similar since its origins to the present day.

Table 2.2 Subscribed capital proposal and final agreement in relation to GDP, GDP per capita and population

	Article 5 Protocol 1956	*Article 4 Statute 1957*	*GDP in 1957 (millions 2005 US $)*	*GDP per capita in 1957 (2005 US $)*	*Population in 1957 (millions)*
F.R. Germany	33 %	30 %	659366	12143	54.3
France	33 %	30 %	475394	10471	45.4
Italy	17 %	24 %	414306	8421	49.2
Belgium	-	8.65 %	99559	11038	9.02
The Netherlands	-	7.15 %	152692	13881	11
Luxemburg	-	0.2 %	6473	21577	0.3
(Benelux)	(17%)	(16%)	-	-	-

Notes: subscribed capital: one billion units of account. GDP and population of Germany referred to Western Germany. GDP, GDP per capita and population are rough estimates for 1957 based on Ameco (EC, 2016) and Maddison (2008) data.
Source: HAEU (1956), EIB Statute (1957) and Ameco (EC, 2016) and Maddison (2008) databases.

[26] Originally, it was suggested that France and Germany subscribed 325 million units of account, while Italy and the Benelux countries 175 million each (HAEU, 1956).

2.4.4 Objectives and tasks

When the EIB was established, it was agreed that the main task of the institution would be to work, raising its resources on the world's capital markets, towards the ‘balanced and smooth development of the Common Market’ (EIB Statute, 1957, Article 130).

The objective would be carried out in a non-profit basis (EIB Statute, 1957, Article 130). However, it would build a reserve fund to cover potential losses (so in reality it could make profits) (Honohan, 1995). The Bank would borrow from capital markets at a low rate aiming to obtain an AAA+ rating (Griffith-Jones and Tyson, 2013), and then it would lend at the lower possible rate enabling it ‘to meet its obligations, cover its expenses and to constitute a reserve fund’ (EIB Statute, 1957, Article 19). It had therefore leeway to determine the right size of its own organization, with the stated intention of keeping ‘the size of its staff as small as possible’ (EIB Annual Report, 1958, p. 18), and to enjoy complete freedom of action: auditing would be made by an internal body and the Bank would be allowed to ‘effect any (…) financial operation relating to its objective’ (EIB Statute, 1957, Article 23).

Thereby, the EIB would act as a lending institution, facilitating the access to its resources where the financial market were incapable to provide funding at competitive rates and terms, thereby ‘placing local banks under a constructive competitive pressure’ (Honohan, 1995, p. 316). It would also serve as a ‘catalyst’ to spark further investments and, ultimately, it would improve cohesion (Honohan, 1995). The idea was that the EIB would help to improve the running of the Common Area (EEC), aiding to build the internal market while improving cohesion.

With this idea, loans and guarantees granted would have to respond at least to one of three general objectives:

A. Projects ‘for developing less developed regions’ (EIB Statute, 1957, Article 130).
B. Projects ‘for modernizing or converting enterprises or for creating new activities which are called for by the progressive establishment of the Common Market where such projects (…) cannot be entirely financed by (…) each of the Member States’ (EIB Statute, 1957, Article 130).

C. Projects ‘of common interest to several Member States’ (EIB Statute, 1957, Article 130).

2.4.5 Global reach beyond the EEC-EU

In principle, the Bank was meant to work ‘solely at the service of the Community’ (EIB Annual Report, 1958, p. 16). But France and Belgium, who were experiencing the decolonization of their overseas territories, pressured and managed to allow loans to these overseas territories. In this way, aid could be virtually directed to any part of the world through Ordinary or Special Operations. This widened the initial intended scope of the Bank and awarded it an international role, far more potentially strategic than expected. The Bank had the capacity to act in developing countries outside Europe in collaboration with the IBRD and other international organizations (EIB Statute, 1957, Article 16).

Therefore, the capacity to manoeuvre in third countries granted the Bank an important role at a global level. In particular, in full swing of the Cold War, the fight against communism became more alive than ever, so that certain countries acquired special importance. In fact, during the first years the EIB addressed a great volume of loans to countries like Greece or Turkey, strategic spots to avoid communist expansion (Merrill, 2006) through Ordinary and Special operations, respectively.

In the Greek case, the Greek Civil War (1946-1949) between the Greek government army (backed by the UK and USA) and the Democratic Army of Greece (DSE) (founded by the Greek Communist Party or KKE) had left the country deeply divided and politically instable (Nachmani, 1990), posing a threat of splitting Western alliances in a critical area. In the same way, Turkey was another area of potential conflict in the Cold War that required political, economic and financial support from the European allies and the EEC through the EIB.

As a consequence they both joined the OEEC since the Plan Marshall in 1948, strategic allies in NATO since 1952 and requested to be Members of the Community in 1959 (Bussière *et al*., 2008).

Greece obtained access to EIB resources in 1961, after signing the first association agreement between the EEC and a third country, getting more loans than Belgium, Luxembourg or the Netherlands during the period 1958-1971 despite the fact that it started to get loans in 1963 and negotiations were interrupted in the 67 due to the *coup d'état*. Similarly, despite the military *coup d'état* of 1960, Turkey started to get EIB loans in 1964 and became the first country obtaining access to the Special operations, even if to this day Turkey is not a Member.

2.5 Establishment of the EIB

Prior to the idea of creating an institution to finance major projects and programmes in Europe in the form of the EIB, the IBRD [27] and the Marshall Plan were the main financial sources that contributed to Western Europe reconstruction and development.

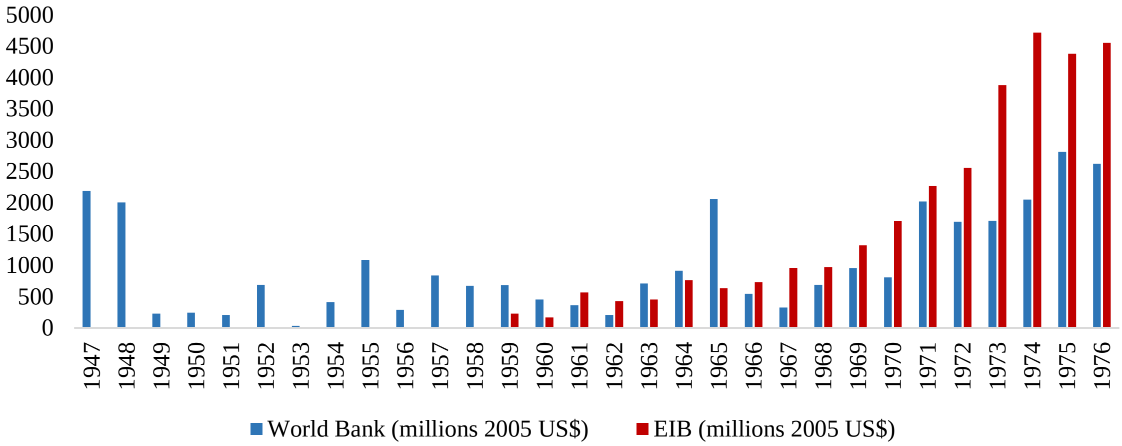
The IBRD first loan was made to France in 1947, the biggest loan made to a single European country (in real terms) to date (World Bank, 2017a). This aid was supplemented with the Marshall Plan, through which the United States supported Western European reconstruction between 1948 and 1951.

Hence, IBRD multilateral aid became complemented by the United States bilateral aid to Europe. Despite the IBRD continued to fund European development, addressing a great share of its loans to the Netherlands in 1947 and 1948, and contributing, among other things, to the Italian reconstruction with loans to materials and equipment in 1951 and 1953 and loans for agriculture, energy and industry from 1954 to 1964, it was soon perceived its aid was insufficient. Similarly, Spain or Portugal, which in the 60s were still not members of the EEC, received funding for transport, electricity or agriculture, among other things, just like Turkey or Yugoslavia, potential members and strategic locations (Kapur *et al.*, 1997). In a way, despite the IBRD saw the funding to Western Europe substituted by the United States direct aid through the Marshall Plan, it continued

[27] World Bank aid includes the IBRD, created in 1944 and only institution of the World Bank at its beginnings, and the International Development Association (IDA) established in 1960.

financing projects addressed to alleviate the European pressing needs. However, once the convertibility of the main European currencies was restored in 1958 thanks to the European Payments Union completion (Eichengreen, 1995), European financial markets enabled the foundation of the EIB (EIB Statute, 1957). Progressively the EIB superseded the IBRD in its funding to Western Europe and, from 1966, surpassed it continuously as regional lender, becoming in 1991 the largest supranational lender across the world (EIB Annual Report, 1991).

Figure 2.1 Loans to Western Europe: World Bank versus EIB (millions 2005 US$)



Notes: countries included are Austria, Belgium, Cyprus, Denmark, the Federal Republic of Germany, Finland, France, Greece, Iceland, Ireland, Italy, Luxembourg, Malta, the Netherlands, Norway, Portugal, Romania, Spain, Turkey, United Kingdom and Yugoslavia.
Source: World Bank Annual Reports (World Bank, 1947-1976) and EIB Annual Reports (EIB Annual Report, 1959-1976).

In this way, since its beginnings the EIB has gained importance inside and outside Europe. The solvency and reputation of this IFI have also increased as it is reflected in the own versus external resources ratio. It started working in 1958 with Members subscribed capital: equivalent to one thousand million units of account[28] (i.e. 6.950 billion in

[28] The European Payments Union (EPU), which started its operations in 1950, adopted the European unit of account (EUA) for an amount equivalent to 0.88867088 grams of fine gold. Such a value was equivalent

constant 2005 US dollars) (EIB Statute, 1957, Article 4), from which Members contributed 25%, the remaining being guaranteed capital (EIB Statute, 1957, Article 5). Little by little its funding needs were increasing, in particular with the enlargements, until it had a subscribed capital 28 times bigger in 2013 (200,463 million 2005 US$) than in its early years.

2.6 The impact of EIB loans on the economic development of some countries: the Spanish case

In that context, it is important to highlight that the EIB's intervention in some countries has been crucial for their inclusion in the European project. It has been so in southern Europe with particular importance in the so called 'PIGS' (Portugal, Italy, Greece and Spain). The case of Spain is a clear example. After the Spanish Civil War (1936-1939), Spain lived under the Franco regime isolated from the international political scene[29]. The dead of the general Franco was a turning point for a country that wanted to open up to progress (already during the Franco years, in 1962, Spain had tried integrating the European Community without success). Democracy restored, the Government of the then president, Adolfo Suárez, presented in 1977 the application for the European Economic Community (EEC, today European Union) membership, which culminated in 1985, eight years later, with the signature of the Accession Treaty in Madrid and the Spanish integration to the European Economic Community the 1st January of 1986. As we will see, this meant that Spain, under the new status of EEC candidate country, started to receive lending from the EEC and, thus, from the EIB (in 1981 it gets its first loans), which favoured the economic development of the country and its integration in the European context in collaboration with the Spanish Official Credit Institute (ICO)[30].

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to an American dollar before the gold price rise from 35$ to 38$ per ounce in 1972 (Aschheim and Park, 1976).

[29] Until 1975, when Franco dies and his succession takes place.

[30] Since 1983 the EIB provided Global loans to Spain through ICO.

As early as 1962 (if we compare it with the effective date in which it happened), the Spanish dictatorship (under Franco's regime since 1939) opened to a new government that decided to set foot in Europe and apply for association with the EEC (ABC, 1962). That year Fernando María Castiella, the Minister of Foreign Affairs, sent a letter to the President of the EEC Council asking for an association agreement with the Community. Nevertheless, the negotiations became paralysed as a result of the extremely complicated political context, with a dictatorship rejected by most outside Spain. One had to wait until 1970, already under the government of Adolfo Suárez but also under a deteriorated European economic context, to see the first step towards building a relationship between Spain and Europe with the signature of an Association Agreement ('Spain - Common market') in Luxembourg. The final application for the Spanish accession to the EEC, however, had to wait until the dead of the General Franco in 1975 and the proclamation of Juan Carlos I as king. In particular, after the 1977 elections, the president Adolfo Suárez, continuing with the idea of integrating Spain into Europe (at the time much less developed than Italy or the other EEC members), presented the request to start the accession negotiations to the institutions of the European Communities (CE, 2016; Archivo Digital España-UE, 2016). It was effective eight years later, in 1985, with the signature of the Accession Treaty in Madrid and the integration of Spain in the Economic Community on the 1st January of 1986. Such an accession process meant, among other things, that Spain started to receive loans from the EIB in 1981 (despite not being a Member), initiating a catching up and modernization process that would allow the country to exit the isolation in which it had been and to put the industrial recession of the transition behind (Betrán *et al.,* 2012). In fact, the policy for the public support of industrial and export activities, which started in 1962 and materialized in the concession of public credit lines, was reinforced in the 80s by the EIB credit lines to the 'Banco de Crédito Industrial' or the 'Banco Hipotecario de España', among other entities, through (in most of the cases) the Spanish Official Credit Institute. These loans were complemented with loans to (private and public) nowadays well-known companies mostly within the energy sector

(Empresa Nacional del Gas[31] in 1982; Empresa Nacional de Investigación y Explotación de Petróleo S.A.[32] in 1984; or Hidroeléctrica Española S.A.[33] in 1985, for example) and the transport sector (RENFE in 1982, 1983 and 1985; Ministry of Public Works or Urban Development in 1985).

A large share of the loans went to infrastructure (see table 2.3). Notably, transport (roads, trains, ports and airports) received a great deal of attention in Spain (e.g. Iberia Lineas Aéreas de España S.A.[34] since 1989; FEVE since 1990). On the other hand, credit lines for small and medium enterprises gained importance at the end of the 80s and little by little became an essential pillar of the Bank's policy. In the Spanish case the relevance of credit lines is clear since the first loans the EIB granted to the country, although they assume greater importance since 1996 with EIB credit lines granted to important entities such as the ICO, 'Banco de Crédito Local de España', 'Banco Central Hispanoamericano SA', 'Banco Bilbao Vizcaya SA', 'Banco de Santander SA', or the 'Caja de Ahorros de Valencia, Castellón y Alicante (BANCAJA)', among others. In fact, possibly influenced by these policies, Spanish GDP growth rate increased between 1990 and 2000, with the EIB as one of the key elements encouraging Spanish recovery and insertion in the international landscape.

As we will see in chapter 4, from 2004 to 2008, Spain became the largest recipient of loans even above Italy. The bulk of the funds in Spain continued to be addressed to transport and credit lines, together with an increase of loans to the energy sector (for

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[31] Currently known as 'Enagás, S.A.', with presence (besides Spain) in Mexico, Peru, Chile, Sweden and the Trans Adriatic Pipeline European project.

[32] The 'Empresa Nacional de Investigación y Explotación de Petróleo S.A.' or ENIEPSA merged with 'Hispanoil' in 1985, to successively become a subsidiary of the well-known 'Repsol S.A.' (under the name of 'Exploración') in 1986, when the National Institute of Hydrocarbons (INH) reorganized the Spanish oil sector.

[33] The origin of 'Iberdrola', one of the world five most important companies in the sector.

[34] Iberia signed an agreement to merge with British Airways in 2010, becoming the third largest commercial airline in the world by revenue.

example, Enagás S.A.[35] in 2004, Viesgo Generacion S.L.[36] in 2006, or Iberdrola Energías Renovables[37] in 2007). In particular, within the energy sector it is remarkable the impetus given in Spain to the wind power since the 90s (notably following the Royal Decree 2366/1994 guaranteeing the price of the electricity generated by wind farms for at least five years; backed up by the Royal Decree 2818/98 establishing a bonus for the price of the electricity from a wind power source) (Varela, 1999). This impetus led the country to become the producer of 20% of the world wind power (El Mundo, 2007). Therefore, 'Hidroeléctrica de Navarra', 'Iberdrola Energías Renovables S.A.U.', 'Energías Especiales del Alto Ulla S.A.', 'Parque Eólico de Padul S.L.' or 'Energías Especiales Montes Castellanos S.L.' benefited during these years from the Spanish legislation and the EIB loans, contributing to the catching up of the country.

As a matter of fact, Spain constituted a reflection of the EIB lending distribution at the European level, with the bulk of the loans addressed to important companies in transport, energy, industry and SMEs credit lines. The two key sectors of the period 1986-2008 and fundamental drivers of the Spanish recovery, though, were transport and credit lines. Likewise, after the Great Recession, and in particular from 2013 to 2015, in Spain, but also in the combined volume of loans to the EU, the bulk of the loans has been addressed to SMEs credit lines, which have increased their funding, and transport, despite a slight fall in relation to previous years. Therefore, during these years the EIB continued to contribute in Spain (and other countries) to the construction of roads (e.g. motorway between Benavente and Zamora), trains (e.g. connection of the east and west of Granada with the center); high-speed trains (e.g. line between Vitoria, Bilbao and San Sebastián; high speed train Madrid-Alicante); underground (e.g. Sabadell and Terrassa in Cataluña);

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[35] Enagás is an international leader in the development and maintainance of gas infrastructures and the operation and management of complex gas networks, developing its activities in eight countries.

[36] Viesgo owns and operates power plants with generation capacity of 4000 M.W., counting with branches in Madrid and Santander.

[37] Iberdrola Energías Renovables was the world's largest renewable energy firm and the world's largest owner-operator of wind farms, but also operated in the solar, hydro, biomass and wave power industries. In 2011 Iberdrola Renovables merged with its parent company Iberdrola and is now Iberdrola's renewable energy business.

or ports (e.g. new quay at Bilbao) through major companies; at the same time it provided credit lines, whose importance had increased in the strategy followed by the Bank in order to stimulate the economy (small and medium enterprises) and help the banking sector (credit lines granted to the Banco Santander, Caja Laboral, Bankinter, Banco Sabadell, Banco Popular, Caixabank o BBVA, among others). Nevertheless, one should also highlight the funding received by the energy sector (this is the case of four biomass plants in Castilla y Leon with ‘Gestamp Biomass Project’; or two thermosolar plants in ‘Andalucía with Thermosolar Valle 1&2 Spain’), telecommunications (‘Orange’ telephone network or ‘Jazztel’ fiber optic network), industry (Acciona, Abengoa, or Arcelormittal), the health sector (construction of an hospital in Vigo), the education (loan to the University of Santiago de Compostela), agriculture (cofinancing in Cantabria), or services (investment in public research organisations and facilities), all crucial sectors for the economic development of the least developed economies. Importantly, the EIB enabled some of these companies to become ‘national champions’, contributing to boost the Spanish (and the European) internationalization.

Table 2.3 EIB loans to Spain by sectors (millions, 2005 constant dollars)

	Agr., fish., forestry	*Comp. infr. serv.*	*Credit lines*	*Educ.*	*Energy*	*Health*	*Industr.*	*Services*	*Solid waste*	*Telecom.*	*Transport*	*Urban develop.*	*Water, sewerage*	*Total*
(1959-1980)	-	-	-	-	-	-	-	-	-	-	-	-	-	-
1981	-	-	100	-	-	-	-	-	-	-	-	-	-	100
1982	-	-	92	-	30	-	8	-	-	-	80	-	-	211
1983	-	30	121	-	-	-	-	-	-	-	36	-	-	187
1984	-	-	152	-	61	-	-	-	-	-	-	-	-	213
1985	-	-	41	-	54	-	-	-	-	-	122	-	-	218
1986	-	-	218	-	47	-	107	-	-	-	327	-	-	699
1987	-	-	914	-	98	-	-	-	-	-	304	-	47	1362
1988	-	129	640	-	-	-	196	-	-	594	115	-	344	2018
1989	33	53	457	-	314	-	215	-	-	879	595	-	147	2694
1990	-	-	760	-	335	-	763	-	-	741	995	-	-	3594
1991	-	-	480	-	558	-	716	-	-	1020	1146	177	41	4139
1992	-	344	134	-	578	-	332	-	-	1222	2569	115	304	5598
1993	-	376	272	-	314	-	839	-	-	472	3207	-	946	6427
1994	-	134	550	-	529	-	589	-	-	9	2577	-	291	4678
1995	150	182	278	-	527	-	197	-	210	903	1997	-	283	4727
1996	107	234	1063	-	705	-	254	-	-	299	1179	-	218	4060
1997	-	90	1085	327	197	63	297	-	-	511	1052	98	128	3848
1998	-	-	1356	79	79	64	40	26	-	928	1220	307	50	4148
1999	-	43	1111	-	861	64	203	170	-	836	1665	38	121	5114
2000	-	-	1194	65	94	12	398	-	-	1235	1231	-	152	4382
2001	-	-	1274	-	630	47	380	119	-	372	1624	-	57	4503
2002	26	226	2084	83	411	-	103	41	63	175	1731	405	224	5570
2003	-	72	2032	375	360	-	192	-	-	600	3270	600	42	7543
2004	-	64	2353	413	907	47	199	-	47	154	4084	376	39	8683
2005	-	172	1836	149	933	124	280	-	-	546	5221	162	31	9455
2006	-	258	2086	367	1320	52	-	2	-	487	4268	158	304	9301
2007	-	-	1932	368	1158	549	39	167	-	491	3898	185	439	9225
2008	-	-	2141	597	2272	248	290	94	-	108	5281	157	248	11437

2009	32	74	3174	733	1543	528	1010	30	222	689	4250	352	684	13324
2010	154	30	2375	812	1540	808	369	90	28	20	4117	349	384	11076
2011	512	3	2696	390	1605	366	350	808	236	52	2829	297	830	10973
2012	-	3	3202	213	1292	31	326	659	3	-	2307	236	624	8894
2013	81	-	5513	370	1696	283	496	890	9	489	1850	75	113	11866
2014	60	-	8620	348	619	127	472	361	4	193	1858	229	125	13016
2015	33	6	7888	-	1143	-	481	110	87	-	1054	6	102	10910
Total	1189	2524	60225	5691	22809	3414	10140	3565	909	14025	68060	4323	7317	204190
%	1	1	29	3	11	2	5	2	0	7	33	2	4	100

Source: EIB Annual Reports (EIB Annual Report, 1958-2015), EIB Official Database (2017).

Notes: Agr., fish., forestry = agriculture, fisheries & forestry; comp. infr. serv. = composite infrastructure services; educ. = education; industry. = industry; telecom. = telecommunications; urban develop. = urban development.

Taking the example of Spain, one of the largest recipients of loans from the EIB, we see how the Bank resulted a crucial factor in the funding of projects, both public (e.g. Aguas de Madrid, Metro Valencia, Red Eléctrica de España) and private (e.g. Iberdrola, Banco Santander, Ford, Repsol). In the following chapters we will see that the EIB has constituted a necessary factor in the development and the dynamism of the European economies, but also it has very possibly contributed to the success of some enterprises that nowadays are very well known and have been benefited by EIB loans along time (for example, in Spain we find Iberia, Repsol, Renfe, Seat, Telefónica, Endesa, BBVA, Banco Sabadell, Banco Popular, among others). In this way, we will see how the EIB supported the development of several sectors, with a particular focus on transport (as the crucial element for the European integration) and the credit lines (supporting in turn the banking sector), without forgetting the energy sector and the industry, besides other sectors such as telecommunications, healthcare or education. This policy, followed by Spain, but also in the other countries receiving loans, boosted the market economy and the insertion of the EU Members into the international scene, representing a good example of the role played by the EIB in the European integration process.

A detailed analysis of the EIB evolution is presented below in chapters 3 and 4. This will provide a global overview of the institution, while questioning its performance. The analysis will challenge some of the key premises the EIB official discourse holds. To anticipate some of our key findings, we find that the EIB does not completely fulfil its Mandate.

3 European Investment Bank lending practice (1958 – 1995): an investment bank?

This chapter is a version of Clifton, Díaz-Fuentes and Gómez (2018a).

3.1 Introduction

Notwithstanding its importance, the EIB has been neglected in EU studies for decades. Despite its key role in tackling some of the main concerns of the European project, and the fact it emerged as the world´s largest supranational lender - overtaking the World Bank as regards loan volumes from the mid-1990s (EIB Annual Report, 1994) - the institution has surprisingly attracted little research. EU scholars urge that more attention should be paid to understanding this important but understudied institution (Robinson, 2009).

It has only been recently, in the context of the Great Recession, that the EIB has received more attention - in the form of intensified criticism. In particular, the EIB has been criticized for not prioritising finance to the least developed regions (Griffith-Jones and Tyson, 2012). This criticism suggests the Bank is neglecting one of its original *raisons d'être*: to promote the development of less-favoured areas in the EEC-EU in order to reduce economic disparities among regions. This heightened interest in the EIB motivates our study. The time is ripe to remedy the lack of research on this key EU institution, which is the world's largest lender.

Most, if not all, IFIs were created with multiple lending objectives (Humphrey, 2015; Mazzucato and Penna, 2016). An analysis of EIB Statutes and historical documentation[38] shows that its lending objectives can be essentially boiled down to three: development, integration and investment. Importantly, the EIB was the first IFI created with a remit including regional integration. This was initially understood as 'the balanced and smooth development of the Common Market' (EIB Statute, 1957, Article 130) (we call this 'market integration'), and later, as loans to new Member States (we label this 'enlargement'). In addition, its lending objectives included the alleviation of capital constraints (essentially, promoting investment) and facilitating economic development. Both investment and development had been included amongst the objectives of

[38] Historical Archives of the European Union (HAEU), which include primary documentation and draft versions of the constitutional documents, including the official meetings and negotiations towards establishing the EIB.

previously established IFIs, such as the World Bank, but the combination of this three-pronged set of EIB lending objectives was unique at the time. This new mix of lending objectives can be explained by the historical context in which the EIB emerged, in the immediate post-war period, when it was feared that the creation of the EEC would exacerbate the need for cross-border investment and cause ‘rich regions to become richer at the expense of backward areas’ (Licari, 1969). The EIB was conceived then to promote economic development and regional integration while contributing to meet the pressing investment needs of a war-torn Europe. We analyse to what extent EIB lending reflects these three major objectives.

This chapter analyses EIB lending to its Member States from the start of operations in 1958 up to the fourth enlargement in 1995, a turning point for the European Community in terms of a new political and economic environment (El-Agraa, 2007). The end of the Cold War, the reunification of Germany (1990) and the signing of the Maastricht Treaty (1992) fundamentally changed the original economic conditions that gave birth to the EIB, producing a change in lending patterns (Clifton *et al*., 2014b). The chapter analyses total loans but focuses on infrastructure, by far the largest fraction of all lending during the period considered.

The extent to which lending reflects IFI’s original lending objectives has preoccupied a body of scholars working on IFI effectiveness (Gutner, 2005, 2010; Nielson *et al*., 2006). Another related strand of research on IFI has sought to uncover the determinants of lending, that is, the determinants of the country requesting a loan and the IFI granting that loan (Harrigan *et al*., 2006; Humphrey and Michaelowa, 2013; Knight and Santaella, 1997; Vreeland, 2004). Our approach follows the first line of analysis, assessing the extent to which EIB loans satisfied the three core lending objectives using proxies for development, integration (both ‘market integration’ and ‘enlargement’) and investment. Both bodies of scholarship influence our construction of proxies. Lending was reconstructed using data from the Annual Reports of the EIB as obtained from the Historical Archives of the EU (HAEU). We verify our conclusions with a static panel data model. As will become clear, the EIB was the first IFI to promote regional economic integration and development over the alleviation of capital constraints.

The rest of the chapter is divided into four sections. The next section discusses the setting up of the EIB and identifies its three core lending objectives as derived from the EIB Statutes and historical documentation. Section 3.3 analyses EIB lending (focusing particularly on infrastructure) from 1958 to 1995. Section 3.4 describes the econometric specification used to verify the conclusions drawn in section 3.3, analysing the extent to which development, integration and investment explain EIB lending. We conclude summarizing our results, their limitations and possible directions for further research.

3.2 Setting up the EIB: a threefold mission

When the EIB was created in 1957, it was strongly influenced by the economic and political context, which permanently shaped its constitution and evolution. World War II had left European countries devastated (Temin, 1994) and, it was perceived, highly vulnerable to the spread of communism (LaFeber, 1999). The IBRD (today the World Bank) was created in 1944 to support Europe, but it was soon seen that more resources were needed, hence the US implemented the Marshall Plan as a short-term measure (1948-1951). However, this was inadequate to cover the region’s huge investment needs, to which the creation of the EEC added two concerns: the extra need for cross-border investment (HAEU, 24/09/1956) and the fear integration would create divergence among the least developed regions (HAEU, 26/09/1956). It was in this context that the EIB was created.

Analysis of the EIB Statutes and constitutive primary documentation reflects that, essentially, lending would prioritise three core objectives: development, to prevent economic imbalances among Members and encourage the economic growth of the least developed regions (HAEU, 26/09/1956); integration, to encourage the ‘development of the Common Market’ (EIB Statute, 1957, Article 130; HAEU, 09/10/1956); and investment, to rebalance capital markets through investments and the setting of interest rates (HAEU, 24/09/1956).

On the one hand, it was perceived the integration process exacerbated the need for additional investment in cross-border projects of common interest (besides the huge investment needs of each country) (EIB Annual Report, 1958). However, obtaining long-term lending at low interest rates was particularly difficult due to financial constraints and the high-risk premium caused by long-term uncertainty (HAEU, 02/03/1962; Frenkel, 2008). Hence, a major problem facing the EEC was underinvestment, particularly in infrastructure, one of the key elements in economic development (Hirschman, 1958). A mechanism to facilitate access to capital was needed (EIB, 1978a).

To address this need, Germany and the Benelux countries favoured a bank independently operating from its members, focused on financing sound, profitable projects (HAEU, 02/10/1956). It should finance itself independently from Member State interests, so it was not a burden, for which they requested it was denominated a ‘Bank’ not a ‘Fund’ to reflect its independence in the international financial markets. Following the example of the IBRD, the new institution should provide credit and reduce borrowing costs, the idea being that ‘the sum of membership’s credibility’ would reduce ‘borrowing costs for all members below what they would pay on their own’ (Birdsall, 2000).

On the other hand, contemporary economic theories suggested the integration process could generate two opposing forces: convergence and divergence, either one with different impacts on members’ welfare. Neo-classical growth theories predicted a positive impact through long-run GDP convergence and factor price equalization, while endogenous growth theories predicted a potential negative outcome with long-run GDP divergence. Particularly important for negotiations leading to the Treaty of Rome was the influence of Myrdal’s theory (1957), based on the Mezzogiorno experience (Licari, 1969). This reinforced the conviction that, without measures to reduce divergence and inequality, integration - despite having an overall positive impact - could have a negative effect on countries like Italy (El-Agraa, 2007).

Concerned that integration would cause richer nations to become richer at the expense of the poorer ones (HAEU, 26/09/1956; EIB, 1978a), Italy and - to a lesser extent - France, called for a development institution (a ‘Fund’) that would promote the development of the least developed regions with financial support in the form of grants (HAEU, 02/10/1956). Both wanted Member States to be able to influence this institution, which should also deal with social questions. Italy, where the 1870 unification had resulted in sharp disparities between the north and south, was particularly concerned with the creation of such an institution (Licari, 1969). France was also worried that the introduction of free competition would spoil its market for agriculture and financial aid would be needed (HAEU, 17/04/1989; Ludlow, 2005).

All these concerns and economic ideas were influential when, during 1956, the founding members reached a compromise: the EIB would promote development, integration and investment. This nodded to all positions: the EIB would promote integration, able to lend money to the least developed regions, and as an independent Bank, able to raise money on the international financial markets (EIB Statute, 1957, Articles 11, 13). This innovative institution resulted from different concessions in multiple directions. It would be called a ‘Bank’ and would lend to sound, profitable projects, but it would not be as independent as Germany and the Benelux countries had desired, since countries would exert subtle control through the Board of Governors (as Italy and France wanted). Italy also succeeded in attaching a Protocol to the Statutes to help its economy (EIB Statute, 1957). Germany and the Benelux countries accepted these requests so long as this did not damage the financial markets’ perception of the Bank (HAEU, 12/10/1956), which should borrow from capital markets. Thanks to its superior rating[39] it would lend at attractive interest rates enabling it ‘to meet its obligations, cover its expenses and to constitute a reserve fund’ (EIB Statute, 1957, Article 19), acting as an intermediary in the financial markets. Quantities would be expressed in units of account to signal independence from third countries (HAEU, 27/11/1956, Annex B) and lending would be made on a non-profit basis (EIB Statute, 1957, Article 130). Moreover, the Bank could grant loans to both Member States as well as countries ‘outside the European territories’ (EIB Statute, 1957, Article 18). This, in practice, allowed the EIB to lend to most countries and, importantly, as we will see, to future members of the European Union (‘enlargement’).

The new, regional institution, owned entirely by its borrowing countries, was a clever way to address countries’ financial needs while tackling potential disparities that might be exacerbated during the integration process. EIB Statutes specified three kinds of projects it would award: while the development objective was explicitly reflected in

[39] Bonds have been rated AAA, the highest possible (EIB Annual Report, 1975) since the EIB made the first issue on the US in 1975.

project profiles, the integration and investment goals were intrinsic to all projects. First, the Bank would finance ‘projects for developing less developed regions’ to reduce economic disparities, as Italy had wished. Second, it would finance ‘projects for modernising or converting enterprises or for creating new activities … called for by the progressive establishment of the Common Market’ to help industries’ modernization and competition (a concession to France) in the face of the structural change the integration process was to induce. Third, it would loan to projects considered ‘of common interest to several Member States’, where additional investment would be needed for integration to succeed (HAEU, 08/10/1956; HAEU, 11/10/1956).

So, the EIB was the principal financial instrument used to build the EEC-EU in close connection with other bodies, such as the Commission (EIB Annual Report, 1958); moreover, its three principal lending objectives reflected major concerns and economic ideas raised during the negotiations leading to the Treaty of Rome (EIB, 1978a). Nevertheless, the relative importance of each remained unclear, awarding the EIB flexibility, but also an undefined path to follow.

3.3 EIB lending (1958 - 1995): development, integration and investment?

Striking a balance between lending objectives is a major task for all IFIs (Howarth and Quaglia, 2016). In order to determine the extent to which EIB lending was oriented towards development, investment and integration, we construct three hypotheses. First, we assume the loans are oriented to development when lending goes to the least developed countries. Second, Bank loans are oriented to investment when they contribute to the effectiveness of financial markets by reducing borrowing costs (Birdsall, 2000), which is further complemented by the financial market’s perception of a country’s ability to repay. Third, Bank loans promote integration when they encourage cross-border infrastructure projects[40], intra-European trade and enlargement.

[40] We restrict cross-border infrastructure projects to the qualitative part of the paper due to measurement difficulties that could bias results.

Table 3.1 EIB lending to European countries (millions 2005 US $), by EU successive enlargements

		Belgium	*France*	*Germany*	*Italy*	*Luxembourg*	*Netherlands*	*Denmark*	*Ireland*	*UK*	*Greece*	*Portugal*	*Spain*	*Total*
1958-1967	Lending (100%)	125	856	457	3473	54	-	-	-	-	428	-	-	5394
	Energy	-	23%	35%	12%	100%	-	-	-	-	9%	-	-	16%
	Transport	75%	29%	41%	28%	-	-	-	-	-	25%	-	-	30%
	Telecom	-	6%	-	6%	-	-	-	-	-	-	-	-	5%
	Water & sewerage	-	-	-	-	-	-	-	-	-	-	-	-	-
	Urban infr.	-	-	-	-	-	-	-	-	-	-	-	-	-
1968-1977	Lending (100%)	472	6198	3523	12001	28	505	370	1038	6040	214	569	-	30957
	Energy	60%	34%	58%	12%	-	70%	35%	1%	39%	-	38%	-	29%
	Transport	12%	16%	7%	20%	-	12%	15%	11%	5%	-	15%	-	14%
	Telecom	-	26%	-	17%	-	-	7%	48%	8%	-	-	-	15%
	Water & sewerage	-	3%	2%	7%	82%	-	-	5%	14%	-	-	-	6%
	Urban infr.	-	-	-	-	-	-	-	-	-	-	-	-	-
1978-1987	Lending (100%)	1847	12868	3066	44112	59	297	4419	6483	17367	4822	2386	3001	100727
	Energy	87%	28%	85%	27%	-	-	73%	24%	43%	24%	15%	10%	33%
	Transport	-	19%	-	11%	42%	30%	13%	16%	17%	16%	33%	29%	14%
	Telecom	-	13%	-	13%	-	-	1%	16%	5%	15%	-	-	10%
	Water & sewerage	-	1%	4%	7%	-	-	-	16%	23%	6%	1%	2%	9%
	Urban infr.	-	-	-	3%	53%	-	-	-	-	1%	-	-	2%
1988-1995	Lending (100%)	4186	26539	21409	50155	293	3904	9354	3655	27662	5069	14185	33890	200301
	Energy	10%	1%	10%	25%	-	8%	26%	23%	25%	13%	21%	13%	17%
	Transport	32%	39%	9%	9%	-	33%	51%	36%	27%	35%	40%	41%	27%
	Telecom	-	1%	10%	16%	37%	-	11%	11%	8%	11%	10%	18%	11%
	Water & sewerage	11%	1%	5%	7%	-	19%	3%	2%	21%	2%	2%	10%	8%
	Urban infr.	-	1%	-	1%	-	-	-	1%	-	4%	1%	-	1%

Source: EIB Annual Reports (EIB Annual Report, 1958-1995).

3.3.1 The early years: 1958 – 1973

The first lending period can be divided into two sub-periods. From 1958-1966, the EIB focuses its resources largely on Italy (77.03%), the least developed member. Next, from 1967 to 1973, there is an effort to increase both lending volume and target countries. The EIB extends its reach to France (25.59%), Germany (15.58%) and the Benelux countries (4.46%) though Italy remains the main beneficiary of lending (52.7%).

In the immediate period from 1958, much of the lending was channelled to the Mezzogiorno, in Southern Italy, at the time the least developed region of the EEC (with the lowest per capita GDP) and, hence, perceived as one of the main challenges confronting the integration project (EIB Annual Report, 1962). Three other things contributed to turn Italy into the centre of EIB's lending until 1966. First, the annexed protocol to the Statute recommended the implementation of a ten-year programme aimed at correcting disequilibria in the Italian economy (EIB Statute, 1957). Secondly, two Italians, Pietro Campilli in 1958 and Paride Formentini in 1959, were consecutively appointed as EIB presidents (HAEU, 06/02/1958; HAEU, 25/05/1959) to watch over Italian interests. Lastly, the world economy was going through a period of expansion, which meant other countries did not have such drastic economic needs. In fact, Italy borrowed from the EIB at higher interest rates than national ones, indicating the magnitude of that country´s need for financial support. During the early years, the Bank failed to be a good intermediary in the financial markets, neglecting its investment role in favour of development.

But there was another crucial determinant of EIB loans: market integration. Most infrastructure lending was channelled towards the transport sector during this period. In line with EEC efforts to establish an integrated network, the strategy of the EIB, not only for Italy, but for most countries, was to pursue an integrated transport policy towards the implementation of the Common Market. Yet, despite efforts at the European level in

1961[41], 1962[42] and again in 1964[43] (Turró, 1999), transport needs were still huge at the time of the first enlargement, which in turn exacerbated them.

In 1967, the world economy slackened off due to political tensions and conflicts which affected the Middle East and Africa (EIB Annual Report, 1967). This second sub-period (1967-1973) was a time of political agitation with countries experiencing a tendency towards cyclical recession. Thus, the EIB started to distribute loans to other countries besides Italy, particularly, to France. Simultaneously, an interest in telecommunications as a means to develop the market grew (Michalis, 2007) and lending increased to this sector.

The situation deteriorated by 1970. Real economic growth slowed, interest rates rose, and some countries entered in recession (EIB Annual Report, 1970). This was further aggravated when the convertibility of the US dollar to gold was cancelled in 1971. European countries decided to peg currencies to each other to maintain monetary stability (EIB Annual Report, 1972), which marked the first step towards the introduction of the euro and reinforced the European compromise to encourage integration. In this context, the EIB increased its lending and presence in the financial markets to counteract the situation. Nevertheless, despite these efforts, its effectiveness was low. Those years saw higher inflation, rising unemployment and production stagnation. It was in 1972, when, presaging the oil crisis, the European Commission (EC) became interested in the role of the EIB to *diversify energy supplies* (EIB Annual Report, 1972). From that time onwards, as part of the integration objective, investments in energy became a core part of the Bank´s priorities.

In a relatively short period, the EIB became a leading source of finance with two clear priorities: helping Italy and lending at the best possible conditions (HAEU, 2003). However, in practice, the EIB failed to offer better rates and lending served more the purposes of development and integration. Both Italy and France were satisfied with an

[41] Schaus Memorandum.

[42] Action Programme for the Implementation of a Common Transport Policy.

[43] Draft decision for Community control of infrastructure investment.

institution that helped to develop the least developed regions while also contributing to build the Common Market. Both were by far the largest beneficiaries during the period in terms of funding, particularly Italy (57.7%), which more than doubled the capital subscribed (24%).

3.3.2 First enlargement: 1973 – 1981

Between 1973 and 1981, EIB lending continued to focus on integration and development, as seen in particular through a 'rewarding strategy' for new adherents and a 'least developed strategy', providing credit to new members, as well as least developed countries.

The first EU enlargement, in 1973, coincided with the oil crisis caused by an oil embargo from Middle East oil-producing nations and the collapse of the Bretton Woods system. Under this scenario, with inflation, current account deficits and high interest rates, the EIB targeted new members (Denmark, Ireland and UK) with lower interest rates than the national ones. This was insufficient, though, to solve their huge economic problems and the idea that a regional Fund 'to reinforce economic and social cohesion' (OJEU, 2006, Article 2) was needed (as Italy had argued during the creation of the EIB) gained strength with the support of UK and Ireland. The European Regional Development Fund (ERDF) was established in 1974 on the principle it should cooperate with the EIB (EIB Annual Report, 1974). Did this mark a turning point as regards EIB loans?

Given the difficult economic background, policies to stimulate expansion were implemented. In an attempt to reduce the inflow of foreign capital, Germany, among other countries, encouraged a reduction in interest rates (EIB Annual Report, 1977) which, in turn, reduced the demand for EIB loans. However, economic difficulties continued and, following the recommendations adopted by the European Council on 1977, the EIB decided to increase its lending (EIB Annual Report, 1979) with an escalation of more, smaller loans.

Italy, France and UK, which were going through difficult times and were among the countries with the lowest per capita GDP, received the largest amounts (in absolute terms), but also Ireland and Denmark were particularly advantaged in per capita terms. This suggests EIB lending was focused on integration and development through two combined strategies: a ‘rewarding strategy’ for new adherents as well as a ‘least-developed strategy’.

On the other hand, infrastructure became increasingly important (73% of all lending). By 1973, the oil crisis had been followed by a decision to reduce Europe´s energy dependency (EIB Annual Report, 1973), so loans started to be addressed to the energy sector. Simultaneously, water supply became considered as an ‘investment with limited return’ (Commission of the EC, 1991), and served, together with the concession of the ERDF, as a bargaining chip to obtain the adhesion of UK, which obtained EIB lending to establish 10 Regional Water Authorities (Water Act, 1973).

Over the period 1973-1980, the UK greatly benefited from EIB funding (26.2%), together with Italy (36.9%) and Ireland (7.9%), more than offsetting the capital subscribed (22.2%, 17.8% and 0.7% respectively). The EIB continued a clear effort to address lending to the countries with lower per capita GDP. However, integration, particularly ‘enlargement’, played an important role. Despite the creation of the ERDF, the EIB continued along the path of the previous period, the Bank finally attaining better lending conditions on financial markets.

3.3.3 Second enlargement: 1981 – 1986

The third period, marked by the Greek accession, continued to reflect a lending pattern focused on development and integration and, to a lesser degree, investment. However, the integration objective increased, as compared to the previous period, at the expense of the development imperative.

The second enlargement (1981) was an outcome long awaited on both sides: from the outset, Greece sought to join the EU (HAEU, 2004; Clifton *et al*., 2018b) and it also constituted a strategic site in the Mediterranean for the Community (Kaiser and Elvert, 2004). The EIB granted Greece access to its resources thanks to the Ordinary and Special operations the moment the country signed the first association agreement of the EEC (1961) (HAEU, 1961), but the *coup d'état* of 1967 interrupted negotiations and funding. The access to lending was taken up by Greece after 1975, with the restoration of democracy, culminating in EEC adhesion.

For two years after accession, Greece, one of the two least developed Members together with Ireland, received significant loans (6.9%). However, Italy (46.2%), France (14.4%) and the UK (12.2%) received more lending in absolute terms, while Ireland, Denmark and, from 1984, Italy, also received more in per capita terms. Even though over the period Greece more than offset the capital paid in at the EIB, on this occasion the Bank's mission on development was diluted by other considerations. There was an effort to help countries with more pressing economic needs, but, in contrast to previous years, this was not the whole story, to judge from per capita GDP. Instead, the EIB continued to pursue its 'enlargement' strategy.

Integration explains EIB lending in terms of 'enlargement' and 'market integration'. In countries like France or Ireland, the focus of loans was on transport and telecommunications respectively, even if, as a whole, energy was still the main concern (with half of overall lending designated to it). In contrast, as had occurred during the first period analysed (1958-1973), the EIB investment objective explains lending only weakly. Germany, the Netherlands or Luxembourg barely received loans because of their better interest rate conditions as compared to those of the EIB. Overall, though EIB lending continued to reflect a development imperative, this loses ground to integration.

3.3.4 Third enlargement: 1986 – 1995

The pattern of the previous period is continued along the fourth period analysed, with integration driving the logic of an increasing share of loans, as development continues to lose ground while the investment role is weaker.

Adhesion to the EU of Portugal and Spain in 1986 implied a new challenge to the EIB in terms of resources, which had to increase, and countries' heterogeneity. As in the case of Greece, lending to both countries started well in advance of accession[44]. The Portuguese and Spanish accession coincided with EIB loans becoming more evenly distributed among members as well as a further distancing from the development objective. Whereas Portugal, Ireland, Greece and Spain were the least developed members of the period, they were not the main beneficiaries of funding. Italy, having by then a similar per capita GDP to France, was still the highest beneficiary in absolute terms (27.09%), followed by Spain (15.88%) and UK (14.22%). Similarly, the highest beneficiary in per capita terms, Denmark, was the second most developed country (the first one being Luxembourg) as measured by per capita GDP. That said, lending was still explained by development to some extent, with Portugal, Spain, and Ireland, among the least developed, getting a good share of loans.

In addition, Portugal and Spain were not only among the least developed but were also newcomers to please. As part of the 'enlargement' strategy, the EIB addressed a large proportion of its loans to these countries that from 1992 onwards received, in per capita terms, more lending than Italy. Most of these funds went to transport, the main focus of the EIB from 1988, possibly influenced by the first action plans on trans-European networks (TENs) that were to be adopted by the EC in 1990. Indeed, Portugal, Spain, France, Ireland and UK received loans primarily aimed at the transport sector during this period, which served to encourage market integration.

So, between 1986 and 1995, the development imperative declined with respect to previous periods. Increasingly, integration, both market integration and enlargement, accounted for greater shares of EIB lending. In contrast, the extent to which investment explains lending is less clear cut, since some countries benefitted from the interest rates differential while others did not.

The end of the Cold War broke sharply with the economic and political environment forged after World War II. In Europe, the period culminated with the Maastricht Treaty

[44] Portugal from 1976; Spain from 1981.

(1992), the Copenhagen criteria (1993) and the fourth enlargement (1995). This implied a new set of challenges for the EIB and a new lending pattern. We next use a static panel data model to verify whether over the period 1958-1995 EIB lending can be better explained by development and integration than by investment.

3.4 Empirical analysis of the period 1958-1995: model specification and estimation

The model we present here evaluates the extent to which, over the period 1958-1995, EIB loans signed[45] correlate with proxies for development, investment and integration. It therefore seeks to reaffirm the qualitative analysis in section 3.3.

The body of literature on IFIs contains two strands of research that are particularly relevant for our study: IFIs effectiveness and IFIs lending determinants. In the first strand, literature focuses on whether institutions achieve their objectives or not. In the second, studies focus on the determinants of loans, most looking at demand and/or supply (only a handful of studies consider the joint process of loan approval considering both demand and supply). We build on the literature of IFI effectiveness, particularly Gutner (2005, 2010), to understand the extent to which EIB lending reflects its original objectives, while we borrow from the second body of literature to construct our proxies and a range of economic and institutional variables used to explain IFIs lending.

As regards variables, Knight and Santaella (1997), Thacker (1999) and Vreeland (2004) found the level of economic development inversely related to credit, while Bird and Rowlands (2001) and Dreher and Vaubel (2004) found the world interest rate (LIBOR) positively related to credit. This analysis suggests IFIs lend more to poorer countries, which demand more loans, as borrowing in the financial markets becomes more expensive. However, there is a grey area as regards other relevant factors. Evidence is contradictory for variables such as exports, with a non-statistically significant effect according to Thacker (1999) but negative in Bird and Rowlands' (2001) study, or a

[45] There is a lag between loans signature and disbursements.

country's deficit, non-statistically significant according to Thacker (1999) but significant according to Vreeland (2004). In line with these studies, we use GDP per capita as a proxy for development and interest rates and government debt for investment. These studies consider exports as an independent variable. In contrast, to explore integration, we use two proxies: 'intra-EU trade' (a better proxy than exports to account for intra-European trade) and a dummy, 'enlargement', as political strand of integration to explore the contours of lending in practice.

3.4.1 Data and descriptive statistics

We construct our own database[46]. We analyse EIB lending approved to Europe from 1958 to 1995, and also specifically examine infrastructure lending, the bulk of all lending during the period. This more homogenous group covers five large sectors: energy, transport, telecommunications, urban infrastructure and water supply (including sewerage and waste). Data was extracted in units of account, ECUs from 1981 and Euros from 1998. To compare our findings in the international context and to introduce an unbiased rate of inflation, we report all figures in 2005 US dollars[47]. We also employ public borrowing interest rates[48], which we assume to be equivalent to the EIB's lending interest rates (a realistic hypothesis if we accept the EIB's claim to work at a non-profit basis (EIB Statute, 1957, Article 130)).

The panel is unbalanced because our sample includes all the enlargements of that period, starting with the six founder countries and the successive expansions of 1973, 1981 and 1986. We take into account the fact that some countries start receiving loans before they officially accede.

[46] Data was collected through the exhaustive analysis of the HAEU and cross-checked with the official, publicly available EIB database.

[47] Alternatives such as the Atlas method or the ECU were discarded because EU enlargements might influence them and cause bias in our findings.

[48] Constructed as an average of each year public borrowing interest rates.

Table 3.2 provides descriptive statistics for the key variables of interest. The columns cover the sample of 12 countries for which we have compiled the data on EIB lending.

Table 3.2 Descriptive statistics

Variable	*Obs*	*Mean*	*Std. Dev.*	*Min*	*Max*
Ln (total EIB lending) (millions 2005 US $)	456	3.89	3.20	0	8.88
Total EIB lending (millions 2005 US $)	456	739.865	1356	0	7163.04
Ln (total EIB infrastr. lending) (millions 2005 US $)	456	3.37	3.13	0	8.62
Total EIB infrastructure lending (millions 2005 US $)	456	477.796	898.569	0	5540.625
GDP per capita (2005 US $)	432	21285.18	10034.91	4126.53	65275.52
EIB interest rates	456	7.89	1.85	4.5	12.48
Nominal interest rates	353	9.93	3.79	3.91	27.74
Differential of interest rates	353	1.68	3.01	-3.80	17.75
Government debt (as percentage of GDP)	307	49.09	29.57	4.22	134.44
Intra-EU trade (as percentage of GDP)	396	29.90	20.67	5.62	91.50
New country dummy	456	0.07	0.25	0	1
Population (millions)	432	26.26	23.62	0.32	81.68

Notes: Intra-EU trade is constructed as the percentage of intra-European exports of goods plus intra-European imports of goods over GDP.

The dependent variable for our analysis is *EIB lending*, based on our own database. It consists of all loans approved to European countries for the period considered (*ln_total_lending*). We opt for the logarithmic form[49] to facilitate the interpretation

[49] To use the logarithm we replace zero values with the value "1" (ln (1) = 0).

(coefficients can then be interpreted as partial elasticities). A second version of the model will be estimated with a more homogenous sample consisting of *EIB infrastructure lending,* also based on our own database, to contrast our results.

The independent variables were chosen to test the lending objectives of the EIB. The first explanatory variable is (ln) per capita GDP (*ln_gdpcap*), based on the Ameco database of the EC (2016) and taken as a proxy to measure the level of country development. If one objective of EIB lending is to tackle economic disparities, one would expect a lower development to be one of the factors explaining greater lending.

The second economic variable is the differential of interest rates (*diff_rates*) as a measure of the effectiveness the EIB has as an intermediary in financial markets and, hence, of its role for investment. This is constructed as the difference between each country nominal long-term interest rate and the nominal EIB interest rate[50]. Data was obtained from the Ameco database (EC, 2016) and OECD Statistics (2016) in the case of country's interest rates, while EIB interest rates were extracted from our own database. Government debt (as percentage of GDP) (*debt*), based on the Ameco database (EC, 2016), is also included (to control for investment) as the best approximation to account for repayment capability. Each country debt burden is expected to be negatively related to EIB's lending if the Bank is efficient in guaranteeing loans to be repaid so as to maintain a positive perception by financial markets.

Finally, in order to proxy for the EIB lending objective of integration we take intra-European trade (*intra-EU trade*), constructed as the percentage of intra-European exports of goods plus intra-European imports of goods over GDP and based on the Ameco database (EC, 2016). We expect intra-European trade to be positively related to EIB lending due to the EIB's objective of helping establish the Common Market. Albeit imperfect, 'intra-EU trade' is used for two reasons: first, the lack of an unbiased variable to account for the full concept of integration and second, because this proxy is commonly used to account for intra-European trade. Furthermore, a dummy variable (*new_d*) is introduced to control for the effect of newcomers in EIB lending, taking 1 during the first

[50] Both rates refer to an estimated lending period of ten years.

five years after the entrance of a new country and 0 otherwise. Finally, we include *population*, obtained from the Ameco database (EC, 2016), as a control variable for country size.

3.4.2 Methodology

We use a static linear panel data model. We estimate the dependence of (ln) EIB lending on (ln) per capita GDP, the differential of interest rates, the government debt ratio, intra-European trade, a dummy variable for new members and the control variable (ln) population.

Parks (1967) proposed the application of Feasible Generalized Least Squares (FGLS) to time-series cross-section data to deal with heteroscedasticity as well as temporal and spatial dependence. The method performs well in large samples, but Beck and Katz (1995) argue its overconfidence in small ones and the more convenient use of a simpler method: Ordinary Least Squares (OLS) with Panel-corrected Standard Errors, or the PCSE estimator. While the first seems to be more efficient, the second one presents more accurate confidence intervals. Chen *et al*. (2009, p.10) have argued the use of the FGLS Parks estimator to be a better choice for researchers ‘except when the number of time periods is close to the number of cross sections’. Similarly, Reed and Ye (2011) recommend the use of the FGLS Parks estimator when the ratio T/N is higher or equal to 1.5 if we want efficiency, although the PCSE method, it is argued, will provide more accurate confidence intervals. Here, we propose to use the FGLS Parks estimator while we will use the former to check the robustness of our results.

A second version of the model is estimated with (ln) infrastructure lending, the most important share of all lending, as the dependent variable to verify whether this more homogeneous group confirms the results obtained for overall lending and whether infrastructure is more skewed towards a particular lending objective.

3.4.3 Results

Table 3.3 shows estimation results. The first block of two columns reports the FGLS (Parks) and PCSE estimations of model 1, while the second block reports the respective results of model 2.

Table 3.3 Estimation results

	Model 1		*Model 2*	
	FGLS	*PCSE*	*FGLS*	*PCSE*
Ln_gdpcap	-3.869***	-4.914***	-2.403*	-3.191***
	(1.03)	(0.74)	(1.42)	(0.97)
Diff_rates	0.028	0.045**	0.112***	0.115***
	(0.03)	(0.02)	(0.04)	(0.02)
Debt (% GDP)	-0.021***	-0.020***	-0.023***	-0.026***
	(0.01)	(0.00)	(0.01)	(0.00)
Intra-EU trade (% GDP)	0.099***	0.063***	0.081***	0.037
	(0.02)	(0.01)	(0.03)	(0.03)
New_d	0.706**	1.160***	0.588*	0.788***
	(0.29)	(0.22)	(0.31)	(0.28)
Ln_population	4.994*	3.352***	2.659	1.240
	(2.58)	(1.27)	(3.02)	(1.59)
Observations	254	254	254	254
Groups	12	12	12	12
R-Squared	-	0.6487	-	0.6107
Wald-Chi2	657.46	3579.28	444.09	2532.17

Notes: The asterisks ***, ** and * denote significance at the 1%, 5% and 10% levels, respectively. Robust standard errors reported in parentheses. All regressions include a constant, time-trend and country-fixed effects.

For our first model, results suggest that there is a statistically significant negative effect of per capita GDP, reflecting the EIB's development objective. A 1% increase in per capita GDP would be correlated with a 3.8% decrease in loans, a strong effect which may be due to the important differences in the levels of per capita GDP among countries during the period considered. So, data shows that the EIB clearly lent like a development institution even though it also had other lending criteria.

Nevertheless, our second variable, the differential in interest rates, is not significant (and significant at the 5% level but with a minor impact under the PCSE model). Despite the willingness of the EIB to be considered an ‘investment bank’ we find that its role as an intermediary in the financial markets is limited. This is reinforced by the low effect of government debt (a 10% increase of government debt is correlated with a 0.2% decrease in EIB loans), in turn related to the EIB not being particularly concerned by investment in terms of guaranteeing loans repayment and financial markets perception. Undoubtedly, investment was a key challenge during the first years of the EIB, but it does not seem to have been the major outcome. One possible explanation is that once financial markets had approved of the Bank’s way of working and bonds were rated AAA (the highest possible), the role of the EIB for investment would not have been a high priority when lending.

Turning to integration, we find a significant positive correlation between intra-EU trade and lending close to an expectation of a 1% escalation of EIB loans for each 10% increase in intra-EU trade. This suggests the EIB lent to countries favouring the establishment of the Common Market. Additionally, the dummy variable for newcomers would confirm the hypothesis that the EIB acted as an instrument to promote enlargement. Being a newcomer would correlate to roughly double lending volume[51], other things being equal. Both variables would confirm the crucial objective of the EIB to boost economic integration.

To check the robustness of our results we examine the relationship under the PCSE approach. We obtain a similar outcome than that obtained using the first procedure, reinforcing our previous conclusions.

We also estimate model 2 to determine whether our conclusions can be extrapolated to the more homogenous sample of infrastructure investment. It turns out that the effect of per capita GDP is slightly lower, meaning a 1% increase in GDP per capita is correlated

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[51] [Exp(0.706)-1]*100 = [2.02587-1]*100 = 102.587

to 2.4% decrease in loans, which is logical because infrastructure requirements are less elastic than other type of investments. However, in contrast to our previous results, as regards investment, the differential of interest rates is significant (at a 1% significance level). So, it seems that infrastructure lending was (weakly) linked to the role of the EIB as an intermediary in the financial markets: a 10% increase in the interest rates differential correlates with a 1% increase in infrastructure loans. In addition, government debt, even though significant, has, again, a low impact, the correlation still being of 0.2% loans increase for each 10% increase in government debt. Therefore, even if it had a role, it does not seem that the main objective achieved by the EIB was acting as an intermediary for financial markets. Instead, it seems that infrastructure loans, similarly to overall loans, were largely oriented towards integration. A 10% increase in intra-EU trade is correlated with a 0.8% increase in infrastructure lending, and, more importantly, being a new member would correlate to about an 80% higher share[52] of infrastructure loans. Hence, market integration and enlargement were key determinants for EIB lending. Again, we check the robustness of the FGLS estimation with the PCSE approach. Both estimations yield similar results and are reported in Table 3.3.

In general, it seems our model performs reasonably well. All variables have the expected sign and most have statistically significant coefficients. Results are consistent with the economic rational of the EIB for development, integration and investment. Hence, the EIB helped finance large projects, notably infrastructure projects, in the least developed countries, while acting as an instrument for integration with lending encouraging the establishment of the Common Market and enlargement. So, despite the EIB's willingness to be considered an investment bank, the extent to which the investment objective (as intermediary in the financial markets) is relevant seems to be limited in comparison with its other two goals. Overall, the EIB can be seen as a development institution that encouraged economic integration.

[52] [Exp(0.588)-1]*100=[1.8003-1]*100= 80.03

3.5 Conclusions

The EIB was the first IFI created with the purpose of promoting regional economic integration and not just alleviating capital constraints and promoting development, as previously established IFIs, such as the World Bank. However, it remains a neglected EU institution. This chapter identified the extent to which development, integration and investment explained the pattern of EIB lending. It provided a first approach to the Bank´s performance based on the destiny of its lending, used to understand its performance over time. After assembling and processing all data on EIB lending, we selected all finance destined for projects in Europe over the period 1958-1995.

Empirical results are revealing. The variable indicating that EIB lending is related to development is statistically significant, meaning that loans were particularly channelled towards the least developed countries. So, despite the Bank’s founders opting to call it an ‘Investment Bank’, it was more active promoting development, at least, until the mid-1990s. It seems that the effectiveness of the EIB as an intermediary in the financial markets was quite limited. Importantly, integration was a key factor for EIB lending. Two main approaches can be seen: market integration, related to infrastructure lending; and political integration, supporting enlargement.

Our quantitative findings are consistent with the qualitative analysis of the four periods demarcated by the enlargements: 1958-1973 with two priorities, helping Italy (the least developed) and promoting the Common Market; 1973-1981, particularly focused on development and rewarding newcomers; 1981-1986 and 1986-1995 with a lesser emphasis on development but a clear interest in encouraging integration through the Common Market and enlargement.

This all amounts to quite rigorous evidence that EIB lending was destined towards development and integration and, to a lesser extent, investment. The EIB helped to build the Common Market as envisioned by the fathers of the Treaty of Rome (1957), which involved building a strong infrastructure network at the national level and among States. Projects were used as instruments to promote economic development while persuading financial markets of the risk-free investment environment, following the example of the Wold Bank. But they also served as an instrument to encourage the Common Market and enlargement. More research needs to be conducted on the EIB, including on the determinants of EIB lending from a supply/demand perspective and the impact of EIB loans nationally and regionally.

4 European Investment Bank lending practice (1991 – 2015): an analysis of its effectiveness

This chapter is a version of Clifton, Díaz-Fuentes and Gómez (2017b).

4.1 Introduction

The performance of international organizations (IOs), understood as their ability to achieve agreed-upon objectives, has been relatively unexplored by independent research. Despite the IOs capacity to advocate economic policies across different countries (Dolowitz and Marsh, 2000), few scholars have quantitatively and comparatively analyzed IOs effectiveness in meeting their policy objectives and goals. The Great Recession brought renewed attention to them in their capacity to counteract the economic slowdown but most work focused on IOs from an isolated perspective. The World Bank, the IMF or the United Nations were highly scrutinized, whilst the performance of other IOs was ‘neglected’. In the context of the EU, the asymmetry translated in a higher interest for the policy performance of the Commission or the European Central Bank, whereas less known institutions like the EIB remained unexplored.

The time is ripe to rebalance the study of IOs’ performance, particularly IFIs, especially given the importance of some of the ‘ignored’ institutions, such as the EIB, and the criticisms they face questioning their role during the financial and economic crises. The complexity of the debate, though, requires an analytical framework that allows for comparisons. Unfortunately, institutions Mandates are so diverse, even in the context of the EU, that broad and comparative efforts are challenging. While some EU institutions are basically lenders, such as the EIB or the European Bank for Reconstruction and Development (EBRD), others, such as the European Commission (EC) or the European Court of Justice (ECJ), produce policy output in the form of laws.

Nevertheless, a new body of literature aiming to build a framework for use in the performance evaluation of IOs is emerging. We highlight two key contributions. On the one hand, Gutner and Thompson (2010) propose four broad steps to guide IOs performance studies: to establish a baseline, select the indicators to assess performance, specify the level of analysis, and, lastly, recognize and study the sources of good or bad performance. On the other hand, Tallberg *et al.* (2016) argue the convenience of a policy output approach for the empirical analysis of IOs performance, introducing five features to consider: policy volume, orientation, type, instrument, and target.

In this chapter, we continue to focus on lending IOs, namely IFIs, and adapt both frameworks to the study of their performance. Building on this adapted framework we analyze the performance of the EIB in the recent period, including its performance during the crisis (1991-2015). We investigate how the institution behaved in relation to its stated objectives as appeared in the Statutes by combining qualitative and quantitative analysis. We focus on the monetary policy output of the EIB, lending, to empirically assess its performance in the European context. To the best of our knowledge, this is the first study which attempts to empirically analyze the performance of the EIB during this period.

To anticipate our results, we find that from the nineties the EIB shows signs of bad performance. The qualitative and quantitative analysis both indicate that the EIB is not completely fulfilling its Mandate.

We proceed as follows. The next section presents an adapted framework -built on Gutner and Thompson (2010) and Tallberg *et al*. (2016) - to analyze EIB's performance. Section 4.3 operationalizes the proposed framework for the EIB analysis and section 4.4 provides the qualitative analysis of EIB lending to European countries (1991-2015). Section 4.5 presents empirical evidence that complements and confirms our findings from section 4.4. Section 4.6 links the qualitative and the quantitative parts. We conclude summarizing our results and limitations.

4.2 Performance of lending IOs: framework for analysis

The concept of performance can be understood from different angles. It can range from the way in which a task is accomplished (process) to the achievement of the task (outcome). In this chapter, we argue the convenience of taking an intermediate stage for the analysis of lending IOs, notably IFIs, with policy output as the level of analysis. Performance is broadly defined, then, as 'an organization's ability to achieve agreed-upon objectives' (Gutner and Thompson, 2010), either long-, medium- or short-termed. We build, as in Oberthür and Rabitz (2014), on a wide concept that embraces two elements: the policy objectives pursued (ambitiousness) and the degree of goal achievement (effectiveness). Other elements such as efficiency (linking output to expenditure) or legitimacy (the support won from a defined set of actors) (Kahler, 2006) are, thus, left unexamined to focus on the IO policy mission.

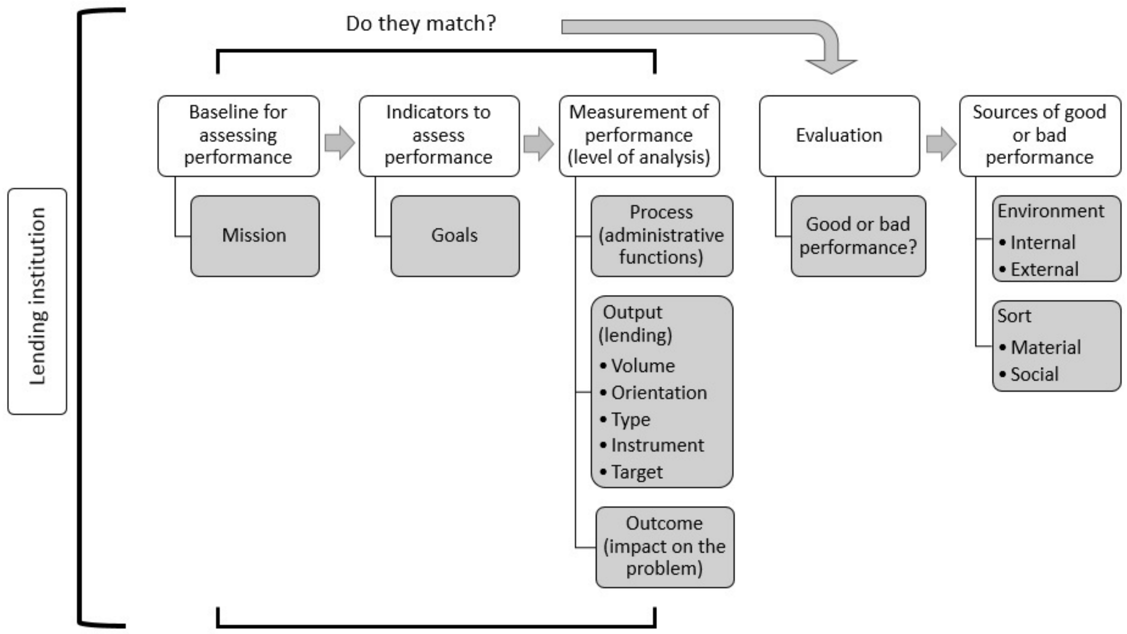
The existent literature addressed to IOs performance builds primarily on three theoretical strands examining organizations: organizational (comprehending organizational effectiveness), international relations (IR) and sociological theories. Nevertheless, while all clarify IOs performance, only organizational effectiveness research addresses organizations performance directly. It departs from the rest in that it does not assume the link between behavior and outcome and, thus, it focuses on whether organizations achieve their goals or not. Instead, classical, neoclassical and modern organizational theories focus on the existence and power of organizations, which are viewed as efficient solutions to market failures. They focus, therefore, on how organizations work and how their goals are met (but not the extent to which they are met). Under the same perspective, IR theories also perceive organizations as effective solutions to problems, implicitly assuming the desirability of organizations as opposed to their absence. Even though some theories (e.g. agency theory) attempt to explain the gap between Mandates and performance, these are still underdeveloped. Finally, sociological theories provide reasons for the existence of inefficient organizations. Building on a different understanding of the relationship between organizations and the environment, aspects such as self-motivation, values and interests, ideas or the historical path may affect outcomes under this perspective. Yet, only Barnett and Finnemore (1999) address IOs performance directly and acknowledge that IOs ‘are prone to dysfunctional behaviors’.

Hence, while most of the scholarly debate on IOs has been led by broad questions, the research on IOs performance is underdeveloped. Nonetheless, some IOs have been more scrutinized than others. The World Bank is probably one of the most studied IOs. It captures most of the scholar’s research either at project (Denizer *et al.* 2013) or sector level (e.g. the environment) (Gutner, 2005). Still, the IMF (Kahler, 2006; Gutner, 2015) or the United Nations (Lipson, 2010) do not lag behind, unlike less studied IOs such as the World Trade Organization (WTO) (Elsig, 2010). This asymmetry is also reflected at European level. Research has focused on known organizations like the EC (Oberthür and Rabitz, 2014), leaving the study of less known European IOs like the EIB behind.

Thus, the literature presents an important gap. Partly due to the difficulties in valuing IOs behavior, few scholars have quantitatively and comparatively analyzed IOs performance, and even fewer have considered little known IOs. On the one hand, goals are often ambiguous and vague; in practice, they can even conflict (Gutner, 2005). On the other, IOs are prone to different assessments depending on the analyst judgment, or what Gutner and Thompson (2010) call the 'eye of the beholder' problem. Nevertheless, with the Great Recession IOs have caught the attention of policy makers and scholars.

Even if these difficulties and the wide range of existent IOs make comparative efforts challenging, important contributions to build a framework for the comparative evaluation of IOs performance have been made with Gutner and Thompson (2010) and Tallberg *et al.* (2016) frameworks. We argue that both frameworks can be jointly adapted to guide the comparative study of lending IOs performance in terms of their ambitiousness and effectiveness. Under this adapted framework, findings, then, can be organized through five broad steps. First, the selection of a point of reference or baseline against which to assess performance. We propose the use of the IOs mission, which allows selecting the policy objectives pursued with its existence and analyzing their ambitiousness. Second, the identification of the indicators employed to value the extent to which the IOs mission is being met. Third, the specification and justification of the level of analysis chosen. Gutner and Thompson (2010) identify at least three levels: administrative tasks and procedures (process), intermediate goals (output) and the broad impact on the problem (outcome). Following Tallberg *et al*. (2016), we argue that the best choice for lending IOs is output. Therefore, we propose to analyze lending (IOs output) in terms of the indicators selected (in step 2) by looking to five features: volume, orientation, type, instrument and target. This analysis is confronted, in a fourth step (evaluation), to the IO mission. To what extent are the IO policy goals met? It may be that different sources (internal or external, material or social) affect performance. Next, this resulting adapted framework (figure 4.1) is applied to the analysis of the EIB.

Figure 4.1 Framework for analysing lending IOs performance



Notes: the items in figure 4.1 are drawn from Gunter and Thompson (2010), Tallberg *et al*. (2016) and research for this article.

4.3 Applying the framework to the EIB

Having established an adapted framework based on Gutner and Thompson (2010) and Tallberg *et al*. (2016) to comparatively analyze lending IOs, we now proceed to its implementation on the analysis of the EIB performance from 1991 to 2015.

4.3.1 Baseline

First, we take the EIB’s mission as established in its Statutes and official documentation as the baseline against which to assess the IO performance. Just like Elsig (2010) who looks at the treaty texts of the WTO, we expect the Statutes and official documents to reflect the EIB’s *reason d’être*. The EIB emerged in the immediate post-war period (1957), characterized by strong investment needs and capital constraints. The creation of the EEC-EU added an extra need for cross-border investment and intensified fears that disparities would grow. As we saw in the previous chapter, to address those problems, the EIB was conceived as the first lending institution with regional integration, or the ‘development of the Common Market’ (EIB Statute, 1957, Article 130), embracing market integration and the enlargements, as one of its core lending objectives. The other two being investment (understood as the rebalancing of capital markets and the reduction of borrowing costs) (HAEU, 24/09/1956) and the promotion of economic development (to prevent imbalances and encourage economic growth, particularly in the least developed regions) (HAEU, 26/09/1956), objectives already established in the World Bank (source of inspiration for the EIB). From the 90s, however, concerns relating to the environment and the reduction of unemployment gained weight and the EIB attempted to embrace these new objectives (EIB Statutes, 1991, 1995). Therefore, we will value EIB’s performance in terms of what we recognize as its original mission and its extended mission.

4.3.2 Indicators

The second step requires the selection of the indicators to assess the EIB’s performance. Denizer *et al*. (2013) employ per capita GDP growth to measure development, while they use assessment ratings to evaluate policies and institutions quality.

Our indicators must reflect the EIB five main objectives identified in the previous step. First, we select three indicators to proxy for investment: the differential of interest rates between each country and the EIB, government debt and the consumer price index (CPI). While interest rates differential reflects the EIB role as intermediary in the capital markets, the government debt accounts for indebtedness and repayment capability, and the CPI captures instability. Second, integration is valued through two indicators: intra-European trade and the incentives provided to support the enlargement (e.g. lending given to potential Members), in the absence of an unbiased indicator that accounts for the full concept of integration. Third, the level of economic development is indicated by per capita GDP. Fourth, the environment is valued through the percentage of projects financed to this end, which for simplicity we assume to be those pertaining to the agriculture, solid waste and water and sewerage sectors. Finally, the indicator for unemployment is the unemployment rate. These indicators, although imperfect, reflect the stated objectives of the EIB. A priori, we would expect the Bank's performance to accomplish them, whether influenced by supply or demand side considerations.

4.3.3 Measurement and evaluation

Third, we opt for an output approach as the best way to reflect lending IOs actions. Gutner (2015) takes a similar approach to evaluate IMF performance. Like him, we employ lending, directly controlled by the IO and, thus, more amenable to comparative analysis. Following Tallberg *et al*. (2016), we propose to cover five lending features: volume, target, orientation, type and instrument. Hence, in the next section we analyze the loans provided by the EIB to European countries considering their amount (volume), the countries (target), the sectors (orientation), the kind of output (type) and whether they constitute hard o soft policy (instrument). These five features should give us a rich and complete picture of EIB's lending, which we confront to the Banks mission (in terms of our selected indicators) to evaluate its performance. Does lending comply with the EIB goals? We will see whether the EIB demonstrates good or bad performance.

4.3.4 Sources of performance

A final step would include the analysis of the reasons driving the performance of the EIB. Lending institutions performance depends on both, member states and the staff of the organization, which in turn can be influenced by internal or external sources. Lending is possibly driven by a combination of all these factors. This investigation, though, is restricted to analyze the extent to which the EIB is meeting its mission and not the reasons, which constitutes another study.

4.4 The performance of the EIB: a qualitative analysis

In this section, we mobilize our adapted framework to systematically evaluate EIB performance. We examine lending given to European countries from 1991 to 2015 in terms of the indicators above mentioned. The analysis relies on official information provided by the EIB on contracts signed by country and sector, which is complemented by our own database collected through the exhaustive analysis of the Historical Archives of the European Union (HAEU).

In the first place, we look on the evolution of the loans volume granted by the Bank along time. This allows us to weight its importance in the context of the EU but also in comparison against other lending IOs. Second, we explore the policy target of loans or, in other words, the countries to which loans were addressed. Third, regarding the orientation of loans we identify seven areas to which lending is addressed: agriculture (including fisheries and forestry); credit lines; education; health; industry; infrastructure (comprehending composite infrastructure, energy, solid waste, telecoms, transport, urban development, water and sewerage) and services. We will see that some of them receive all the attention. Fourth, we discuss which type of policy is lending and, finally, we analyze what kind of instrument it is. We operationalize the five features in the analysis of EIB lending below.

4.4.1 Volume

EIB lending followed such exponential trend since the Bank's creation that it overcame World Bank loans volume in 1991 (EIB Annual Report, 1991), becoming, since then, the largest lender worldwide. That year opened, for the Bank, a new post-cold War period marked by the unification of Germany and the dissolution of the Soviet Union, but also by the creation of the EBRD and the establishment of the Single Market in 1993. The integration project seemed, at that time, to be working and the EC arranged a fourth EEC-EU enlargement, to which the EIB would contribute. In fact, by 1991 the capital subscribed, which amounted to 57.6 billion ecus, was already benefiting all current 28 Members except for Croatia.

The adhesion to the European Community of Austria, Finland and Sweden in 1995, just after the European Economic Area (EEA) and the European Investment Fund (EIF) started to function, implied the signature of a new Statute with new demands. On the one hand, a new protocol to promote regions with low population was approved under request of the new members. On the other, specific aid to 'certain areas' of the Federal Republic of Germany was conceded as compatible with the common market 'in order to compensate for the economic disadvantages caused by that division' (EIB Statute, 1995). This new requests implied new efforts to increase lending and, despite a slight decline in 2000 - 2001 during the early 2000s recession (affected by the weakness of the euro and inflation), on balance, from 1995 to 2004, the Bank increased lending.

Further efforts were required in 2004. That year, just after the Treaty of Nice (2003) reformed the EEC-EU so it could withstand future enlargements, eight Central and Eastern European countries, plus two Mediterranean countries joined the European Community; the largest single enlargement up to date. The enlargement affected the redistribution of power and meant an increase of resources, amounting to 163.65 billion euro, less than 5% belonging to capital subscribed by the ten new Members. The upward trend was maintained until 2009, despite a subtle decrease in lending in 2006 and 2007, coinciding with the sixth enlargement of Bulgaria and Romania and the financial crisis that lead to the Great Recession. Precisely the new depressed economic environment of 2008 forced the EIB to exert a countercyclical role by increasing its loan volume. However, this was not sustained and from 2009 loans decreased, hitting bottom in 2012, thereafter increasing again coinciding with the last enlargement of Croatia in 2013. Yet, a new decrease in 2015 put an end to this upward trend.

4.4.2 Target

It is crucial to identify which countries benefited the most in each period to ascertain the extent to which the EIB met its mission. During the first years of its existence, the Bank benefited Italy, the least developed. Particularly until 1966, due to the disastrous economic situation in the Mezzogiorno (southern Italy), up to 77% of the Bank's resources went to this country. Progressively the situation changed: with increased resources and an enlarged Community, also a redistribution of resources came along.

The 90s seem to bring a change of logic. The poorest are not necessarily the highest recipients of lending as before. From 1991 to 1994 Italy and Spain receive more in absolute terms than Greece or Portugal, the least developed Members (by per capita GDP), even if it is true that in relative terms Portugal benefits the most, obtaining seven times the percentage contributed. Together with Denmark, it is, in per capita terms, one of the highest recipients of loans, which is essentially due to the call for increasing Portuguese contributions (from the EIB) that appeared in the Declaration by the EEC annexed to the Final Act concerning its Accession (EIB Statute, 1991).

The fourth enlargement (1995) reinforces the start of a major change in the distribution of loans. In absolute terms, for the period 1995-2003, Germany, together with Italy and Spain, benefits the most from EIB lending (despite Greece or Portugal still having a lower per capita GDP). If in the previous period Germany was getting less than the percentage it was subscribing, since 1995 that difference practically disappears: the new EIB Statute (1995, Article 92) approving specific aid to 'certain areas' of Germany bore fruit. Instead, France and UK continue as net contributors, getting a lower percentage of lending, while Portugal and Spain as net beneficiaries, the later progressively increasing its share (possibly driven by the persistent high unemployment rates) at the expenses of the former.

The inclusion of ten new Members in 2004 stresses the trend whereby neither the least developed nor the countries with higher unemployment are necessarily the largest recipients of funding. From this year until 2006, Germany, Italy and Spain benefit most in absolute terms from EIB loans. In relative terms, instead, France and UK reduce their contribution in relation to previous years, whereas Portugal and Spain experience a decrease in the differential between the percentage of capital subscribed and received. It seems each country gradually approaches its own contribution (in percentage terms), creating a system where 'you get what you give'.

The period (2007-2012), characterized by Bulgaria and Romania enlargement and the beginning of the Great Recession, continues along the same path. Germany, Italy and Spain persist as the highest beneficiaries of lending in absolute terms, even if Germany and Spain slightly decrease their share in relation to the previous year. Moreover, in relation to the percentage differential between capital subscribed and amount received, France and the UK carry on making the highest contributions, in contrast to Poland, which receives even more than the previous period, and Spain, still getting a good share of loans. Attention is also drawn to Estonia and Portugal, both getting a percentage five times larger than the percentage in capital subscribed.

Finally, the last enlargement of Croatia diluted even more the alleged cooperation of the EIB, with lessened differences between the percentage of capital contributed and received. Even so, it is worth mentioning outstanding cases for the period 2013 – 2015. Spain and Italy went on as beneficiaries in absolute terms, unlike Germany, who saw its loans diminished. In fact, during this period Germany got a lower share than the capital percentage it subscribed, while France and UK got a higher share of lending than before, hence reducing the differential (in percentage terms) between contributions and loans. On the other hand, Poland maintained an upward trend in its loans, being the only country to receive a percentage as much as four times the percentage of capital subscribed. Indeed, overall, the analysis suggests a tendency towards a mechanized process of lending approval where 'you get what you give' (as a share of the total).

4.4.3 Orientation

The progressive change in the Bank's policy is also visible as for the kind of projects funded. Until the 90s, the focus of EIB lending had been on infrastructure. Mimicking the World Bank, the idea had been to fund sound and profitable projects (HAEU, 02/10/1956). From its beginnings, its efforts went to telecommunications, energy and transport. From the 90s, though, the share addressed to infrastructure decreased more and more in favor of credit lines, industry, agriculture, education and services, from which credit lines and industry resulted most benefited. Indeed, only four sectors (credit lines, energy, industry and transport) captured more than 70% of the loans during the period 1991-2015. In the 90s the EC adopted the first action plans on trans-European networks with the idea to reinforce integration and the internal market (EC, 1995), which was reflected in EIB lending decisions. Thus, transport and energy became the main stalwart to ensure integration. The other two pillars of the EU project being credit lines and industry to stimulate the economy.

For the years 1991-1994, the emphasis was on energy, transport and credit lines, which benefited from the low interest rates offered by the Bank in this period. Nevertheless, from 1997, energy lost ground to transport, key to successfully integrate the Eastern bloc that was about to join. In fact, from 1997 up to 2007 transport and credit lines (key for the promotion of the economic and business structure) were the core sectors of investment, even if they did not benefit much from EIB interest rates (due to a reduction in the borrowing costs on capital markets).

On the other hand, the increase of lending induced by the Great Recession was accompanied by a rise in loans precisely towards these four sectors: credit lines, energy, industry and transport. Unfortunately, the increase was not sustained in time and a decline in lending, concentrated on energy and industry loans, took place from 2009 to 2012. Thus, from 2013 to 2015 lending was concentrated in credit lines, which increased, and transport, despite a slight decrease in relation to the previous years. The Bank changed from financing infrastructure to focus on transport and credit lines, sometimes accompanied by an emphasis on energy and industry. Despite the declared concern for the environment, it continued to disregard the agriculture, solid waste and water and sewerage sectors. But when it did not, it is still questionable how some projects are considered ‘environmental’ projects.

4.4.4 Type

EIB lending acts both like redistributive and declarative output. In the first case, it attempts to maximize welfare by benefiting countries in need of investment without a major financial drain to the others. In the second, lending promotes EIB interests, usually reflection of the Commission plans.

If we look back at when the EIB started, its creation was influenced by US and World Bank policies. These had long been governed by an implicit willingness to end with communism, taking the establishment of capitalism and the end of poverty as key elements for this purpose. The EIB took on, then, both objectives as their own, getting into their implementation and promotion. On the one hand, it encouraged the establishment of the market. On the other, it started to redistribute resources through loans. It became a policy entrepreneur that, thanks to its expertise, can push policy solutions aligned with its own interests and views. Particularly since the nineties it became a 'market-maker' (Clifton *et al*., 2014b) with the ability to legitimate trade and integration as the best possible way to bring out economic growth. In so doing, it has advocated the same policies across Member states but also across strategic countries of interest for the EU to institutionalize 'best practice' policies (Dolowitz and Marsh, 2000), and it continues to do so.

4.4.5 Instrument

Loans are a soft policy instrument that is used to promote certain actions without binding provisions. EIB loans are, then, a 'not formally legally binding' instrument that has 'the aim of exercising a form of authority or persuasion' (Shaffer and Pollack, 2013). As opposed to lending given by the EBRD, which assists only those countries 'committed to and applying the principles of multi-party democracy [and] pluralism' (EBRD, 2018), EIB loans do not have policy requirements. Countries, though, are expected to comply with EEC-EU law even if, in practice, the non-compliance does not seem to entail any punishment. As a matter of fact, during the late seventies, neither France or Italy complied with rules (France did not comply with the Euratom Treaty, Italy did not abide by the air pollution standards), still both continued to get EIB lending (Lewenhak, 1982). Rather, the threat relies on peer pressure, which may (or may not) be effective depending on the power enjoyed by each country.

4.5 Quantitative analysis

The above has provided a qualitative analysis of EIB lending to European countries to understand the extent to which the EIB is implementing its Mandate. As indicated by the lower priority given to less developed countries and the only clear emphasis on integration, a rift formed between goals stated in EIB's Mandate and policy output. Nevertheless, to verify our findings, we now use a quantitative approach.

4.5.1 Data and variables

Our dataset includes observations from the 28 countries of the European Union from 1991 to 2015. The panel is unbalanced because countries start getting loans in different years.

Our dependent variable is EIB lending, which considers all loans made by the EIB to each country for the period considered. We opt for the logarithmic form to facilitate the interpretation (as partial elasticities). This is replicated with a more homogenous sample consisting of EIB infrastructure lending to contrast our results. EIB lending is taken from the EIB Annual Reports (1991-2015) and the EIB Official Database (2017).

Our analysis focuses on the EIB's mandate, which reflects the purpose of the EIB. Variables can a priori reflect supply and demand side considerations. The first explanatory variable is (ln) per capita GDP, based on Ameco database (EC, 2016), and taken as a proxy to measure the development of each country.

To measure EIB's compliance of its second objective, investment, we take the interest rates differential between each country and the EIB (which consists on the difference between each country and the EIB nominal interest rates[53]), the CPI percentage difference and government debt. In the first case data was obtained from Ameco (EC, 2016) and the OECD Statistics (2016) for countries rates and from the EIB Annual Reports (1991-2015)

[53] Both rates refer to an estimated lending period of ten years.

for EIB rates, while data from the other two variables was obtained from Ameco (EC, 2016).

The compliance of the third objective, integration, is proxied by two variables: intra-European trade, constructed as the percentage of intra-European exports of goods plus intra-European imports of goods over GDP and based on Ameco (EC, 2016), and a dummy variable for newcomers. Intra-European trade should be favored to encourage the establishment of the Common Market. The ‘new country dummy’ attempts to control for the effect of being a newcomer, taking 1 during the first five years after the adhesion of a country and 0 otherwise.

The fourth objective, unemployment, is measured through the unemployment rate, while the environment (fifth objective) constitutes a diffuse and difficult concept to measure and is left outside the quantitative analysis to avoid bias.

Further, to test hour hypothesis on the correlation between EIB lending and capital subscribed by each country, we introduce the percentage of capital subscribed by each country (EIB Statutes). We also add a dummy variable (dummy crisis) to account for the breach the financial crisis of 2008 could have meant, taking 1 after the financial crisis (2008-2015) and 0 before.

4.5.2 Method

In this section, we employ a static linear panel data model to investigate which factors correlate with EIB lending. We analyze various statistical models with EIB lending as our dependent variable and subscribed capital as principal explanatory variable of interest to test our hypothesis: ‘you get what you give’ (as a share of the total).

We propose to use Driscoll and Kraay (1998) estimator, which ‘produces heteroscedasticity -and autocorrelation-consistent standard errors that are robust to general forms of spatial and temporal dependence’ (Hoechle, 2007, p.2). Nevertheless, since the choice of the estimator can impact research findings (Reed and Ye, 2011), we check the robustness of our results with Panel Corrected Standard Errors (PCSE) and Feasible Generalized Squares (FGLS).

Both PCSE and FGLS estimators allow for serial correlation, heteroscedasticity and cross-sectional dependence (Beck and Katz, 1995), the first one being more convenient 'when the number of time periods is close to the number of cross sections' (Chen *et al.*, 2009, p.10), as it is our case. Even though lending is a censored variable, we discard the use of a Tobit model, given that the use of fixed effects with these models tends to generate bias and the fact that only about 4% of the observations (20 out of 512) are effectively censored. Still, the Tobit model with random effects should not be too different from our proposed method and we further check this.

To further investigate whether our results remain similar with the more homogenous sample of infrastructure investment, we further replicate the estimations restricting our sample to this sector.

4.5.3 Results

Table 4.1 presents the results of the different estimations. In all cases, the effect of capital subscribed on total EIB lending is positive and significant at least at the 5% level, a 10% increase in the subscribed capital correlating to around 13% higher lending. Driscoll and Kraay (1998) estimator also suggests a correlation between EIB lending and (ln) GDP per capita (contrary to our expectations, a 1% higher GDP per capita relates to 4.9% larger lending), the CPI differential (a 10% increase correlates to 0.74% higher lending), unemployment (a 10% increase correlates with 1.38% higher lending) or the years of the crisis (the probability of getting lending was around 80% higher).

The results for the corresponding restricted model of infrastructure EIB lending are reported in the last 4 columns of Table 4.1. The coefficients on capital subscribed are significant (except on the FGLS estimation), a 10% increase in the subscribed capital correlating to around 11% higher lending, this time accompanied by a positive significant effect of the newcomers dummy (it correlates to around five times more lending).

The importance of capital subscribed is robust to the specification used. It seems neither the original objectives of the EIB nor the new ones assumed in the nineties are truly driving EIB lending. We, thus, conclude that a mechanized process where ‘you get what you give’ predominates. Whatever the causes, which should be analyzed in another study, the Bank presents signs of bad performance.

Table 4.1 Determinants of EIB lending to European countries (1991 – 2015)

Dependent variable	*Ln. Total lending*				*Ln. Infrastructure lending*			
	Driscoll	FGLS	PCSE	Tobit	Driscoll	FGLS	PCSE	Tobit
Ln GDP pc	4.944*	1.631	2.623	2.657	2.230	1.641	3.685	3.698
	(2.43)	(1.09)	(2.36)	(2.34)	(3.99)	(2.48)	(4.32)	(5.03)
Diff. rates	-0.116	-0.045	0.020	0.020	0.010	-0.058	0.142	0.163
	(0.08)	(0.03)	(0.07)	(0.10)	(0.19)	(0.07)	(0.18)	(0.22)
Differential CPI (%)	0.074***	0.066*	0.080	0.083	0.080***	0.024	0.185	0.214
	(0.01)	(0.03)	(0.05)	(0.08)	(0.02)	(0.08)	(0.19)	(0.17)
Gov. debt (% GDP)	-0.002	-0.001	0.007	0.007	-0.009	-0.011	0.005	0.005
	(0.01)	(0.01)	(0.01)	(0.01)	(0.02)	(0.01)	(0.03)	(0.03)
Intra-European trade	0.007	0.001	0.010	0.010	-0.023	-0.012	-0.000	-0.001
	(0.01)	(0.01)	(0.01)	(0.02)	(0.03)	(0.02)	(0.02)	(0.04)
New country dummy	0.350	0.163	0.183	0.198	1.826**	0.697	1.705*	1.975*
	(0.48)	(0.18)	(0.37)	(0.48)	(0.86)	(0.46)	(0.91)	(1.02)
Unemployment rate	0.138**	0.042	0.062	0.064	0.076	0.034	0.038	0.041
	(0.05)	(0.03)	(0.06)	(0.08)	(0.10)	(0.06)	(0.15)	(0.16)
Subscribed capital (%)	1.313***	0.571***	1.420***	1.466***	1.119**	0.0252	1.108***	1.270***
	(0.43)	(0.13)	(0.14)	(0.21)	(0.41)	(0.15)	(0.32)	(0.44)
Crisis dummy	0.587*	-0.890	1.475	1.519	0.598	0.563	-4.859	-5.449
	(0.33)	(1.63)	(2.55)	(3.72)	(0.83)	(3.40)	(8.91)	(7.97)
constant	-37.896	2.388	-13.224	-13.794	-9.601	1.938	-18.897	-18.935
	(25.67)	(11.05)	(23.63)	(24.04)	(41.01)	(25.03)	(42.16)	(51.62)
Sigma u								
Constant	-	-	-	0.000	-	-	-	0.000
				(0.13)				(0.27)
Sigma e								
constant	-	-	-	2.831***	-	-	-	6.000***
				(0.09)				(0.21)
R-sqr	-	-	0.596	-	-	-	0.435	-
dfres	27	-	-	-	27	-	-	-
BIC	-	-	-	2869.6	-	-	-	3403.5
Wald-Chi2	-	706.82	48768.72	715.34	-	357.76	555512.37	347.70
Observations	512	512	512	512	512	512	512	512
Groups	28	28	28	28	28	28	28	28

Notes: The asterisks ***, ** and * denote significance at the 1%, 5% and 10% levels, respectively. Robust standard errors reported in parentheses. Time and country fixed effects are included in all regressions but not shown.

4.6 Linking the qualitative and quantitative analysis

The quantitative model complements and verifies our insights from the qualitative study of EIB lending. Both our qualitative and quantitative analysis drive us to the same conclusion: the bad performance of the EIB in terms of fulfilling its Mandate. Considering the amount of lending, it seems lending is highly correlated to the amount of capital subscribed, meaning that the share you get is proportional to the share you give, but not particularly driven by the Bank’s stated objectives.

Economic development was one of the core objectives of the Bank and the main driving factor behind lending through its first years of existence, but gradually, and particularly from the nineties onwards, the objective started to die away, as evidenced by the empirical analysis.

Investment did not replace development as the main factor driving lending, though. At the end of the nineties the differential of interest rates between each country and the EIB was reduced, even reaching, in the middle of the twenty-first century, average EIB rates above country rates. France, Germany or even Spain had similar rates to the Bank, even if a few countries like Greece, Poland or Portugal did benefited from lower rates than the national ones. On the other hand, the consumer price index differential indicates that there was high instability in Eastern countries, particularly in Bulgaria, Hungary, Latvia, Lithuania and Romania, with high government debt (as a percentage of GDP) in Belgium, Greece, Italy and, in more recent years, Ireland, Portugal or Spain. Although the Bank did not particularly favor Eastern countries, it favored some indebted countries, which had to cope with Maastricht criteria. Nevertheless, as the empirical analysis shows, overall, neither of these variables was a crucial factor driving lending.

Integration, instead, was one of the core objectives sustained along time at least on two fronts. First, the type of projects financed emphasized transport and energy, core pillars for market integration. Second, the several enlargements extended the limits of the EEC-EU and the targeted countries of EIB loans. Through lending, the integration of the new Members was fostered. Also noteworthy is the emphasis on financing credit lines and industry, both relevant sectors for the economic dynamism and the promotion of the capitalist system. It seems the pursuit of the Common Market, through its construction, expansion and invigoration, has always been, to a higher or lower extent, the motor of the Bank, even though the empirical analysis suggests that during this period it was not its main purpose.

Finally, the 90s brought two new objectives into scene: the environment and unemployment. Environmental policy became a crucial issue, at least in paper, but in practice it is difficult to discern investments actually contributing to the environment from those reclassified as contributing to the environment (despite being the same investments as before). For example, waste incinerations plants are considered ‘environmental’ projects despite them generating carcinogenic dioxins and highly toxic wastes (Counter Balance, 2011). Even if there has been some efforts to address the issue, as evidenced by the loans to forestry projects in Poland (1993) and Spain (1995) (EIB Annual Report, 1993, 1995), loans to agriculture, solid waste and water and sewerage sectors - more likely to work in favor of the environment - were negligible. As for unemployment, it is said to explain the large amounts of lending given to countries like Spain (Robertson, 2015), but this is at odds with the relatively low lending received by high unemployment countries like Greece. Neither of both objectives, thus, actually explain lending.

As a matter of fact, the bad performance of the EIB is not surprising given the proliferation of goals and Member Countries. This ‘goal (or countries) congestion’ would have inhibited IOs such as the World Bank from fulfilling its policy goals (Gutner, 2002). Likewise, the EIB could have seen the gap between its goals and the extent to which they are carried out in practice to grow as the number of goals and Members was growing. Nevertheless, it is beyond the extent of this dissertation to explain the causes behind the bad performance of the EIB. We refer to table 9.9 (appendix 9.2) for potential sources of EIB bad performance and leave the debate for a deeper research.

4.7 Conclusions

The scrutiny faced by IOs today is higher than ever before. The economic crisis evidenced the impact that IOs policies may have on the economic sphere. Nevertheless, despite their critical role as policy makers, scholars have failed to comparatively analyze their performance. Work has been limited to the study of some IOs at the individual level, leaving unexplored less-known institutions such as the EIB but also a gap in terms of comparative analysis.

This chapter has provided an adapted framework for the comparative analysis of lending IOs and has applied it to the study of a largely ignored European institution: the EIB. It has given a first approach to the EIB's performance based on its goal achievement and policy objectives pursued. After assembling and processing all data on EIB lending we, thus, have analyzed loans from 1991 to 2015 taking the mission of the EIB as stated in its Statutes as our reference point to value its performance. The extent to which economic development, investment, integration, the environment and unemployment are met is, qualitatively and quantitatively, tested.

The findings of the study were quite illuminating, providing insight into which factors may be driving EIB lending. In theory, the EIB is oriented to the attainment of the objectives appeared in its Statutes. In practice, though, the qualitative analysis indicates that over time capital subscribed gradually started to determine EIB lending and it ended up dominating the general trend over the whole period 1991-2015, which is supported by the quantitative analysis.

Our analysis helps to shed light on the debate on the EIB and lending IOs. It is time to rethink their role and performance. This chapter attempts to provide an adapted framework for the comparative analysis of such IOs. Lending IOs like the EIB are in a unique position to affect policy making and they are not receiving enough attention.

5 INSTITUTIONAL COMPLEMENTARITY THEORY: AN ANALYSIS OF THE EBRD AND EIB RELATIONSHIP

This chapter is a version of Clifton, J.; Díaz-Fuentes, D. and Gómez (2019).

5.1 Introduction

The creation in the 90s of the European Bank for Reconstruction and Development (EBRD) represented a new financial actor to the landscape of previously existing Multilateral Development Banks (MDBs) and Regional Development Banks (RDBs). Geographically, the EBRD would sit near to the EIB, which had been operating for more than 30 years. The main idea behind the establishment of the EBRD was to cover the financial shortage which Central and Eastern European countries were experiencing after the end of the Cold War, encouraging their recovery and transition towards capital markets. Partly due to the challenges that Germany, until then one of the main aid contributors, was facing with the re-unification at home, the creation of a new RDB gained strength. Notably, the French president François Mitterrand greatly encouraged its creation in order to help these countries 'to adapt to the change in discipline' and 'make sure' they would 're-join Europe' (OJEC, 1989a, p.3).

Since the EIB was 'oriented towards another part of Europe', Mitterrand supported the creation of a new financial body for Eastern Europe which 'should involve all the well-wishers of the world and all types of capital' so as to support a transition towards democratic regimes (OJEC, 1989b, p.5). The EBRD emerged, then, as a supplementary institution of the EIB, meant to cover the funding gap Eastern European countries were experiencing with the change of political and economic regime. The EIB would retain its focus on EU Member countries while the EBRD would be in charge of the transition of Central and Eastern Europe countries, at that time outside the European Economic Community (EEC).

The EBRD, therefore, was expected to complement the EIB, meaning that (in face of the Central and Eastern European challenge) the performance of the EIB would improve with the presence of the EBRD. To be clear, drawing from institutional complementarity theory, two institutions such as the EIB and the EBRD are said to be complementary when the performance of one (in this case the EIB) improves with the presence of another (the EBRD). But, in principle, this complementarity can take two forms: the form of supplementarity, if one organization (the EBRD) offsets the weaknesses of the other (the EIB), or synergy, if organizations mutually reinforce each other. The idea when the

EBRD was created was to take this first form of supplementarity, covering the funding gap of Eastern European countries.

In practice, however, the EIB also had the power to lend in Central and Eastern Europe, which in fact it had already done[54], so to some extent the birth of the EBRD posed a challenge to the EIB, which arguably had to adapt its future activities to the new institution (EC, 2013). However, only 14 years later, the EIB and EBRD presided over a different Europe, when, from 2004, a completely new landscape with the European enlargement to eight Central and Eastern countries (Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovakia and Slovenia) and two Mediterranean islands (Cyprus and Malta) emerged. Clearly, this posed a challenge for both the EBRD and the EIB, which presumably had to re orientate its activities, evolving to a new complementarity in the form of synergy.

Little attention has been paid in the literature to how the creation of a new financial actor within a similar geographical space may affect lending strategies of pre-existing actors. How have the lending practices of the EIB and EBRD evolved over the period? Is lending in Central and Eastern Europe still driven by the EBRD despite countries having joined the EEC-EU? Do the banks reinforce each other or is there a duplication of tasks? Little academic research has been carried out on these questions, despite their broad consequences for the European institutions. Only recently, after the Great Recession, there has been increased debate about the role of the EBRD and the EIB, and their need for coordination (Darvas, 2009; Vandenbroucke *et al.,* 2011). Nevertheless, few academic studies have jointly analysed their lending. The time is ripe to remedy the lack of research and inquire further into the nature of their relationship.

This chapter analyses EIB and EBRD lending given to the countries which borrowed from both institutions since the start of operations of the EBRD in 1991 up to 2015. The 2004 enlargement, which transformed 10 countries (of which eight belonged to Central and Eastern Europe) into EU members at once and the 2007 crisis, fundamentally affected the

[54] For example, the EIB lends to Yugoslavia since 1977, to Cyprus since 1981 and to Hungary and Poland since 1990.

strategy of those Banks. The chapter analyses lending and focuses on the relationship between both institutions.

As we shall see, our qualitative research indicates that countries tend to get lending from one bank or the other depending on their 'EEC-EU classification' as EEC-EU Members, EEC-EU candidates and potential candidates, other European countries (those that are not members, candidates or potential candidates) or non-European [55] (EU, 2017). In particular, EEC-EU Members tend to get more lending from the EIB; while candidates and potential candidates receive resources from both. Instead, other European countries receive more from the EBRD (although gradually the EIB is gaining weight), whereas non-European countries get more lending from the EIB if they belong to North Africa and Mediterranean countries and from the EBRD if they are located in Central Asia. At the same time the classification in transition[56] and non-transition countries (made by the World Bank) underlies our findings. Since the EBRD was specifically established to help transition countries, traditionally this group received more lending from it than from the EIB. Nevertheless, gradually the EIB started to gain ground, which was heightened by the global financial crisis, and lend more to transition countries (than originally intended). The fact that the EIB is lending more to North Africa and Mediterranean countries, which are market oriented, and the EBRD to Central Asia, formed by transition countries, is a mere reflection of this underlying classification.

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[55] EU Members (both EIB and EBRD loan recipients): Bulgaria, Croatia, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia and Slovenia (transition) and Cyprus and Greece (non-transition). EU candidates and potential candidates: Albania, Bosnia and Herzegovina, Former Yugoslav Republic of Macedonia, Kosovo, Montenegro and Serbia (transition) and Turkey (non-transition). Other European countries: Armenia, Azerbaijan, Georgia, Republic of Moldova, Russian Federation and Ukraine (transition). Non-European countries: Kazakhstan, Kyrgyzstan, Mongolia and Tajikistan (transition- Central Asia) and Egypt, Jordan, Morocco and Tunisia (non-transition - North Africa and Mediterranean).

[56] Countries in transition: Albania, Armenia, Azerbaijan, Belarus, Bosnia and Herzegovina, Bulgaria, Croatia, Czech Republic, Estonia, Georgia, Hungary, Latvia, Lithuania, Kazakhstan, Kosovo, Kyrgyzstan, Former Yugoslav Republic of Macedonia, Republic of Moldova, Mongolia, Montenegro, Poland, Romania, Russian Federation, Serbia, Slovakia, Slovenia, Tajikistan, Turkmenistan, Ukraine, Uzbekistan (IMF, 2000; World Bank, 2002b; World Bank, 2010; Ianchovichina and Gooptu, 2007).

We therefore hypothesize that these broad trends emerged from the need to bring institutional coherence to the new setting created with the establishment of the EBRD and the historical evolution of events. As it will become clear, the creation of the EBRD in 1991 was conceived to supplement the EIB. Nevertheless, through time their coexistence tended towards a synergy whereby both institutions mutually reinforce each other.

The rest of the chapter is divided as follows. The next section discusses the literature on institutional complementarity and the related literature on the joint analysis of EIB and EBRD lending. Section 5.3 analyses the background of the EIB and the EBRD, while section 5.4 focuses on their establishment. Section 5.5 analyses EIB and EBRD lending from 1991 to 2015 in order to understand both Banks relationship. We conclude summarizing our results.

5.2 State of the art: a joint analysis of EIB and EBRD lending

Before moving on to the joint analysis of EIB and EBRD lending complementarities, we first discuss the concept of complementarity and the other possible models of organizations linkages. Based on Deeg (2007), we understand complementarity as being present when the performance of an organization improves with the presence of another institution (or several institutions). Complementarity can take the form of supplementarity, if one organization offsets the weaknesses of the other, or synergy, if organizations mutually reinforce each other. We hypothesize that the EIB was meant to be supplemented with the creation of the EBRD, created to focus on Central and Eastern Europe, but along time the complementarity evolved to reach the form of synergy, with mutually reinforcing effects for both RDBs. This, as Aoki (2001) would suggest, helped to stabilize a self-enforcing equilibrium where none of the actors would be interested to change. Compared with the concept of coherence, whereby organizations share equal principles, or compatibility, where institutions coexist without benefiting or undermining each other, complementarity (either in the form of supplementarity or of synergy) would imply a positive sum game, where at least one of the organizations is better off without, at least in principle, any harm for the others.

On the basis of these concepts, we find that theories of institutional complementarity follow two main streams: one arguing that institutions perform better when they reinforce each other in a synergy, and another one, ‘based on the notion of compensation’, advocating the benefits of supplementary institutions (Campbell, 2011). Sometimes, though, it seems that the final outcome is somehow unintentional (Boyer, 2005) if complementarities arise from unanticipated dynamics of the institutional arrangements. In any case, institutional complementarities are dynamic and may evolve influenced, among other things, by the historical context (Campbell, 2011) and the changes undergone by interrelated institutions (Hopner, 2005). With a broad understanding of the complementarity concept, scholars have addressed the complementary relationship of institutions through different approaches. Using game-theory Aoki (1994) addresses the complementary relationship between lifetime employment in Japan and monitoring (contingent on the financial performance of the firm). Similarly, Amable *et al*. (2005) use a two player game between employees and management to explore the complementary relation between firm investment and wage negotiations in the survival probability of firms. Findings depend on whether authors focus on institutions or outcomes but, in general, both types of complementarity (synergy and supplementary) can produce positive outcomes (Campbell, 2011). Nevertheless, it seems that complementarity could also cause resistance to change if it is limited to one sphere of the economy (Hopner, 2005) and it is possible that institutional arrangements lead to unanticipated consequences (Campbell, 2011).

These theoretical insights are useful when comparatively analysing the lending practice of RDBs but, to the best of our understanding, complementarity theory has not been applied to the study of these organizations. Specifically, there is nothing on the complementarity created between the EBRD and the EIB with the establishment of the former in 1991, even though we know that the EBRD was intended to supplement the EIB. In fact, advancing our results, we find that this relationship evolved towards a synergy, which seems to mutually reinforce their stability. Hence, both RDBs might be interested to evolve jointly in order to survive and commonly emphasize their interests. Unfortunately, existent literature on RDBs has focused almost exclusively on the individual analysis of Banks, despite the necessity to perform a joint analysis to understand their complementarities.

Therefore, there is very little scholarship which jointly analyses the lending provided by the EIB and the EBRD for the period 1991-2015. The creation of the EBRD, within a similar geographical space of the EIB, provides a good case to study how financial institutions evolve and whether the creation of new institutions may lead ‘to unintended consequences’ (Deeg, 2007, p.611). Thanks to institutional complementarity theory we can test the EBRD – EIB relationship, insufficiently studied. Few studies consider both organizations in an effort to uncover their complementarities and discover how they may be influencing one another. These works include Robinson and Bain (2011, p.13) report on EIB and EBRD co-financing, which points to ‘the tensions which exists at the heart of cofinancing with the EIB and EBRD’. While the EIB is the bank of the EEC-EU, the EBRD lends to non-EEC-EU countries, even if it is perceived as a European bank. Hence, it is argued, ‘the Commission cannot control’ the EBRD ‘in the same way’ it can control the EIB; which allows the EBRD to implement projects that (for political reasons) the EIB is impeded to perform (Robinson and Bain, 2011, p.54). As a result, there is ‘widespread confusion as to the relative roles of the various banks and in particular of the EBRD’ (Robinson, 2013, p.8). The imprecision in EIB and EBRD tasks assignment is not an impediment, though, for authors like Xianbai (2016, p.6) to argue that the Asian Development Bank and the Asian Infrastructure Investment Bank should mimic EIB and EBRD collaborative experiences (particularly since the tri-partite Memorandum of Understanding was set in 2011[57]). In this sense, the author stands for Banks to develop ‘complementary portfolios that reflect their core competencies and development priorities’ and a ‘geographical division of labour’. We will see next whether these partitions are, in the case of EIB and EBRD, as evident as Xianbai (2016) suggests. At least for the first years, it seems this was not the case (Zecchini, 1995). In fact, Zecchini (1995) analysed lending provided by the IMF, the World Bank (IBRD), the EIB and the EBRD to Central and Eastern Europe during the early transition period 1990-1993 to discover, among other things, that coordination had not yet been achieved, resulting sometimes in policy advice inconsistencies among institutions. We will attempt to see whether the situation improved through time. To highlight is also the comparative

[57] The latest framework for coordination and supervision of institutional and operational cooperation of the EIB and the EBRD together with the EC outside the EU (EC, 2011).

analysis on the environmental performance in Central and Eastern Europe of the EIB, EBRD and World Bank made by Gutner (2002). Two factors would underlie, according to the study, the policy differences[58] among these RDBs: the extent to which shareholders commit and the organizational design in as much the RDB is demand driven or 'banklike'.

In order to fill the existent gap on the joint analysis of the EIB and EBRD performance, we proceed to compare the historical path of both institutions. Subsequently we analyse their lending strategies in order to find out the form of complementarity they present (if any). Following Deeg (2007), we attempt to uncover the complementarity between both institutions through comparative case study analysis, for which we employ data on loans. We assume that the EBRD supplements the EIB when it lends to those countries to which the EIB provides little support. In contrast, we find a synergy when both the EBRD and the EIB lend to the same countries, which would reinforce their actions.

5.3 Background of EIB and EBRD

The EIB and EBRD were born in two very different economic and political contexts that influenced their constitution and evolution in a different manner. The EIB was created just one decade after the end of World War II as a mechanism to encourage the Western European integration (EEC) in a period dominated by a Cold War between East and West. The six founder members of the EEC (Belgium, France, Germany, Italy, Luxembourg and the Netherlands) judged it was necessary to establish an institution that would made up for the financial deficiencies existent at a time of capital scarcity. Funding from the IBRD[59] was not enough to cover the huge infrastructure needs, deemed to increase with cross border requirements. But also, the fear integration would bring divergence among regions, making rich areas to become richer at the expense of the poorer ones, as it had

[58] According to Gutner (2002) study, the World Bank would have the most progressive environmental policy of the three, the EIB the least progressive policy and the EBRD, in turn, would maintain an intermediate position between the two.

[59] The IBRD is the first of five organizations that compose the World Bank Group.

happened with the unification of Italy, was a big concern that needed to be addressed if the integration project was to be successful. On this basis, as we have previously seen, the founders of the EEC set up the EIB as a mechanism with three main goals: 1) investment, providing funding and acting as intermediary in the financial markets (offering lower interest rates and long maturity periods than otherwise provided on capital markets); 2) economic development, pushing the recovery of countries to widespread economic welfare; and 3) integration, fighting divergence and promoting the EEC-EU project.

In contrast, the establishment of the EBRD took place after the fall of the Berlin Wall and the end of the Cold War. Besides the attainment of peace and recovery, as in the case of the EIB, this time the focus was also on the establishment of market oriented economies and democratic regimes as fast as possible. The purpose of the institution was, therefore, 'to foster the transition towards open market-oriented economies and to promote private and entrepreneurial initiative in the Central and Eastern European countries committed to and applying the principles of multiparty democracy, pluralism and market economics' (including Mongolia and member countries of the Southern and Eastern Mediterranean) (EBRD, 1990, Article 1). Thus, the EBRD shared with the EIB the investment and, until certain extent[60], the economic development goals, but its main focus was the transition from central planned to capitalist economies, establishing market economies and democratic regimes. Hence, the main challenge for the EBRD was the transition of the economies addressed, in contrast to the EIB, mainly operating in capitalist regimes. Nonetheless, this distinction was controversial, in what it was perceived as the creation of an unnecessary new institution. It seemed, as The Economist (1991) put it, that 'if the EBRD did not exist it would not need inventing'. As Haggard and Moravcsik (1993, p.269) indicate, 'the EBRD … suffered from a legitimacy crisis since its creation'. Its usefulness was in doubt, mixed with criticisms about its operations. Indeed, the Financial Times reported the excessive expending of the Bank in 1992 compared to its lending

[60] The concept of economic development was very different in the World Bank and the EIB from 1960 to 1980 (investment for economic growth and structural change where the Government was central) to the concept of economic development in the EBRD from 1991 onwards (investment in programs for transition - systemic transformation or the so called structural reform- where the Government is seen as an obstacle).

(Stevenson, 1993), whilst other criticisms pointed to the EBRD being very picky about the projects selected instead of taking risks. Its supporters, instead, argued the need of some years for the Bank to be running at full capacity and create its own market space (Macleod, 1993). But a possible explanation underlying the creation of the EBRD is, as noted by Haggard and Moravcsik (1993), that its creation circumvented the need to integrate east Europeans in all decision-making processes, while giving the appearance of including them in a united Europe.

On the other hand, during the nineties, concerns for the environment and the high unemployment rates emerged strongly. The awareness of these two problems affected RDBs, which reacted with mandates that reflected their interest, at least publicly, to address both problems. The EIB started much earlier (in 1975) to finance some environmental projects, particularly to fight pollution and for sustainable sources of energy and production, although the amount dedicated to them was negligible (Lewenhak, 1982). The EIB did not lead the environmental crusade, but rather adapted to the EEC-EU raising environmental standards as well as it could. As for the EBRD, this echoed the World Bank’s environmental policy, yet with a narrower scope (Gutner, 2002).

Nevertheless, since the beginning of the EBRD operations, both Banks were supposed to cooperate (EBRD, 1990; EIB, 1991a). Inasmuch as the agreement establishing the EBRD specified that it ‘shall work in close cooperation with all its members and … any entity … concerned with the economic development of, and investment in, Central and Eastern European countries’ (EBRD, 1990, Article 2), also the EIB provided for the ‘cooperation with other financial institutions and commercial banks’ (EIB, 1991a). Efforts to increase cooperation have been constant, the last framework for effective cooperation outside the EU having been signed by the EIB, the EBRD and the European Commission in 2011 (EC, 2011). Nonetheless, despite some collaboration in specific projects (usually co-financed), empirical evidence that the Banks have effectively cooperated in a common strategy to be pursued is still lacking.

5.4 Establishment of EIB and EBRD

The EEC-EU founders (Belgium, France, Germany, Italy, Luxembourg and the Netherlands) established the EIB with a capital of one thousand million units of account. Through the enlargements, though, the EIB grew in Members and volume, its members being nowadays the 28 countries of the EU with a subscribed capital of 243 billion euro[61]. However, back in 1991, when the EBRD was set up, the EIB only had 12 EEC member countries and a capital subscribed of 57.6 billion ECUs[62] (approximately half of todays). The EBRD, instead, came into existence with a modest capital of 10 billion ECU[63] subscribed by 42 members, including the EEC, the EIB, other European as well as non-European countries. In fact, despite its European nature, the largest single shareholder was the United States (US), which together with France, Germany, Italy, Japan and United Kingdom (UK) maintained its influence until today (the EBRD is composed now of 65 members and a capital subscribed of 30 billion Euro[64]).

Both RDBs exhibit a distinct distribution of power as a result of different conflicting groups of interests that influenced the establishment of each institution. On one hand, during the negotiations to establish the EIB two different positions arose. Italy and France advocated the creation of a Regional Development Fund that would support the least developed regions with grants, while Germany and the Benelux countries wanted a Regional Investment Bank that would fund sound, profitable projects through loans (HAEU, 02/10/1956). Concessions were made in different directions, affecting the resulting institution, to fund what it was finally called an Investment Bank (despite its theoretically non-lucrative character) that would lend on favourable terms to promote regional development. As an example of the importance given to power-sharing, Italy increased its capital subscribed when it became clear that voting power would depend on this share (HAEU, 15/11/1956). Similarly, the creation of the EBRD was not uncontroversial with two groups above all shaping its birth: France, Germany and Italy

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[61] Equivalent to 271 billion 2005 US dollars.

[62] Equivalent to 113 billion 2005 US dollars.

[63] Equivalent to 19.55 billion 2005 US dollars.

[64] Equivalent to 27.36 billion 2005 US dollars.

on the one hand, and UK and the US on the other. The first group defended a larger base capital but the UK opposed this. An agreement was reached, however, while it was conveniently decided to locate the headquarters in the UK (Jakobeit, 1992). This first group also defended the inclusion of the Soviet Union, to which the US opposed without success. The US feared that the participation of the Soviet Union would establish a precedent for its inclusion in other international institutions (it was a matter of institutional legitimacy) (Weber, 1994). The US decided then (given that the EBRD would be established whether it liked it or not) to become the largest single shareholder to retain bargaining power, even if the EEC-EU members as a whole would always hold the majority of shares (at least 51%) (ODI, 1990). But it also requested a special status for the Soviet Union, which should be 'permitted to borrow from the bank only what it paid into it in hard currency' (Weber, 1994, p.22).

In light of the different group interests, and despite the fact that both Banks work in a similar fashion, raising most of their resources on the global financial markets, they also have disparate characteristics. The EIB is fundamentally an institution at the service of the EEC-EU, which lends more than 90% of its funding to the EEC-EU Members and distributes the rest among more than one hundred non-EEC-EU countries. In other words, it is the Bank of the EEC-EU. In contrast, the EBRD focuses on 37 countries from Central Europe to central Asia and the southern and eastern Mediterranean areas. This more specific approach reflects, in fact, on the Resident Offices, present in most countries of operations, which allows for a more integrated approach than the EIB, larger but with a much more limited field presence (EBRD, 2017a).

We will see next whether these differences contributed to build a complementarity between both organizations in the form of supplementarity or synergy. The analysis of their lending strategies should throw light on their real ambitions even if the stated objectives provide unclear evidence of a tasks division. In principle, we would expect the EBRD to supplement the EIB by lending to those countries to which the EIB provides little support, thus covering funding gaps. A synergy would arise instead if both Banks were following a similar strategy that targets the same countries, mutually reinforcing each other actions and policies.

Table 5.1 Comparison between the EIB and the EBRD

		EIB	*EBRD*
Foundation		1957	1991
Headquarters		Luxembourg	London
President		Werner Hoyer (German politician; PhD in Economics)	Suma Chakrabarti (Born in India, economist; PhD in Economics)
Members		The 28 Member States of the EU	65 countries from 5 continents, as well as the EU and the EIB
Top shareholders		France (16.11%), Germany (16.11%), Italy (16.11%), UK (16.11%), Spain (9.66%), Belgium (4.46%), Netherlands (4.46%)	US (10%), France (9%), Germany (9%), Italy (9%), Japan (9%), UK (9%), Russian Federation (4%), Canada (3%), Spain (3%), EIB (3%), EU (3%)
% borrowing countries out of shareholders		100%	37 out of the 65 members get lending (=56%)
% capital subscribed by borrowing		European countries: 100%, non-European: 0%	The 37 borrowing members have 14.46% of the capital subscribed
Borrowing countries		28 EU countries + 140 non-EU countries	37 countries from central Europe to central Asia and the southern and eastern Mediterranean.
% members		90.6% of the loans volume goes to the 28 EU countries (members) and 9.4% to non-EU countries (non-members)	100% to members
Capital subscription		243 billion euro	30 billion euro
Paid-in capital ratio		9% (= 21.7 billion euro)	20.66% (= 6.2 billion euro)
Financing sources		The EIB raises its resources on the financial and capital markets, mainly through bond issues.	The capital base allows the EBRD to raise funds which ultimately form the investment in projects.
Credit rating			
Long term	*Fitch*	AAA	AAA
	Moody's	Aaa	Aaa
	Standard	AAA	AAA

Short term	*Fitch*	F1+	F1+
	Moody's	P-1	P-1
	Standard & Poor's	A-1+	A-1+
Main instruments		Loans, guarantees and equity investments.	Loans, guarantees and equity investments.
Group institutions		European Investment Fund.	-
Key decisions		Double majority: 1) the majority of the Board members and 2) the majority of the subscribed capital.	Not less than two-thirds of the total voting power of the member countries participating in the vote.
Board of Directors		Non-resident	Resident
Mandate and mission statement		To contribute, by having recourse to the capital market and utilizing its own resources, to the balanced and steady development of the internal market in the interest of the Union (EIB Statute, 2013, Article 309).	The purpose of the Bank shall be to foster the transition towards open market-oriented economies and to promote private and entrepreneurial initiative in the Central and Eastern European countries committed to and applying the principles of multiparty democracy, pluralism and market economics (including Mongolia and each of such countries of the Southern and Eastern Mediterranean as well) (EBRD, 1991)
Safeguards and procurement policies		2009 EIB Statement of Environmental and Social Principles and Standards; precautionary principle.	EBRD's Procurement Policies and Rules are based on the fundamental principles of non-discrimination, fairness and transparency. Environmental and Social Policy approved in 2014.
Lending			
Average loan size		105 million euros	20 million euros
Main sectors		Agriculture, fisheries, forestry; composite infrastructure; credit lines; education; energy; health; industry; services; solid waste; telecommunications; transport; urban development; water, sewerage.	Agribusiness; depository credit (banks); equity funds; information & communication technologies; insurance, pension, mutual funds; leasing finance; manufacturing & services; municipal & environmental infrastructure.; natural resources; non-depository credit (non-bank); power & energy; property & tourism; transport.
Approval time		An EIB appraisal procedure can take anywhere between six weeks and 18 months.	When the EBRD has all the necessary information, a deal typically takes three to six months from initial contact to signing.
Repayment		4-20 years	1-15 years

Source: EIB and EBRD official documents.

5.5 Co-evolution of the EIB and the EBRD since 1991

In the discussions to address the new circumstances that the end of the Cold War would entail for the EEC-EU and Western Europe, one major idea prevailed: the need to assist Eastern Europe (OJEC, 1989b). This, it was argued by François Mitterrand, needed to be done as a combined strategy that would strengthen the EEC-EU as a solid pillar 'for the stability and success of the whole Europe', while supporting reforms and aid that would help to gradually transform Eastern countries in democratic regimes (in a process as smooth as possible) (OJEC, 1989b, p.4). In practice, this translated in using the EIB to strengthen the twelve EEC countries and a new institution, the EBRD, that would supplement EIB work by providing funds to the Eastern countries. This task division, however, was not so clear-cut, since the EIB was still able to lend to Eastern and Central European countries through its external mandate.

We therefore analyse lending given to the countries borrowing from both the EIB and the EBRD since the start of operations of the EBRD in 1991 up to 2015 in order to shed light on both Banks relation. Actually, during the first years (1991-1995) from the 34 countries considered (and thus potential receptors of funding from both Banks), it seems clear that the EBRD had a prominent role regarding the number of countries addressed, though not the volume of lending (possibly due to the larger size of the loans provided by the EIB). Following the establishment of the EBRD, it appears that this new Bank effectively supplemented the EIB, lending not only to the countries that would join the EEC-EU soon afterwards but also to other European and even non-European countries to which the EIB was not lending. In fact, during the early years its assistance would have benefited mostly 'those countries that embarked on the transformation of their economies earlier than the others' (Zecchini, 1995, p.121). Nonetheless, the countries that ended up entering the EEC-EU benefited from lending from both institutions in a similar way, despite the supposed specificity of the EBRD for this region.

There is a gradual change, though, in the funding provided by each Bank. First, within the group of actual EU member countries, from 1996 onwards the EIB started to gradually provide more lending than the EBRD. This tendency increased after the 2004 enlargement and the EIB lending grew up to about seven times more than the EBRD lending during those last years. Since countries had become now Members, the EIB become their main source of funding while the EBRD transformed into an extra, as a reinforcement. At the same time, the EBRD, that had originally addressed transition countries, expanded its activities and started to lend to Cyprus (since 2014) and Greece (since 2015).

Second, actual EU candidates and potential candidates began borrowing more (except for Turkey, which was not a transition country) from the EBRD. However, from 2000 onwards, the EIB started to increase its lending to this group of countries, which ended up benefiting from both institutions almost equally, with the EBRD slightly predominating. The case of Turkey, though, is different. Given that it was not a transition country, it began borrowing from the EIB and, unlike the other EEC-EU candidates and potential candidates, once it become a country of operations for the EBRD, it increased quite sharply its borrowing from the EBRD. In practice, the first operations started with Turkish companies investing over the EBRD region, as in the case of two Georgia's airports or Turkey's Anadolu Efes company producing beer (Rosca, 2016). Between 2004 and 2008 Turkey got Equity Funds from the EBRD but actually the first EBRD big Turkish operations were made in 2009 to the energy sector: one in order to support the involvement of the first strategic investor, IZGAZ Gas Distribution Company, in the privatisations of Turkey's gas (EBRD, 2017b); and the other to finance the construction of Turkey's largest wind farm, developed by Rotor Elektrik Uretim A.S. Notably, since then, Turkey became the largest borrower from both the EIB and the EBRD within the group of EU candidates and potential candidates. Possibly boosted by its strategic position for the EEC-EU and its potential foreign policy role with a large influence in the area (Schimmelfennig, 2009), but also given Turkey's size in terms of GDP, it grew into a key recipient of funds from both institutions, which seemed to work now in a synergy, both lending to the country and in similar sectors.

The third group consisting of other European countries (those that are not members, candidates or potential candidates that were transition countries and former members of the Soviet Union) has always received more lending from the EBRD. In fact, during the first years this group of countries only borrowed from the EBRD, which in this way provided a supplement to the EIB. The first loans from the EIB started in 2003 with the construction of wastewater treatment networks in the city of St Petersburg (Russian

Federation) (Clifton *et al*., 2017c) and progressively extended to the rest, although overall loans stayed quite modest as compared to those from the EBRD (the only exception being Ukraine during the last years).

Table 5.2 Lending given by the EIB and the EBRD (million 2005 US dollars)

		1991-1995		*1996-2000*		*2001-2005*		*2006-2010*		*2011-2015*		*Total 1991-2015*	
		EIB	EBR	EIB	EBR	EIB	EBR	EIB	EBR	EIB	EBR	EIB	EBRD
EU Members	Bulgaria	505	314	731	397	388	983	2529	1519	1443	643	5595	3855
	Croatia	-	303	-	542	830	855	2148	1420	2364	857	5342	3977
	Cyprus*	100	-	536	-	1098	-	1145	-	1387	150	4266	150
	Czech Republic	1236	533	2353	479	5159	437	9445	198	4904	30	23097	1677
	Estonia	84	194	146	300	231	154	1326	49	842	141	2629	838
	Greece*	3998	-	6954	-	7295	-	9894	-	6461	293	34602	293
	Hungary	1065	1112	1260	650	4914	877	9663	804	6549	216	23451	3658
	Latvia	8	133	269	268	510	95	1763	270	508	69	3059	835
	Lithuania	49	199	302	252	203	168	1748	171	838	65	3140	855
	Poland	1569	856	3574	1648	8956	1757	22276	1799	29186	3316	65561	9376
	Romania	649	1097	2379	1265	2352	2136	4979	2675	2982	1954	13342	9127
	Slovakia	429	570	1225	207	971	779	2656	787	3076	311	8357	2654
	Slovenia	198	403	862	124	1235	285	2768	29	2506	318	7568	1158
	Total EU Members	9890	5715	20593	6132	34142	8525	72339	9720	63046	8363	20001	38455
EU Candidates & potential candidates	Albania	59	114	86	48	179	276	147	476	65	280	536	1194
	Bosnia - Herzegovina	-	-	130	270	338	383	1118	1012	887	588	2473	2253
	FYR Macedonia	-	172	173	454	36	258	218	270	395	865	822	2019
	Kosovo	-	-	-	-	-	10	134	66	50	121	184	197
	Montenegro	-	-	-	-	46	51	269	318	210	253	526	621
	Serbia	-	-	-	3	987	891	2768	1835	1799	2172	5553	4900
	Turkey*	161	-	1323	-	3759	11	14580	949	11969	6909	31792	7869
	Total EU cand.	220	287	1712	775	5345	1879	19234	4925	15374	11188	41885	19053
Other European	Armenia	-	121	-	22	-	109	6	696	245	334	251	1282
	Azerbaijan	-	115	-	350	-	879	-	681	75	1088	75	3113
	Georgia	-	44	-	1666	-	205	211	909	500	539	712	3363

	Moldova, Republic of	-	112	-	280	-	112	291	428	421	435	712	1365
	Russian Federation	-	1752	-	3574	108	9478	469	11536	1307	5904	1884	32244
	Ukraine	-	387	-	934	-	3006	619	6677	4164	3555	4783	14559
	Total other European	-	2531	-	6827	108	13787	1596	20926	6713	11854	8417	55926
Non European	Belarus	-	251	-	497	-	282	-	434	-	738	-	2202
	Egypt*	1050	-	1067	-	2359	-	2334	13	1736	1638	8546	1651
	Jordan*	254	-	410	-	213	-	327	-	284	569	1488	569
	Kazakhstan	-	69	-	1550	-	1615	-	2789	249	1870	249	7894
	Kyrgyzstan	-	146	-	84	-	67	-	243	64	178	64	717
	Mongolia	-	18	-	-	-	6	-	509	56	937	56	1470
	Morocco*	1691	-	925	-	1193	-	2400	-	2197	954	8405	954
	Tajikistan	-	-	-	15	-	200	-	124	88	334	88	673
	Tunisia*	544	-	787	-	1593	-	2291	-	1493	319	6708	319
	Turkmenistan	-	13	-	167	-	14	-	33	-	82	-	310
	Uzbekistan	-	268	-	761	-	121	-	100	-	-	-	1250
	Total non European	3539	765	3188	3075	5358	2304	7352	4245	6166	7619	25602	18008
TOTAL general		13648	9297	25493	16808	44953	26495	100521	39816	91298	39025	27591	13144
% of total lending		8.57%	100%	13.36	100%	17.91	100%	26.05	100%	24.46	100%	20.8%	100%

Notes: countries with an asterisk (*) are non-transition countries; the rest (without an asterisk) are transition countries. Slovakia (=Slovak Republic), Kyrgyzstan (=Kyrgyz Republic), FYR Macedonia = Former Yugoslav Republic of Macedonia. Official data provided for EBRD lending includes a "regional" loan whose date is not available, which represents 0.39% of total lending for the period 1991-2015. Hence, actually it would be more accurate to say that for the EBRD quantities expressed in the table for the period 1991-2015 represent 99.61% of total lending.
Sources: EIB Official Database (2017), EIB Annual Reports (1991-2015), EBRD Investments (1991-2017).

Lastly, non-European countries constitute a miscellaneous group where non-transition North African and Mediterranean countries (Egypt, Jordan, Morocco and Tunisia) had typically received funding from the EIB, while transition Central Asia countries (Kazakhstan, Kyrgyzstan, Mongolia and Tajikistan) were used to receive lending from the EBRD.

There was a tacit supplementarity, therefore, among both institutions. Nevertheless, after the global financial crisis, things started to change and both Banks became lenders for both groups of countries, getting closer to a synergy whereby one reinforces the other. Actually, the only countries that have received funding from the EBRD and not from the EIB are Belarus (since 1992), Turkmenistan (since 1994) and Uzbekistan (who got loans between 1993 and 2009).

As a result, during the initial years of coexistence both the EIB and the EBRD actually supplemented each other, as had been planned (OJEC, 1989b; EBRD, 1991). Despite blurred, there was somehow a division of countries to which each Bank would lend more. Gradually, however, with the 2004 enlargement and the 2007 crisis, this distinction seemed to fade away and both institutions became lenders for all countries (with the exception of Belarus, Turkmenistan and Uzbekistan), reaching a complementarity in the form of synergy and reinforcing, therefore, each other. We will see next whether a similar process took place with sectors addressed by both institutions. Were they also initially supplementing each other in terms of sectors?

In light of the many sectors addressed by each Bank, we wonder whether there exist differences between the sectors addressed by each of them, given that each institution has a different explicit purpose and a different shareholder composition. The distinct classification followed by each Bank, though, complicates the comparative analysis. Indeed, in table 5.3 we do not attempt to match sectors in order to avoid bias and we present data with the classification given by each institution. Even if the EIB presents thirteen sectors and the EBRD sixteen, it is easy to see that some sectors are equivalent for both Banks, as it is the case of transport in both banks; credit lines (EIB) and depositary credit (EBRD); energy (EIB) and power and energy (EBRD), ‘industry’ and ‘services’ (EIB) and manufacturing and services (EBRD), telecommunications (EIB) and information and communication technologies (EBRD).

Table 5.3 Lending given by the EIB and EBRD by sector (million 2005 US dollars)

		1991-1995	*1996-2000*	*2001-2005*	*2006-2010*	*2011-2015*	*Total general*	*%*
EIB	Transport	4078	12044	17419	30755	24532	88829	32.2
	Credit lines	2997	2635	7257	21950	28738	63579	23
	Energy	2655	3007	4833	12123	11956	34575	12.5
	Industry	836	1948	2902	6925	5287	17898	6.5
	Services	2	29	1723	7018	6278	15050	5.5
	Water, sewerage	984	1442	1711	5636	2374	12145	4.4
	Composite infrastructure	114	1710	2526	3825	2358	10532	3.8
	Telecommunications	1929	1959	635	3494	1956	9972	3.6
	Education	19	19	2205	4932	1600	8775	3.2
	Urban development	0	475	3101	2303	2708	8586	3.1
	Health	0	95	415	1132	1038	2680	1
	Agriculture, fisheries, forestry	34	81	41	344	1896	2395	0.9
	Solid waste	0	49	185	86	575	896	0.3
	Total	13648	25493	44953	100521	91298	275913	100
EBRD	Depository credit (banks)	1853	7712	10705	13013	9153	42436	32.3
	Transport	1451	1755	2878	5991	5191	17266	13.1
	Manufacturing & services	1404	1584	2438	4208	4024	13659	10.4
	Power and energy	993	903	1368	3834	5420	12518	9.5
	Agribusiness	309	1063	2468	3952	4027	11820	9
	Natural resources	853	906	1348	2384	3107	8598	6.5
	Municipal & env Inf	259	842	1370	1703	2786	6960	5.3
	Information & communication technologies	1152	852	1344	593	1005	4947	3.8
	Equity funds	814	712	735	1290	1253	4804	3.7
	Property and tourism	142	344	737	1094	808	3125	2.4
	Non-depository credit (non-bank)	11	2	226	864	1195	2298	1.7
	Leasing finance	3	19	625	601	704	1952	1.5
	Insurance, pension, mutual funds	52	114	255	289	350	1060	0.8
	Total	9297	16808	26495	39816	39025	131442	100

Note: the countries whose lending we consider are Albania, Armenia, Azerbaijan, Belarus, Bosnia and Herzegovina, Bulgaria, Croatia, Cyprus, Czech Republic, Egypt, Estonia, Georgia, Greece, Hungary, Jordan, Latvia, Lithuania, Kazakhstan, Kosovo, Kyrgyzstan, Former Yugoslav Republic of Macedonia, Republic of Moldova, Mongolia, Montenegro, Morocco, Poland, Romania, Russian Federation, Serbia, Slovakia, Slovenia, Tajikistan, Tunisia, Turkey, Turkmenistan, Ukraine, Uzbekistan.
Sources: EIB Official Database (2017), EIB Annual Reports (1991-2015), EBRD Investments (1991-2017).

The classification made by the EIB is more comprehensive now, though, than at its beginnings, where most loans were addressed to infrastructure projects. Nonetheless, the largest volume of funds is still addressed to some of the same sectors, such as transport, energy and telecommunications as a result of the trans-European networks projects for the Single Market, despite an overall trend to lower infrastructure investments in favour of credit lines (23%). In general, since the 90s the most important sector for the EIB was transport (32%), followed by credit lines (23%), energy projects (12.5%) and industry and services (together, 12%), which accounts for approximately 80% of projects. Without exception, along time the EIB has emphasized these sectors, with an increasing interest in environmental projects, classified in different categories (water and sewerage 4.4%, urban development 3.1% or solid waste 0.3%).

The EBRD's more seemingly meticulous classification of its projects is, nevertheless, misleading. Behind the perceived diversity of sectoral projects, the bulk of lending goes to similar categories than the EIB ones. In fact, the most important sector along the whole period is 'depository credit' (32.3%), the second most important sector in the case of the EIB. Transport (13.1%), the most important sector for the EIB, is the second most important sector for the EBRD. Next, we would find 'manufacturing and services' (10.4%), broadly comparable to 'industry' and 'services' in the EIB, as the third sector in importance during the whole period. For the EIB, instead, the sectors (industry and services) gained weight in the last years, ranking fourth as regards overall volume of loans. Conversely, the third largest sector of the EIB, energy, has been the fourth most important sector for the EBRD (9.5%). Indeed, these sectors (transport, credit, energy, industry and services) have accounted for the bulk of projects in both banks (nearly 80% in the EIB and 65% in the EBRD). By also taking into consideration telecommunications (EIB) and information and communication technologies (EBRD), agriculture, fisheries and forestry (EIB) and agribusiness (EBRD) these sectors account for about 84% of the loans in the case of the EIB and 78% in the EBRD.

We find therefore that both Banks focus their efforts in similar sectors, possibly influenced by the EEC-EU policies being implemented. They seem to complement each other through a mutual reinforcement of projects, rather than through a division of tasks. While it may be true that the EBRD has tended to have a stronger focus on depositary credit (credit lines), manufacturing and services (industry and services) and agribusiness, whilst the EIB used to assign a larger share of its funds to infrastructure, this subtle division has gradually diluted through time, as it happened with the borrower countries, which gradually became the same for both Banks. The signature of a tri-partite Memorandum of Understanding in 2011 for the coordination and cooperation of the EIB and the EBRD together with the EC did not affect this trend. If any, it reinforced it. Indeed, both the EIB and the EBRD would complement each other in the form of synergy, mutually reinforcing their actions, rather than in the form of supplementarity, as initially expected.

5.6 Conclusions

From the end of the Cold War, as a new European landscape emerged, it was deemed that a new financial institution needed to be created to help face the new demands and challenges presented by Europe, particularly Eastern and Central Europe. The EBRD was created, then, as a new RDB that would promote a European ‘transition towards open market oriented economies’ and democratic regimes through investment (EBRD, 1990, Article 1), supplementing the role of the EIB (EBRD, 1991). The EIB, therefore, would continue to focus on the European single market project (in particular the trans-European networks of transport, energy and communications) while the new international financial institution would cover Eastern and Central Europe. In practice, though, this tasks division was not so clear cut, the EIB having the possibility to lend elsewhere beyond Europe if it was of interest for the EEC-EU or its members. Starting from the observation that both Banks lend to Eastern and Central European countries, this chapter assesses their relationship through institutional complementarity theory. Despite the fact that the purpose of the EBRD was to supplement the EIB, it is often argued that the creation of new institutions may lead ‘to unintended consequences’ (Deeg, 2007, p.611). Based on the analysis of both the EIB and the EBRD lending practice to the 34 countries borrowing from both institutions, our results broadly confirm the theoretical argument that new institutions are bound to unplanned effects, notably affecting institutional change.

In volume the EIB has become more important than the EBRD, even if the EIB’s role on transition countries has been secondary in terms of its activities and objectives (the bulk of its resources has been oriented to Member States), while most of EBRD resources have been primary oriented to transition countries. During the years (2006-2015), though, we noticed a change of trends in both Banks. On the one hand, since in most Central and Eastern European countries (new members of the EEC-EU) the transition was over, the EBRD expanded its activities in non-European (former Soviet Union) countries, in non-transition (but market economies in the geopolitical area) countries (i.e. Turkey, Egypt, Jordan, Morocco and Tunisia) and, paradoxically, in Greece and Cyprus (non-transition European countries) as a result of the global financial crisis. On the other hand, in the most recent years (2011-2015) the EIB has reduced the total amount of loans to its Members while increasing the lending addressed to other European and non-European countries belonging to the former Soviet Union.

The chapter has addressed the relationship between the EIB and the EBRD and whether the EBRD effectively supplemented the EIB as originally intended. The results of the study indicate that during the first years of coexistence the EBRD covered lending to the countries that the EIB was not completely addressing, supplementing the lending given by the EIB. Whereas the group of EEC-EU members always benefited from both Banks funding, even if to a much greater extent from the EIB after the 2004 enlargement, EEC-EU candidates and potential candidates (except for Turkey) initially received more lending from the EBRD, the institution thereby supplementing EIB loans. The same is true for the group of other European countries and Central Asia within non-European countries, besides Belarus, Turkmenistan and Uzbekistan, exclusive borrowers from the EBRD. Nevertheless, the situation gradually changed to one in which both the EIB and the EBRD would lend to all countries (except for Belarus, Turkmenistan and Uzbekistan), mutually reinforcing their lending policy and thus working in a synergy.

As for the sectors addressed, our analysis shows that despite the initial stronger focus of the EIB on infrastructure and the supposedly higher importance attached by the EBRD to depository credit (32.3%) and manufacturing and services (10.4%), in fact both banks ended up emphasizing similar sectors (the EIB allocating 23% of its resources to credit lines and 12% to the ensemble of industry and services), hence reinforcing each other in a sort of synergy.

The creation of a new institution to support the transition of Eastern and Central Europe economies has led to several changes in the European investment framework. The EIB had to adapt to the new EBRD that was expected to supplement it, albeit evidence has proved otherwise with both institutions complementing each other in a synergy. The passage of time has shown that both institutions gradually passed from a situation in which the EBRD supplemented the EIB to one in which they work in synergy, mutually reinforcing each other. This is relevant for other regions and RDBs such as the Asian Development Bank and the Asian Infrastructure Investment Bank (Xianbai, 2016). But this means, in turn, that choices taken by both Banks are driven by a situation of mutual reinforcement, which brings some stickiness to their actions and, probably, a reluctance to change and adapt to the new geopolitical challenges of the region. The question remains as to whether this situation may have counterproductive effects in the funding strategy of the European financial institutions. Policy makers and researchers should enquire which is the best possible strategy to face the future EU financing challenges.

6 CONCLUSIONS

6.1 Main results and policy implications

Through the dissertation, we have observed how the EIB has historically evolved in accordance, on the one hand, to the political and economic objectives set by the EC and, on the other, influenced by its member's needs, always in accordance to the institutional economic and financial framework of each moment.

We have examined, therefore, the historical circumstances (chapter 2) that led to the EIB establishment in the origins of the second globalization phase, since the first plans of European reconstruction with the multilateral funding from the IBRD, going through the bilateral aid obtained with the Marshall Plan, to the effective creation of the Bank after the culmination of the European Payments Union. As we have seen, given the pressing need for funding to reconstruct the destroyed infrastructure the Second World War had left behind, it was soon realized that the IBRD was not enough for Europe. The extra aid arrived to Europe in the form of the Marshall Plan, which facilitated cooperation among the United States and the European countries in the economic (OEEC) and political-military (NATO) strands. Finally, and even more importantly, the EEC-EU founder countries (BENELUX, France, Italy and Federal Republic of Germany) established mechanisms of cooperation and a supranational government in strategic markets as the ECSC, which were fundamental to establish the foundations of the community institutions, in general, and the Bank as an IFI of regional integration, in particular.

In the context of the second globalization, marked by the Cold War, it was considered necessary to promote market economies and secure the political stability, particularly in those countries most affected by the War and more inclined to fall in governments hostile to the market economy model. However, the Marshall Plan was a transitory and short-term financial aid that looked forward to restore the convertibility with the dollar and the international trade for the bilateral interest of the United States and Western Europe. Thanks to that, with the European integration project, the idea, supported by the United States, of creating a European institution that would fund huge investments for regional integration, gained momentum. The EIB emerged as a financial institution to promote regional economic integration while solving the huge funding needs and promoting economic development.

In this way, in the foundation of the Bank there was an evolution from the multilateralism of the IBRD to the bilateralism of the European Reconstruction Plan: Marshall Plan and the OEEC. This was completed with the European Payments Union, which enabled the convertibility and the equity funding necessary for the functional regionalism of the Bank.

As we have seen in chapter 3, the EIB establishment constituted a key instrument at the European and international levels with three main objectives: to promote the economic development with investment and cohesion mechanisms, to act as financial intermediary and to promote the European integration project.

In the first place, due to the debate about the type of institution and functions that the EIB should carry out for the international integration, some mechanisms were created that served the funding of key investment projects in the least developed countries and regions. These actions in terms of investment and cohesion, which were present in the foundational debates of the EIB, went beyond the Bank and finally achieved the European Regional Development Fund, European Social Fund and other funds that have served to impulse social and economic inclusion in the European integration.

Second, the EIB funding actions for integration were economically and politically sustainable. On the one hand, this IFI has maintained the best reputation and solvency in the international financial markets and, on the other, has been able to lend in better conditions in terms of cost and length that the ones that could have been obtained by individual members. The Bank has performed, in that way, a role of financial intermediary that would have not been performed neither by commercial or investment private banks, nor by independent capital markets.

Third, the Bank created mechanisms to strengthen and make appealing the European integration project. This was most remarkable during the Cold War, possibly because there was more economic incentives to expand the market scale in a context of international political rivalry. The truth is that the Bank proportionally supported more the least developed countries (Greece, Ireland, Italy, Portugal or Spain) and also to the most advanced that joined the community (Denmark and the United Kingdom).

With these three actions, one could affirm that the Bank was a fundamental economic and political instrument for the integration and the EEC-EU would not have been possible or reached the present scope without the EIB.

Little by little, however, the EIB passed from a situation in the Cold War context, in which more resources were addressed to the least economically developed regions and the potential strategic partners as Turkey, to other in which each member country gets funding in a ratio that is close to its contribution in the subscribed capital (even if least developed countries are still financed). Chapter 3 has revealed the emphasis of the EIB on development and integration until the 90s, with a strategy that seemed dominated (particularly during its first years) by social concerns. Nevertheless, we have observed a gradual transformation of the institution. With the end of the Cold War and the new international landscape, the 90s brought a change of logic. In fact, the EIB extended its Mandate to accommodate new objectives and countries, which, as we have seen in chapter 4, resulted in a bad performance of the institution: capital subscribed gradually started to determine EIB lending and it ended up dominating the general trend over the period 1991-2015.

Therefore, in chapter 5 we have investigated the entry of a new financial actor that changed the landscape of previously existing MDBs and RDBs and could have affected EIB performance: the EBRD. To address our research question we analysed the relationship between the EIB and the EBRD, meant to supplement the EIB. Our findings suggest that initially the EBRD effectively supplemented the lending provided by the EIB. However, the situation gradually changed to one in which both the EIB and the EBRD would lend to all countries (except for Belarus, Turkmenistan and Uzbekistan), and mutually reinforce their lending policies (working in a synergy).

Put simply, the EIB evolved beyond the plan foreseen by the fathers of the EEC-EU. Even if its original Mandate has barely changed through time (except for accommodating new objectives and countries), its performance has changed. The same it’s true for the expected collaboration between the EIB and the EBRD, which adopted a different form than initially planned. Our findings highlight the importance of taking into account economic, social and environmental forces, which may exert an influence on IFIs evolution and organizational adaptability, including changes and mutually reinforcing responses among institutions (such as the EIB and the EBRD) at different levels.

6.2 Limitations and future research agenda

Despite RDBs huge role, there has been relatively few studies on these institutions, particularly as compared to MDBs. RDBs like the EIB flourished in the early 60s with two main goals: supporting the integration of their regions and providing help to the (relatively) poor countries in the process. Nevertheless, their actions have gone unnoticed if one considers the huge attention paid to MDBs as the World Bank and the potential that RDBs have to affect the economic and financial environment.

This dissertation has focused on a particular RDB: the EIB. We have attempted to gain fresh insights on the role it has played (and plays) within the European economic integration project. It is worth considering, in the present economic situation after the Great Recession, whether the present strategy is the most adequate to continue encouraging the integration, the development and the financial intermediation with a long-term European perspective of integration and growth. It seems clear that the EIB constituted the essential element of the European integration, without which the existent levels of regional integration (scale, scope and networks), cohesion and development would not have been met. It is difficult to think that the private financial initiative could have facilitated and sponsored the ambitious European integration project with the obtained success (despite the many challenges).

Thanks to the analysis of EIB performance we have observed how the institution has provided funding for productive projects, encouraging transformations and the economic development of some areas (*shaping* and *creating* markets). The EIB encouraged infrastructure and contributed to the creation of national champions (as in the Spanish case), while it also has stepped into emerging areas with high uncertainty but huge potential benefits. It has taken the lead in areas where the private sector do not dares to enter (initially infrastructure, recouped over a very long timeframe; at present new technologies or green economy, filled with uncertainty). It seems RDBs like the EIB are well-suited to acquire complex mission oriented policy, providing the long term vision needed to encourage sustainable economic growth. Nevertheless, more research is needed, given the lack of studies.

Moreover, in light of the new disintegration and fragmentation issues raised, it is necessary to consider EIB actions and historical achievements to redefine its potential role in facing the new globalization challenges.

Our efforts will continue in this direction. We are currently investigating the key differences and similarities with equivalent RDBs as part of a volume with key experts in the field that was presented at the *XVIII World Economic History Congress* in Boston (2018). The comparison among RDBs (currently lacking) will enhance our expertise on the matter, which will ultimately help policy makers to take better informed decisions. More specifically, concerning this research, we expect that the comparison between two RDBs established to encourage the economic integration of their member countries (with a role that went beyond that) such as the EIB and the Central American Bank for Economic Integration (CABEI) will deliver some very interesting results. Equally, we expect that the research project 'The Rise of Promotional Banks in Contemporary Europe: Potentials and Pitfalls' will yield remarkable results, contributing to the current discussion about RDBs and their role in facing and shaping the international scene. We hope this contribution has helped to put greater focus on the important role RDBs play in the international context and precedes increased research.

7 CONCLUSIONES

7.1 Principales resultados e implicaciones políticas

A lo largo de esta tesis doctoral hemos observado cómo el Banco Europeo de Inversiones (BEI) ha ido evolucionando históricamente de acuerdo, por un lado, a los objetivos políticos y económicos establecidos por la Comisión Europea y, por otro, a las necesidades de sus miembros, siempre conforme al marco institucional económico y financiero de cada momento.

Hemos estudiado, por tanto, las circunstancias históricas (capítulo 2) que llevaron al establecimiento del BEI en los orígenes de la segunda fase de globalización, desde los primeros planes de reconstrucción europea con la financiación multilateral del Banco Internacional de Reconstrucción y Desarrollo (BIRD), pasando por la ayuda bilateral del Plan Marshall, hasta la creación efectiva del Banco tras la culminación de la Unión Europea de Pagos. Tal y como hemos visto, dada la imperiosa necesidad de fondos para la reconstrucción de la infraestructura destruida que la Segunda Guerra Mundial dejó tras de sí, muy pronto se hizo evidente que la ayuda del BIRD no era suficiente. La ayuda extra llegó a Europa en forma del Plan Marshall, facilitando la cooperación entre los Estados Unidos y los países europeos en las vertientes económica (Organización Europea para la Cooperación Económica: OECE) y político-militar (Organización del Tratado del Atlántico Norte: OTAN). Finalmente, y lo que es aún más importante, los países fundadores de la CEE-UE (Bélgica, Francia, Italia, Luxemburgo, Países Bajos y República Federal de Alemania) establecieron mecanismos de cooperación y gobernanza supranacional en mercados estratégicos como la Comunidad Europea del Carbón y del Acero (CECA), los cuales fueron clave para establecer las bases de las instituciones comunitarias en general, y del Banco como IFI de integración regional en particular.

En el contexto de la segunda globalización, marcada por la Guerra Fría, se consideró necesario promover economías de mercado y garantizar la estabilidad política, especialmente en los países más afectados por la Guerra y más proclives a caer en gobiernos hostiles al modelo de economía de mercado. El Plan Marshall fue una ayuda transitoria y de corto plazo que ansiaba restablecer la convertibilidad con el dólar y el comercio internacional para el interés bilateral de Estados Unidos y Europa. No obstante, en vista del proyecto de integración europeo, la idea, apoyada por los Estados Unidos, de crear una institución europea que financiase grandes inversiones para la integración regional cobró fuerza. El BEI surgió como una institución financiera para promover la integración económica regional al tiempo que se solucionaba la enorme necesidad de financiación y se promovía el desarrollo económico.

De este modo, en la fundación del Banco hubo una evolución del multilateralismo del BIRD al bilateralismo del Plan de Reconstrucción Europeo: el Plan Marshall y la OECE. Esto se completó con la Unión Europea de Pagos, la cual permitió la convertibilidad y la financiación de capital necesaria para el regionalismo funcional del Banco.

Como hemos visto en el capítulo 3, el establecimiento del BEI constituyó un instrumento clave a nivel europeo e internacional con tres objetivos principales: promover el desarrollo económico con inversiones y mecanismos de cohesión, actuar como intermediario financiero, y promover el proyecto de integración europeo.

En primer lugar, debido al debate que se produjo sobre el tipo de institución y funciones que el BEI debería de llevar a cabo para la integración internacional, se crearon algunos mecanismos para financiar proyectos de inversión fundamentales en los países y regiones menos desarrollados. En términos de inversión y cohesión, dichas acciones estuvieron presentes en los debates fundacionales del BEI, trascendiendo al mismo y culminando en el Fondo de Desarrollo Regional, el Fondo Social Europeo y otros fondos que han servido para impulsar la inserción social y económica en la integración europea.

Segundo, las acciones de financiación del BEI para la integración han sido económica y políticamente sostenibles. Por una parte, esta IFI ha mantenido la mejor reputación y solvencia en los mercados financieros internacionales y, por otra parte, ha sido capaz de prestar en mejores condiciones en términos de coste y duración que las que podrían obtener los países de manera individual. El Banco ha realizado de esta manera un papel como intermediario financiero que no habría sido llevado a cabo ni por los bancos privados comerciales o de inversión, ni por mercados independientes de capitales.

Tercero, el Banco creó mecanismos para fortalecer y hacer más atractivo el proyecto de integración europeo. Esta labor fue más notable durante la Guerra Fría, posiblemente porque había más incentivos económicos para expandir la escala del mercado en un contexto de rivalidad política internacional. La verdad es que el Banco apoyó proporcionalmente más a los países menos desarrollados económicamente (España, Grecia, Irlanda, Italia, Portugal) y también a los más avanzados que se unieron a la Comunidad (Dinamarca y Reino Unido).

Con estas tres acciones, se podría afirmar que el Banco fue un instrumento económico y político fundamental para la integración y la CEE-EU no habría sido posible o no habría alcanzado la escala actual sin el BEI.

Poco a poco, sin embargo, el BEI pasó de una situación en el contexto de la Guerra Fría, en la que se destinaban más recursos a las regiones económicamente menos desarrolladas y a los potenciales socios estratégicos como Turquía, a otra en la que cada país miembro recibía fondos en una proporción cercana a su contribución en el capital suscrito (aun cuando los países menos desarrollados seguían recibiendo financiación). El capítulo 3 ha puesto de manifiesto el énfasis del BEI en desarrollo e integración hasta los 90, con una estrategia que parecía dominada (al menos durante los primeros años) por preocupaciones sociales. No obstante, hemos observado una transformación gradual de la institución. Con el final de la Guerra Fría y el nuevo escenario internacional, los años 90 trajeron un cambio de lógica. De hecho, el BEI extendió su Mandato para acomodar nuevos objetivos y países, lo que, tal y como hemos visto en el capítulo 4, dio lugar a una mala actuación de la institución: el capital suscrito gradualmente empezó a determinar la política de préstamos del BEI y terminó dominando la tendencia general durante el periodo 1991-2015.

Por consiguiente, en el capítulo 5 hemos investigado la entrada de una nueva institución financiera que cambió el panorama al que se enfrentaban los Bancos Multilaterales de Desarrollo (BMD) y BDR y que podría haber influido en la actuación del BEI: el Banco Europeo para la Reconstrucción y el Desarrollo (BERD). Para abordar esta cuestión hemos analizado la relación entre el BEI y el BERD, el cual se estableció con la idea de suplementar al BEI. Nuestros hallazgos sugieren que inicialmente el BERD realmente suplementó los préstamos otorgados por el BEI. Sin embargo, dicha situación cambió gradualmente a una en la que tanto el BEI como el BERD prestaban al mismo grupo de países (con la excepción de Bielorrusia, Turkmenistán y Uzbekistán), reforzando mutuamente sus respectivas políticas de préstamos (creando una sinergia).

En resumen, el BEI evolucionó más allá del plan previsto por los padres de la CEE-UE. Aunque su mandato original apenas ha variado a lo largo del tiempo (excepto por la inclusión de nuevos objetivos y países), su actuación ha cambiado. Esto también es cierto en el caso de la colaboración prevista entre el BEI y el BERD, el cual adoptó una forma distinta a la planeada inicialmente. Nuestros hallazgos resaltan la importancia de tomar en cuenta las fuerzas económicas, sociales y medioambientales, ya que estas pueden influenciar la evolución de las IFIs y su adaptabilidad organizacional, incluyendo cambios y respuestas entre instituciones que se refuercen mutuamente (como en el BEI y el BERD).

7.2 Limitaciones y futuro programa de investigación

A pesar del enorme papel de los BDR, se han realizado relativamente pocos estudios sobre dichas instituciones, especialmente si se comparan con los BMD. Los BDR como el BEI florecieron a principios de los años 60 con dos objetivos principales: apoyar la integración de sus respectivas regiones y proveer ayuda a los países (relativamente) más pobres en dicho proceso. No obstante, las acciones de estos BDR han pasado desapercibidas si uno considera la enorme atención prestada a BMD como el Banco Mundial y el potencial que los BDR tienen para influir en el entorno económico y financiero.

Esta tesis doctoral se ha centrado en un BDR concreto: el BEI. Hemos intentado brindar una nueva perspectiva sobre el papel que el BEI ha jugado (y juega) en el proyecto europeo de integración económica. Merece la pena considerar, en la situación actual tras la Gran Recesión, si la estrategia que se está llevando a cabo es la más adecuada para continuar promoviendo la integración, el desarrollo y la intermediación financiera con una perspectiva de largo plazo europea de integración y crecimiento. Parece claro que el BEI constituyó el elemento clave de la integración europea, sin el que los niveles existentes de integración regional (escala, alcance y redes), cohesión y desarrollo no se habrían conseguido. Es difícil creer que la iniciativa financiera privada pudiese haber facilitado y auspiciado el ambicioso proyecto de integración europeo con el éxito obtenido (a pesar de los múltiples desafíos).

Gracias al análisis de la actuación del BEI hemos observado cómo la institución ha aportado fondos para proyectos productivos, apoyando la transformación y el desarrollo económico de varias áreas (configurando y creando mercados). El BEI potenció la construcción de infraestructura y contribuyó a la creación de 'líderes nacionales' (como en el caso español), al tiempo que se ha introducido en sectores emergentes con gran incertidumbre pero un beneficio potencial enorme. Así, ha tomado la delantera en áreas en las que el sector privado no se atreve a entrar (en sus inicios infraestructura, cuya inversión se recupera a muy largo plazo; actualmente nuevas tecnologías o la 'economía verde', llenos de incertidumbre). Parece que los BDR como el BEI son idóneos para llevar a cabo complejas misiones de política económica, proveyendo la necesaria visión de largo plazo para alentar un desarrollo económico sostenible. No obstante, dada la falta de estudios se necesita más investigación al respecto.

Además, en vista de los nuevos desafíos de desintegración y fragmentación a los que se enfrenta la UE, es necesario considerar las acciones del BEI y sus logros históricos para redefinir su papel potencial a la hora de afrontar los nuevos retos de la globalización.

La investigación continuará en esta línea. Actualmente estamos investigando las principales diferencias y similitudes con BDR similares como parte de un volumen con expertos en el área que ha sido presentado en el *XVIII World Economic History Congress* en Boston (2018). La comparación entre BDR (actualmente inexistente) mejorará nuestro conocimiento en la materia, lo que ayudará a tomar decisiones políticas bien fundadas. En concreto, en relación con esta investigación, esperamos que la comparativa entre dos BDR establecidos con la idea de fomentar la integración económica de sus países miembros (y cuya función ha ido más allá) como son el BEI y el Banco Centroamericano de Integración Económica (BCIE) ofrecerá resultados muy interesantes. Igualmente, esperamos que el proyecto de investigación 'The Rise of Promotional Banks in Contemporary Europe: Potentials and Pitfalls' arrojará resultados notables, contribuyendo al debate actual sobre BDR y su papel afrontando y modelando el panorama internacional. Esperamos que esta contribución ayude a poner mayor énfasis sobre la importancia del papel que juegan los BDR en el contexto internacional y preceda un aumento de la investigación sobre el tema.

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9 APPENDICES

APPENDIX 9.1 CHAPTER 2 SUPPLEMENTARY MATERIALS

Table 9.1 Concepts and definitions database

Aerospace	Definition	This class includes: • launching of satellites and space vehicles • manufacture of spacecraft and spacecraft launch vehicles, satellites, planetary probes, orbital stations, shuttles.
	Source	NACE Rev. 1, Statistical Classification of Economic Activities in the European Community, Introduction, Eurostat, May 1996, p. 142.
	Hyperlink	http://ec.europa.eu/eurostat/ramon/documents/nace_1/word/en.zip
Agriculture, rural development	Definition	This class includes: • agricultural activities on a fee or contract basis such as preparation of fields; establishing a crop; treatment of crops; crop spraying, including by air; trimming of fruit trees and vines; transplanting of rice, thinning of beets; harvesting and preparation of crops for primary markets (i.e. cleaning, trimming, grading, decorticating, retting, cooling or bulk packaging); pest control (including rabbits) in connection with agriculture • operation of irrigation systems • laying out, planting and maintenance of gardens, parks and green areas for sport installations and the like
	Source	NACE Rev. 1, Statistical Classification of Economic Activities in the European Community, Introduction, Eurostat, May 1996, p. 75.
	Hyperlink	http://ec.europa.eu/eurostat/ramon/documents/nace_1/word/en.zip
Amount	Definition	The amount (in millions) committed to the project from the EIB, in units of account from 1958 to 1980, ECUs from 1981 to 1997 and Euros from 1998 onwards. The percentage covered by the grant varies from project to project. Amounts owed to the borrower institutions shall include all amounts arising out of loan transactions approved and owed to domestic or foreign credit institutions by the EIB.
	Remark	One should be aware that activities have been based on different conversion rates: official parities between 1958 and 1971; central rates in 1972; effective conversion rates adapted for statistical purposes in 1973; and the conversion rates defined from 1974. Moreover, from 1981 the activities of the Bank have been recorded in ECUs and from 1998 in Euros. Therefore, data should be interpreted with circumspection.
	Source	EIB Annual Report (1958-2012); EIB (1978a).
Approval date	Definition	The date that the Board of Directors voted to approve the loan or credit.
ASAP (Amsterdam Special Action Programme) “SME Window”	Definition	Action programme that the EIB drew up and began implementing after the June Amsterdam Summit's resolution (1997). This amounted to loans for projects in the labor intensive new EIB lending areas of health and education, together with the first commitments under a special "SME Window" for financing investment by innovative, growth oriented, small and medium-sized enterprises (SMEs). The "Window's" facilities are to improve SMEs access to venture capital, complementing the EIB's traditional global loans to support SMEs activity. Risk funding arrangements through the "Window", including risk-sharing,

		subordinated lending, and equity capital, are backed by the Bank's surpluses and executed in co-operation with banking and financial institutions and the European Investment Fund (EIF). ASAP has also enabled the EIB in 1997 to increase financing in the traditional EIB areas of urban renewal and environmental infrastructure, as well as trans-European networks.
	Source	EIB (1998) '1997: European Investment Bank launches job-support action plan and strengthens its commitment to EMU'. Reference: 1998-007-EN.
	Hyperlink	http://www.eib.org/infocentre/press/releases/all/1998/1998-007-annual-press-conference-1998.htm
Borrower	Definition	The name of the political enterprise (the institutional unit; either a company, a country or any other institution) signing the agreement.
Country	Definition	An identifier specifying a geopolitical area in which the project is being implemented.
	Remark	Part of the Metadata Common Vocabulary (MCV), as published in SDMX Content-Oriented Guidelines (COG), annex 4 "Metadata Common Vocabulary", in 2009 (http://www.sdmx.org)
	Source	SDMX (2009)
	Hyperlink	http://www.sdmx.org/
Country code	Definition	A country code is assigned to every project depending on the country where it is implemented.
Energy	Definition	Energy - energy supply, energy use, energy balances, security of supply, energy markets, trade in energy, energy efficiency, renewable energy sources, government expenditure on energy. Energy includes both production and transmission and supply.
	Remark	Part of the Metadata Common Vocabulary (MCV), as published in SDMX Content-Oriented Guidelines (COG), annex 3 "List of subject-matter domains", in 2009
	Source	SDMX (2009)
	Hiperlink	http://sdmx.org/wp-content/uploads/2009/01/03_sdmx_cog_annex_3_smd_2009.pdf
Enterprise (companies)	Definition	An enterprise is the view of an institutional unit as a producer of goods and services. The term enterprise may refer to a corporation, a quasi-corporation, an NPI (non-profit institution) or an unincorporated enterprise (SNA 2008).
	Source	European Commission, IMF, Organisation for Economic Co-operation and Development, United Nations and World Bank (2009) *System of National Accounts 2008*. New York: United Nations.
	Hyperlink	http://ec.europa.eu/eurostat/ramon/statmanuals/files/SNA2008.pdf
Fisheries	Definition	This class includes: • fishing in ocean, coastal or inland waters • taking of marine and freshwater crustaceans and mollusks • hunting of aquatic animals: turtles, sea squirts, tunicates, sea urchins, etc. • gathering of marine materials: natural pearls, sponges, coral and algae • service activities incidental to fishing
	Remark	This class also includes: • production of oyster spat, mussel, lobster lings, shrimp post-larvae, fish fry and fingerlings • growing of laver and other edible seaweeds • fish farming in sea and fresh water

		• cultivation of oysters • service activities incidental to the operation of fish hatcheries and fish farms
	Source	NACE Rev. 1, Statistical Classification of Economic Activities in the European Community, Introduction, Eurostat, May 1996, p. 78.
	Hyperlink	http://ec.europa.eu/eurostat/ramon/documents/nace_1/word/en.zip
Flood protection, landslide protection, erosion	Definition	This class includes: • assistance in natural disasters and in civic disasters, floods, road accidents. • administration and operation of regular and auxiliary fire brigades supported by public authorities in fire-prevention, firefighting, rescue of persons and animals. • works to control erosion and prevent landslides • works to regulate flow of water courses, flood protection
	Source	NACE Rev. 1, Statistical Classification of Economic Activities in the European Community, Introduction, Eurostat, May 1996, p. 189. EIB Annual Reports (1958-2012).
	Definition	http://ec.europa.eu/eurostat/ramon/documents/nace_1/word/en.zip
Forestry	Definition	This class includes: • growing of standing timber: planting, replanting, transplanting, thinning and conserving of forests and timber tracts • growing of coppice and pulpwood • operation of forest tree nurseries • growing of Christmas trees • logging: felling of timber and production of wood in the rough such as pit-props, split poles, pickets or fuel wood • growing of vegetable materials used for plaiting
	Source	NACE Rev. 1, Statistical Classification of Economic Activities in the European Community, Introduction, Eurostat, May 1996, p. 77.
	Hyperlink	http://ec.europa.eu/eurostat/ramon/documents/nace_1/word/en.zip
Global loans	Definition	Financing of small and medium-scale projects carried out by municipalities and public or private sector entities in the environment, health, knowledge economy and energy sectors. In a Global Loan, a loan is made to a Financial Intermediary, which in turn provides an equivalent amount of funding to their smaller clients: the Final Beneficiaries. The Financial Intermediary takes the credit risk on the operations with these Final Beneficiaries and is responsible for: identifying the clients, appraising and approving their credit requests, disbursing the funds, and monitoring remuneration and repayment. There are two main criteria for funding an SME under a Global Loan: it must meet the Bank's normal eligibility criteria, and have a project cost of less than EUR 25 million. Investments by SMEs are eligible in its own right, except for investments in excluded or sensitive sectors, and it would be rare for an SME to be involved in project which did not meet the project cost limit. Global Loans dedicated to SMEs were introduced during the 1980s, with an increased focus from 2000 onwards.
	Source	EIB Annual Reports (1958-2012). European Investment Bank (2005). Evaluation report: Evaluation of SME Global Loans in the Enlarged Union.
	Hyperlink	http://www.eib.org/attachments/ev/ev_global_loans_sme_en.pdf
Health, education, housing	Definition	This class includes public administration of programmes aimed to increase personal well-being: health, education (including training programmes) and housing.

	Source	NACE Rev. 1, Statistical Classification of Economic Activities in the European Community, Introduction, Eurostat, May 1996, p. 188.
	Hyperlink	http://ec.europa.eu/eurostat/ramon/documents/nace_1/word/en.zip
Industry	Definition	Understood as an industrial process. A transformation process (whether physical, chemical, manual, etc.) used in the manufacture of new products (whether consumer, intermediate or investment goods), in the processing of used products or in the provision of services to extractive industries, manufacturing industries and construction industries.
	Remark	Subsectors included are the following: • Biotechnology • Building materials (i.e. cement) • Chemical • Electrical engineering and electronics • Foodstuff and beverages • Glass • Leather • Machinery and equipment • Mechanical engineering • Metal (i.e. aluminium, alumina, steel, iron) • Mining • Other industries • Other non-metallic mineral products • Paper • Publishing and printing • Refined petroleum products • Rubber and plastics • Telecommunications • Textile • Transport equipment • Vehicles • Wood
	Source	NACE Rev. 1, Statistical Classification of Economic Activities in the European Community, Introduction, Eurostat, May 1996, p. 21.
	Hyperlink	http://ec.europa.eu/eurostat/ramon/documents/nace_1/word/en.zip
Intermediaries	Definition	Applications for loans or guarantees may be addressed to the Bank either through the intermediary of the Commission or through the intermediary of the Member State in whose territory the project is to be carried out. An enterprise may also apply directly to the Bank for a loan or guarantee. Here, intermediaries refer to the case where the loan or guarantee is to be carried out through intermediary of the Member State. Thereby, the national institution will be in charge of the correct implementation of the project and the management of the funds.
	Source	EIB Statute (1957, article 21)
Loans	Definition	Approved projects provide funds to the borrower as loans or credits. Loans comprise those financial assets created through the direct lending of funds by the EIB (the creditor or lender) to a debtor through an arrangement in which the Bank receives a non-negotiable document or instrument. Included are loans to finance projects in energy and infrastructure, industry, services, health, education, housing, agriculture, fisheries, forestry, erosion, flood protection, aerospace and small enterprises. In addition, financial aid and equity participations are covered under loans. Loans have different maturities, from long to short-term categories and are subdivided into those addressed to member countries, associated or potential associated countries and other countries not fitting in any of the other two categories.

	Remark	More than one loan or credit may be associated with one project and, also, projects might receive loans from different institutions.
	Source	EIB Annual Reports (1958 - 2012).
Objective (Article 130)	Definition	Purpose of the Bank to be achieved with the financing of the project (in order to success in the balanced and smooth development of the Common Market).
Objective A	Definition	Projects for developing less developed regions.
	Remark	Under this objective the database includes those projects referring to new industries or activities; urban infrastructure; services; schemes with a social character such as education, health, housing, water supply, sewerage and waste; global loans and projects under the ASAP “SME” Window. Hence, the database tries to cover here all activities thought to be highly necessary to the development of the less developed regions.
	Source	EIB Statute (1957)
Objective B	Definition	Projects for modernizing or converting enterprises or for creating new activities which are called for by the progressive establishment of the Common Market where such projects by their size or nature cannot be entirely financed by the various means available in each of the Member States.
	Remark	Under objective B are gathered enlargement, extension, modernization, renewal or improvements of existing industries and activities. As a result, objective B includes all lending addressed to the progress and recovery of the existing activities.
	Source	EIB Statute (1957)
Objective C	Definition	Projects of common interest to several Member States which by their size or nature cannot be entirely financed by the various means available in each of the Member States.
	Remark	Objective C covers all trans-European networks. Energy, transport and telecommunications constitute the bulk under this heading, where it also is included aerospace due to its being of common interest for all states. Therefore, under objective C we find all projects with a high interest to all Members for the building of the Common Market.
	Source	EIB Statute (1957)
Projects	Definition	Capital investment projects for which EIB financing is sought. The Bank is a complementary source of financing for large and small-scale investment projects contributing to EU policy objectives in all sectors of the economy.
	Source	EIB (2013)
	Hyperlink	http://www.eib.org/projects/pipeline/notice/index.htm
Project description	Definition	It provides a brief description of the project to be implemented with the Bank´s lending (whose resources are raised by calling on the capital markets and its own resources). It is taken from the EIB Annual Reports.
	Source	EIB Annual Reports (1958 – 2012)
Project loans: disbourse-ments	Definition	Disbursements of project loans can take the form of: • Advances to the borrowing entity—disbursements are to be recorded when the lender advances funds to the borrower. • Direct payment by the lender to suppliers of goods and services—disbursements are to be recorded when the lender pays the supplier. • On a reimbursement basis after the borrower has already paid the suppliers—disbursements are to be recorded when the lender makes reimbursements to the borrower.
	Source	International Monetary Fund (2003*) External Debt Statistics: Guide for Compilers and Users*. Appendix I. Specific Financial Instruments and

		Transactions: Classifications, Washington D.C.: International Monetary Fund.
	Hyperlink	http://ec.europa.eu/eurostat/ramon/statmanuals/files/external_debt_guide_2003_EN.pdf#page=227
Region	Definition	Tract of land with more or less definitely marked boundaries, which often serves as an administrative unit below the level of the nation state
	Remark	Regions have an identity which is made up of specific features such as their landscape (mountains, coast, forest, etc.), climate (arid or high-rainfall), language (e.g. in Belgium, Finland and Spain), ethnic origin (e.g. Wales, northern Sweden and Finland or the Basque country) or shared history. Most, if not all, of the above features may be particularly noticeable in one location but are usually to be found to some degree over such a wide area that they cannot be used in themselves to mark off one region from another; in other words, the boundaries are "fuzzy". Here, the limits of a region will be based on the following: - Administrative boundaries: The functions of government (including defense, taxation and justice) require power to be exercised by administrative units at a lower level than the nation state, either through "top-down" devolution of responsibilities or through a federal structure. While sometimes these are "natural" or "historical" regions, they are often more or less arbitrary units. These communes, counties, provinces, etc. are subject to change, for example to reflect political or population trends. Other administrative boundaries often still reflected in modern regional structures are religious, such as parishes and bishoprics (among the oldest administrative boundaries), or established to meet the needs of democratic representation (e.g. wards and electorates).
	Source	Eurostat (2010) *European Regional and Urban Statistics - Reference Guide*. Luxembourg: European Union.
	Hyperlink	http://ec.europa.eu/eurostat/ramon/statmanuals/files/KS-RA-10-008-EN.pdf
Sector of activity	Definition	Sectors are groupings of economic activities based on the types of goods or services produced. An activity is said to take place when resources such as equipment, labour, manufacturing techniques, information networks or products are combined, leading to the creation of specific goods or services. An activity is characterized by an input of products (goods or services), a production process and an output of products. In practice, most units carry on activities of a mixed character. Here, we consider the sector of activity as that one belonging to the principal activity (the activity that contributes most to the total value added of the entity under consideration). In particular, our classification includes the following sectors: energy; transport; telecommunications; water supply, sewerage and waste; urban infrastructure; industry; services; health, housing and education; agriculture, fisheries, forestry, erosion, flood protection, landslide protection and rural development; aerospace industry; global loans and ASAP 'SME' Window.
	Remark	A project is classified by up to twelve sectors, based on a list established following the classification made by the EIB and our own criteria. See the list for more detail.
	Source	NACE Rev. 1, Statistical Classification of Economic Activities in the European Community, Introduction, Eurostat, May 1996, P. 14-15, European Union, Council Regulation (EEC) No 696/93 of 15 March 1993 on the statistical units for the observation and analysis of the production system in the Community (Official Journal of the European Communities No L 076, 30/03/1993, p. 1), Section IV B1 and B4 of 15.03.1993 on the statistical units for the observation and analysis of the production system in the Community and Eurostat

	Hyperlink	http://ec.europa.eu/eurostat/ramon/documents/nace_1/word/en.zip
Services	Definition	The database includes several major services sectors which are listed below: • Banking (financial services): retail banking (lending and deposit acceptance) • Capital: increases in capital • Community, social and individual services • Emergency relief • Energy savings • Environment • Equity participations • Mail • Private and public-sector services • Research and development • Studies • Technical assistance: Professional services: accounting, auditing, and legal services (advice on foreign/international law, advice on domestic law, and court representation) • Tourism, leisure, art, culture • Wholesale and retail trade
Subsector	Definition	A narrower classification of the project implemented within the sector of activity to which it belongs. The classification goes as follows: • Energy (Production: Coal, Electricity, Heat, Lignite, Nuclear, Oil and natural gas, Renewable, Solar, Wind; Transmission and supply: Electricity, Heat, Nuclear, Oil and natural gas, Wind); • Transport (Aircraft; Air transport; Exceptional structures; Inland waterways; Intermodal freight terminals and other; Maritime transport; Roads, motorways, highways, Tunnel and Bridge; Railways; Urban transport); • Telecommunications (E-Commerce; Mobile telephony; Networks, exchanges and international cables; Satellites, ground stations); • Water supply, sewerage and waste (Sewerage, Waste management, Water catchment, treatment and supply); • Urban infrastructure (Urban development schemes, Urban renewal); • Industry (Biotechnology, Building materials, Chemical, Electrical engineering and electronics, Foodstuff and beverages, Glass, Leather, Machinery and equipment, Mechanical engineering, Metal, Mining, Other industries, Other non-metallic mineral products, Paper, Publishing and printing, Refined petroleum products, Rubber and plastics, Telecommunications, Textile, Transport equipment, Vehicles, Wood); • Services (Banking; Capital; Community, social and individual services; Emergency relief; Energy savings; Environment; Equity participations; Mail; Private and public-sector services; Research and development; Studies; Technical assistance; Tourism, leisure, art and culture; Wholesale and retail trade); • Health, education and housing (Education, training; Health; Housing); • Agriculture, fisheries, forestry, erosion, flood protection (Irrigation), landslide protection and rural development; • Aerospace; Global loans; ASAP “SME” Window.
Telecommunications	Definition	Transmission of sound, images, data or other information via cables, broadcasting, relay or satellite: • mobile, telephone, telegraph and telex communication • construction and maintenance of the network • transmission (transport) of radio and television programmes

		• internet
	Source	NACE Rev. 1, Statistical Classification of Economic Activities in the European Community, Introduction, Eurostat, May 1996, p. 173.
	Hyperlink	http://ec.europa.eu/eurostat/ramon/documents/nace_1/word/en.zip
Transport	Definition	Transport – covers all modes of transport (air, rail, road, inland waterways, and sea) and includes transport infrastructure, equipment, freight transport, and exceptional structures. It also includes urban transport.
	Remark	Part of the Metadata Common Vocabulary (MCV), as published in SDMX Content-Oriented Guidelines (COG), annex 3 “List of subject-matter domains", in 2009
	Source	SDMX (2009)
	Hiperlink	http://sdmx.org/wp-content/uploads/2009/01/03_sdmx_cog_annex_3_smd_2009.pdf
Urban infrastructure	Definition	Building of complete constructions or parts thereof and general construction of buildings and civil engineering works. It includes urban development schemes and urban renewal due not only to deterioration but also to natural disasters such as earthquakes or floods.
Water supply, sewerage and waste	Definition	Water supply includes the construction of waterways, harbors and river works, locks, dams and dykes; and the production, collection and distribution of steam and hot water for heating, power and other purposes. This class also includes production and distribution of chilled water or ice for cooling purposes. Waste includes recycling and waste management, from oil to treatment of nuclear waste for example. It includes treatment of solid waste: • collection of garbage, trash, rubbish and waste • waste transportation: removal of building debris • waste disposal by incineration or by other means It also includes treatment of liquid waste: • sewage removal, whether via drains, sewers or by other means, of human waste products and their treatment and disposal • disposal of swage by dilution, screening and filtering, sedimentation, chemical precipitation, activated sludge treatment and other processes • maintenance of sewers and drains • emptying and cleaning of cesspools and septic tanks, servicing of chemical toilets • treatment of waste water from swimming pools and from industry This class also includes sewerage and sewage activities.
	Source	NACE Rev. 1, Statistical Classification of Economic Activities in the European Community, Introduction, Eurostat, May 1996, pp. 150, 197.
	Hyperlink	http://ec.europa.eu/eurostat/ramon/documents/nace_1/word/en.zip
Year	Definition	Generally, the year the project has been approved.
	Remark	Reports do not indicate the exact timing when the project is implemented nor its duration.

Table 9.2 Breakdown of the sectors to which EIB loans are addressed

- INFRASTRUCTURE
  - Energy
    - o Production
      - Electricity
      - Oil and natural gas
      - Heat
      - Nuclear
      - Lignite
      - Coal
      - Wind
      - Solar
    - o Transmission and supply
      - Electricity
      - Oil and natural gas
      - Heat
      - Nuclear
  - Transport
    - o Roads. motorways. highways
    - o Railways
    - o Urban transport
    - o Air transport
    - o Aircraft
    - o Exceptional structures
    - o Maritime transport
    - o Inland waterways
    - o Intermodal freight terminals and other
  - Telecommunications
    - o Networks. exchanges and international cables
    - o Mobile telephony
    - o Satellites. ground stations
  - Water supply. sewerage. waste
    - o Sewerage
    - o Waste management
    - o Water catchment. treatment and supply
  - Urban infrastructure
    - o Urban renewal
    - o Urban development scheme
- INDUSTRY
  - Biotechnology
  - Building materials (i.e. cement)
  - Chemical
  - Electrical engineering and electronics
  - Foodstuff and beverages
  - Glass
  - Leather
  - Machinery and equipment
  - Mechanical engineering
  - Metal (i.e. aluminium, alumina, steel, iron)
  - Mining
  - Other industries
  - Other non-metallic mineral products
  - Paper
  - Publishing and printing
  - Refined petroleum products
  - Rubber and plastics

	Telecommunications
	Textile
	Transport equipment
	Vehicles
	Wood
SERVICES	
	Banking
	Capital (i.e. increase in capital)
	Community, social and individual services
	Emergency relief
	Energy savings
	Environment
	Equity participations
	Mail
	Private and public-sector services
	Research and development
	Studies
	Technical assistance
	Tourism, leisure, art, culture
	Wholesale and retail trade
SOCIAL SERVICES	
	Health, education, housing o Education, training o Health o Housing
AGRICULTURE	
	Agriculture, fisheries, forestry, erosion, flood protection, landslide protection, rural development o Irrigation
OTHER	
	Aerospace
	Global loans
	ASAP 'SME Window'

Source: Clifton *et al*. (2017c).

Table 9.3 EIB lending to EU Members, candidate countries and third countries: summary statistics (1958-2012)

Variable	*Obs*	*Mean*	*Std. Dev.*	*Min*	*Max*
EIB lending to EU Members	9927	84.8231	126.0879	0.1	2300.4
EIB lending to candidate countries	804	51.55435	66.04837	0.1	500
EIB lending to third countries	2466	31.11305	58.54816	0.01	700

Source: Clifton *et al*. (2017c).

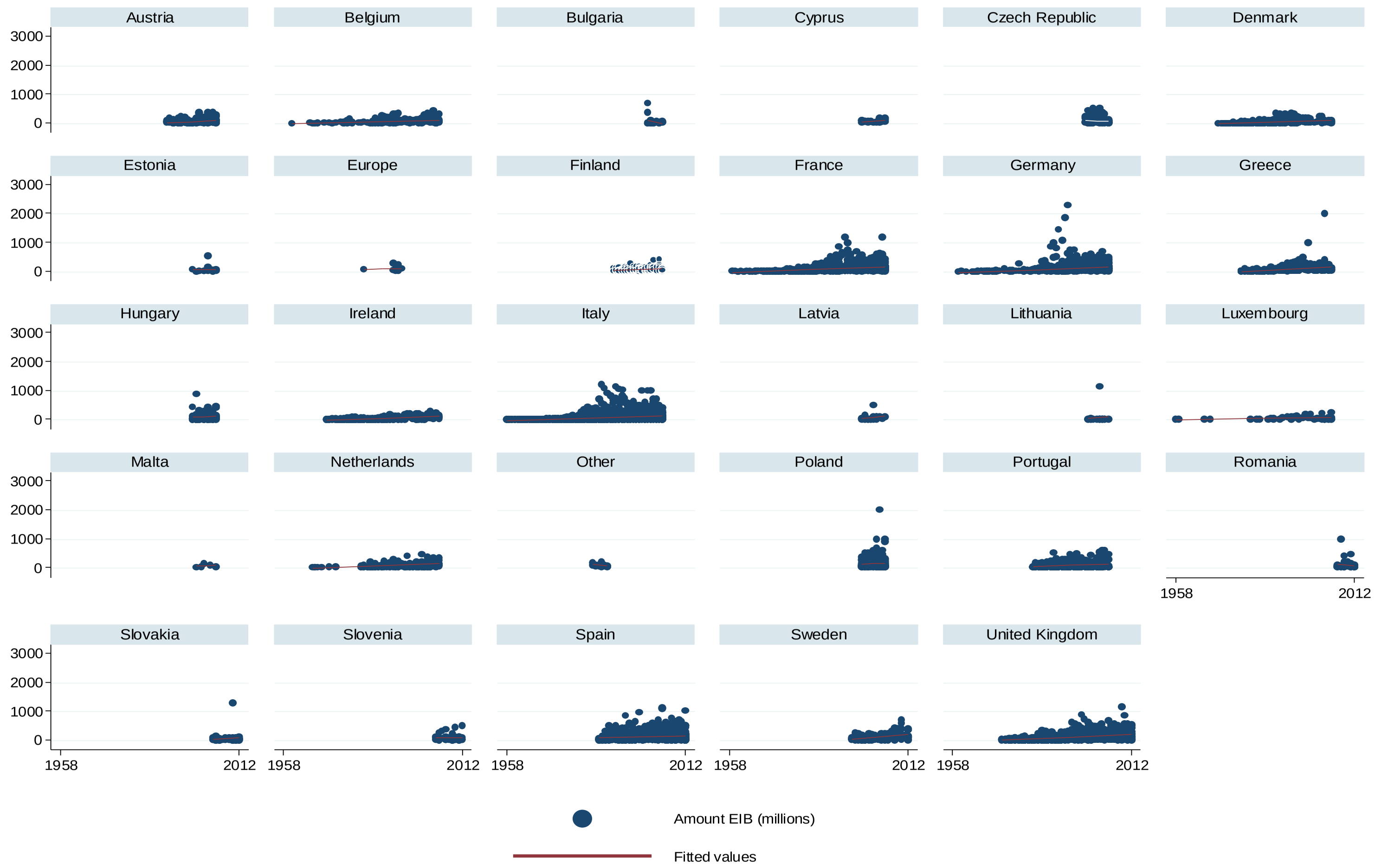
Table 9.4 EIB lending to EU Members, candidate countries and third countries, by year

Year	*EU*	*Candidate*	*Third*
1958	24	0	0
1959	52.1	0	0
1960	41.3	0	0
1961	66.2	0	0
1962	94.2	0	0
1963	81.6	23	0
1964	86.3	19.2	0
1965	98.6	48.8	3.4
1966	83.8	30.9	17.5
1967	162.2	50.5	20
1968	236.3	30.1	35.6
1969	245.2	41.7	6
1970	338.6	0	15.9
1971	469.4	0	23.2
1972	505.5	0	20.9
1973	653.3	119.7	42.6
1974	831.6	114.9	50.2
1975	917.7	82.1	6.85
1976	1085.3	96	91.2
1977	1352.4	133.8	85.2
1978	1966.9	86.3	135.5
1979	2518.9	289.4	262.9
1980	2899.6	383.6	215
1981	3338.4	180	329.5
1982	4244.6	264	187.5
1983	5468.1	256.7	223.6
1984	6153.2	346.3	362
1985	6525.1	290.2	370
1986	7071.7	14.2	459.6
1987	7339.9	124.9	376.1
1988	9474.9	226	474.3
1989	11634.4	58	553.9
1990	12679.1	407	305.9
1991	14315.3	307.5	608.5
1992	16139.3	320	572.8
1993	17723.2	895	992.1
1994	17226.5	1250.6	1425.1
1995	17884.8	1359	1965
1996	20789.4	1233.6	1125.7
1997	22957.5	1544	1699.8
1998	24911.1	2467	1943
1999	27766.8	2432.5	1602.6

2000	30323.6	3423.3	2287.1
2001	31010	3152.4	2614
2002	33142.5	4366	2109.4
2003	34088.6	4897.8	3346.2
2004	39315.3	699.8	3189.1
2005	41828	1285	3846
2006	39573.5	1144.5	4726.2
2007	41285.6	772.4	5762.6
2008	51420.7	440	5704.8
2009	70335.8	854	7912.8
2010	62923.9	736.3	8099.9
2011	53622.1	810	6449.6
2012	44715	3341.7	4068.2

Source: Clifton *et al*. (2017c).

Figure 9.1 EIB lending to EU Members, by country and by year



Source: Clifton *et al*. (2017c).

APPENDIX 9.2 CHAPTER 4 SUPPLEMENTARY MATERIALS

Table 9.5 Variable definition and data source of chapter 4 quantitative analysis

VARIABLE NAME	*DEFINITION*
Total_lending_2005$	Lending from the EIB, passed to constant dollars of 2005.
Total_infrastructure_2005$	Infrastructure lending from the EIB passed to constant dollars of 2005. Infrastructure includes: composite infrastructure, energy, solid waste, telecoms, transport, urban development, water and sewerage.
No_agreements	Number of loans the country gets each year (independently of the quantity of the loan)
No_agreements_infrastr	Number of loans in infrastructure that the country gets each year (independently of the quantity of the loan). Infrastructure includes: composite infrastructure, energy, solid waste, telecom, transport, urban development, water and sewerage.
(Data source: EIB Annual Reports (1991-2015) and the EIB Official Database)	
Diff_rates_total	The difference between the nominal long term interest rate of each country and the nominal EIB interest rate (both for an average long term period of 10 years). The nominal EIB interest rate is constructed as an average of each year public borrowing interest rates (a realistic hypothesis if we accept the EIB's claim to work at a non-profit basis).
(Data source: Data for each country nominal long term interest rate was obtained from the Ameco database (EC 2016) and the OECD Statistics (2016), while information for EIB interest rates has been extracted from the EIB Annual Reports (1991-2015))	
GDP_pc	'GDP_millions_2005$' divided by 'Population_millions'
GDP_millions_2005$	AMECO database. Gross domestic product at current prices (UVGD). Units: ECU/EUR. Price deflator: gross domestic product (PVGD) (base year: 2010). Transformed to dollars from 2005.
(Data source: Ameco database (EC 2016). To transform euros to dollars: https://www.ecb.europa.eu/stats/exchange/eurofxref/html/eurofxref-graph-usd.en.html. To eliminate inflation and take dollars from 2005: http://www.usinflationcalculator.com/inflation/consumer-price-index-and-annual-percent-changes-from-1913-to-2008/)	
Population_millions	Total population (NPTN) in millions. Source: Ameco.
(Data source: Ameco database (EC 2016))	
Subscribed_capital_%	Subscribed capital of each country in percentage form.
(Data source: EIB Statutes (1957, 1973, 1981, 1986, 1991, 1995, 1999, 2003, 2004, 2007, 2013))	
Gov_debt_%	General government consolidated gross debt: Excessive deficit procedure (based on ESA 2010) and former definitions (linked series) (UDGGL) (Percentage of GDP at market prices (excessive deficit procedure))
Intra_EU_exports_overGDP	Intra EU exports of goods at current prices: Foreign trade statistics (1960-1998 Former EU-15) (DXGI) divided by 'Gross domestic product at current prices (UVGD)'.
Differential_%_CPI	The percentage difference of the harmonised consumer price index (All-items) (ZCPIH) (2005 = 100). *The percentage difference: the difference in percentage form of the old value. One divides by the old value and transforms it to percentage form: so the percentage difference between 5 and 3 is: 2/5= 0.4 = 40%.
Unemployment_rate	Unemployed persons as a share of the total active population (labour force, i.e. the number of people employed and unemployed). Unemployment rate, total (percentage of civilian labour force); Member States: definition Eurostat (ZUTN).
(Data source: Ameco database (EC 2016))	
New_country_dummy	Dummy. 1 the 5 first years after entrance, 0 otherwise.
Dummy_crisis	Dummy. 1 after the financial crisis (2008 - 2015), 0 before (1991 - 2007).

Country list:	Austria, Belgium, Bulgaria, Croatia, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden and the United Kingdom.
Years covered:	1991 – 2015

EXTENSIONS TO CHAPTER 4 QUANTITATIVE ANALYSIS

In this section, we present a restricted analysis of the EIB lending determinants to investigate the robustness of our results. We restrict the set of independent variables to only test the original EIB lending objectives: development, investment and integration.

As in the original quantitative analysis, we employ total lending as our dependent variable. Again, results are replicated with the more restrictive sample of infrastructure lending.

As can be seen in the table, there is no significant change from our previous results. Capital subscribed turns out to be always significant.

Restricting the sample to infrastructure lending does not change our results. In a similar manner to our previous analysis, capital subscribed seems to be the main driving factor of lending accompanied by a small significant positive effect of ‘newcomers’.

Hence, we do not see significant differences once we restrict the analysis to the original EIB mission. According to the results, the importance of capital subscribed on EIB lending is indeed robust to the choice of control variables and specification used.

Table 9.6 Determinants of EIB lending to European countries (1991 – 2015) under different statistical models, restricted model

Dependent variable	*Ln. Total lending*					*Ln. Infrastructure lending*				
	Driscoll	FGLS	PCSE	Linear	Tobit	Driscoll	FGLS	PCSE	Linear_reg	Tobit
Ln GDP pc	3.521	0.853	1.619	1.619	1.617	1.439	0.796	3.067	3.067	3.021
	(2.33)	(0.91)	(2.01)	(3.96)	(2.00)	(4.08)	(2.02)	(3.28)	(4.81)	(4.28)
Diff. rates	-0.102	-0.033	0.044	0.044	0.044	0.018	-0.046	0.156	0.156	0.179
	(0.09)	(0.03)	(0.06)	(0.12)	(0.10)	(0.19)	(0.07)	(0.16)	(0.16)	(0.21)
Differential CPI (%)	0.079***	0.052	0.066	0.066	0.068	0.082***	0.009	0.176	0.176	0.204
	(0.01)	(0.03)	(0.05)	(0.10)	(0.08)	(0.02)	(0.07)	(0.18)	(0.19)	(0.17)
Gov. debt (% GDP)	0.013	0.002	0.012	0.012	0.012	-0.001	-0.008	0.008	0.008	0.008
	(0.01)	(0.01)	(0.01)	(0.02)	(0.01)	(0.02)	(0.01)	(0.03)	(0.05)	(0.03)
Intra-European trade	0.011	-0.000	0.010	0.010	0.011	-0.021	-0.010	0.000	0.000	-0.000
	(0.01)	(0.01)	(0.01)	(0.02)	(0.02)	(0.03)	(0.02)	(0.02)	(0.04)	(0.04)
New country dummy	0.267	0.167	0.153	0.153	0.167	1.780**	0.693	1.686*	1.686*	1.956*
	(0.48)	(0.18)	(0.37)	(0.49)	(0.48)	(0.87)	(0.46)	(0.91)	(0.87)	(1.02)
Subscribed capital	1.379***	0.622***	1.459***	1.459**	1.506***	1.156**	0.275*	1.132***	1.132**	1.295***
	(0.45)	(0.13)	(0.14)	(0.67)	(0.20)	(0.43)	(0.15)	(0.32)	(0.52)	(0.43)
Crisis dummy	0.708**	-0.033	2.511	2.511	2.592	0.665	1.391	-4.221	-4.221	-4.755
	(0.33)	(1.47)	(2.46)	(5.31)	(3.50)	(0.85)	(3.12)	(8.24)	(8.96)	(7.50)
GDP pc										
constant	-23.665	9.754	-3.596	-6.559	-3.826	-1.694	9.982	-12.971	-16.012	-12.442
	(24.46)	(9.53)	(20.04)	(36.62)	(20.99)	(41.67)	(20.88)	(33.14)	(49.19)	(45.01)
Sigma u										
constant					0.000					0.000
					(0.13)					(0.27)
Sigma e										
constant					2.833***					6.000***
					(0.09)					(0.21)
R-sqr			0.596	0.267				0.435	0.094	
dfres	27			27		27			27	
BIC	.	.	.	2648.5	2864.1	.	.	.	3321.9	3397.3
Wald-Chi2		708.95	55095.40		713.66		357.96	1095362.30		347.59
Observations	512	512	512	512	512	512	512	512	512	512
Groups	28	28	28	28	28	28	28	28	28	28

Notes: The asterisks ***, ** and * denote significance at the 1%, 5% and 10% levels, respectively (***p<0.01, **p<0.05, *p<0.1). Robust standard errors reported in parentheses. Time and country fixed effects are included in all regressions but not shown

Table 9.7 EIB lending to European countries (millions 2005 US $) and percentage addressed to each sector

		BE	*FR*	*DE*	*IT*	*LU*	*NL*	*DK*	*IE*	*UK*	*EL*	*PT*	*ES*	*AT*	*FI*	*SE*	*CY*	*CZ*	*EE*	*HU*	*LV*	*LT*	*MT*	*PL*	*SK*	*SI*	*BG*	*RO*	*HR*
1991-1999	Total	7697	36185	40641	52553	673	5106	10613	3608	36194	8866	18225	42738	3455	2844	4699	622	3095	180	2013	261	332	55	4024	1358	968	1038	2058	-
	% Agric	-	-		-	-	-	-	2	-	-	-	1	-	-	-	-	-	-	-	-	-	-	1	-	-	-	-	-
	% C. Infr.	-	-	-	3	-	-	-	12	3	5	-	3	-	-	-	-	9	-	-	-	-	-	11	-	-	-	-	-
	% Credit	38	50	48	28	3	31	6	32	11	20	5	15	24	12	5	32	6	31	31	21	5	16	16	13	1	7	3	-
	% Educ.	-	-	-	-	-	-	-	4	-	-	1	1	-	-	2	-	-	-	-	-	-	-	-	-	-	-	-	-
	% Energy	8	-	10	22	-	10	15	22	23	17	14	10	16	7	17	27	19	6	9	4	5	-	7	27	-	8	13	-
	% Health	-	-	3	-	-	-	-	-	-	1	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	% Industy	4	10	9	12	23	6	3	2	10	1	11	8	24	14	8	-	6	-	14	-	-	-	5	4	-	13	3	-
	% Servic.	-	1	4	1	-	-	2	-	-	-	1	-	2	-	1	-	-	-	-	-	-	-	-	-	-	-	-	-
	% Waste	-	1	2	2	-	13	1	-	-	-	1	-	2	-	1	-	-	-	-	-	-	-	-	-	-	-	-	-
	% Telec.	8	3	7	15	16	7	10	7	9	9	10	15	14	9	15	-	9	-	12	24	27	-	18	25	12	12	9	-
	% Transp	35	34	8	11	58	14	62	18	24	45	52	39	15	57	46	24	49	63	27	32	55	18	41	32	87	53	71	-
	% Urban	-	-	3	3	-	6	-	1	1	-	1	2	-	1	2	-	-	-	7	10	-	-	1	-	-	-	-	-
	% Water	8	-	6	3	-	13	1	-	18	1	3	6	4	-	4	18	2	-	-	9	8	67	2	-	-	7	-	-
2000-2009	Total	9928	51652	81963	76664	1738	9597	7277	6356	43852	14873	23587	83423	13310	8997	9851	1632	12742	1502	12506	2104	1828	293	24974	2123	3120	2871	7583	2312
	%Agric.	-	-	-	-	2	-	-	-	-	-	-	-	-	-	-	-	-	-	2	-	-	-	-	-	-	-	-	-
	% C. Infr.	-	-	-	9	-	-	-	-	-	-	1	1	-	-	-	2	6	24	3	13	43	-	3	1	1	-	15	8
	% Credit	18	40	36	34	5	21	10	25	13	16	21	24	34	17	4	12	14	17	22	17	8	8	14	50	39	21	10	35
	% Educ.	-	2	5	1	-	2	4	3	6	4	2	4	5	16	1	19	1	4	8	3	16	-	8	1	-	-	4	-
	% Energy	16	5	3	15	8	28	17	35	17	15	13	12	7	3	6	22	3	20	2	20	-	68	3	-	11	2	5	15
	% Health	-	8	4	-	1	7	1	-	8	-	-	2	5	5	5	3	3	-	2	-	-	-	-	-	-	-	1	-
	%Industry	10	10	19	5	11	6	19	-	10	1	7	3	10	33	52	-	19	-	8	-	2	-	7	20	1	-	10	-
	% Servic.	1	1	12	3	9	1	2	-	-	2	1	1	1	3	2	5	4	-	12	11	-	6	10	4	2	-	2	-
	% Waste	-	1	-	1	-	3	3	1	1	-	1	-	2	-	1	2	-	-	1	-	-	-	-	1	1	1	-	-
	% Telec.	1	1	4	7	15	-	12	2	4	1	5	6	4	1	4	-	1	-	4	-	-	-	4	3	14	8	-	-
	% Transp	14	26	10	19	35	19	32	32	20	47	36	42	23	14	23	5	33	27	32	16	23	-	41	17	32	53	45	39
	% Urban	15	6	3	5	13	-	-	3	7	14	3	3	6	8	1	7	4	-	1	11	-	-	5	1	-	-	-	3
	% Water	24	1	4	2	-	12	1	-	14	-	9	3	2	1	1	23	11	9	5	8	8	18	4	2	1	15	8	-
2010-2015	Total	10553	41444	44310	61321	962	9993	3085	3899	36958	10098	11326	66733	11315	7127	9938	1964	6765	914	8429	620	959	187	35299	4722	3338	1554	3407	293
	% Agric.	-	-	-	-	-	-	-	-	-	-	-	1	-	-	-	-	-	2	6	1	-	-	1	3	-	-	10	-
	% C. Infr.	-	-	1	-	-	-	-	-	-	3	-	-	-	-	2	1	3	7	3	10	14	-	2	19	14	2	-	15
	% Credit	28	19	24	39	11	45	23	21	5	16	43	45	21	8	4	28	43	10	25	53	35	13	18	27	30	50	33	67
	% Educ.	2	13	3	2	29	3	-	20	9	7	9	3	2	12	1	11	1	11	8	3	6	-	3	3	3	-	-	-
	% Energy	11	11	10	21	4	16	10	26	31	23	16	12	20	5	5	19	14	37	10	21	23	63	7	10	30	-	17	-

% Health	15	4	3	-	-	2	-	-	3	-	1	2	7	15	11	-	-	14	2	3	-	-	2	1	-	-	-	1
% Industr	11	10	29	9	4	1	43	-	8	6	3	4	7	23	39	-	16	-	4	-	-	-	4	6	3	6	1	1
% Servic.	2	1	8	3	13	1	1	-	1	6	2	4	2	2	1	2	-	4	12	9	1	-	12	3	2	-	17	2
% Waste	-	-	-	-	-	-	-	-	1	1	1	1	-	1	1	8	-	3	1	-	-	-	-	-	-	5	-	-
% Telec.	-	3	6	4	-	3	20	4	3	2	5	1	1	5	1	1	5	6	5	-	-	-	2	2	-	-	5	-
% Transp.	10	32	6	14	5	24	2	15	17	29	14	21	34	21	29	7	17	2	16	-	20	-	44	16	11	27	17	9
% Urban	6	4	3	2	34	2	-	4	6	4	3	2	4	7	5	7	1	2	2	-	-	23	3	4	4	-	-	1
% Water	15	3	5	5	-	3	-	10	16	3	2	3	2	1	1	14	-	-	6	-	-	-	1	7	3	10	-	3

Notes: Total=100%. When the percentage is not reported, the quantity is zero or below 1%. Belgium (BE), France (FR), Germany (DE), Italy (IT), Luxembourg (LU), Netherlands (NL), Denmark (DK), Ireland (IE), United Kingdom (UK), Greece (EL), Portugal (PT), Spain (ES), Austria (AT), Finland (FI), Sweden (SE), Cyprus (CY), Czech Republic (CZ), Estonia (EE), Hungary (HU), Latvia (LV), Lithuania (LT), Malta (M), Poland (PL), Slovakia (SK), Slovenia (SI), Bulgaria (BG), Romania (RO), Croatia (HR). Agriculture, fisheries and forestry (Agric.), composite infrastructure (C. Infr.), credit lines (Credit), education (Educ.), energy (Energy), health (Health), industry (Industry), services (Servic.), solid waste (Waste), telecom (Telec.), transport (Transp.), urban development (Urban), water and sewerage (Water).
Source: EIB Annual Reports (1991-2015).

Table 9.8 Descriptive statistics of chapter 4 quantitative analysis

Variable	*Obs*	*Mean*	*Std. Dev.*	*Min*	*Max*
Total EIB lending (2005 US$)	700	1.73e+09	2.56e+09	0	1.33e+10
Ln (total EIB lending) (2005 US$)	700	18.627	5.788	0	23.313
Total EIB infrastructure lending (2005 US$)	700	9.31e+08	1.39e+09	0	8.07e+09
Ln (total EIB infrastructure lending (2005 US$)	700	16.527	7.621	0	22.811
Differential of interest rates	538	0.318	2.640	-4.246	19.267
GDP per capita (2005 US$)	690	25712.68	17318.48	3209.463	98610.52
Ln (GDP per capita) (2005 US$)	690	9.911	0.744	8.074	11.499
Government debt (as percentage of GDP)	640	55.549	31.850	3.664	179.003
Intra-European trade (as percentage of GDP)	585	53.819	29.349	15.592	140.799
Differential Consumer Price Index (%)	610	3.175	10.349	-51.655	154.788
Subscribed capital (%)	700	3.571	5.903	0	19.128
New country dummy	700	0.111	0.315	0	1
Dummy crisis	700	0.32	0.467	0	1
Unemployment rate (%)	663	8.940	4.225	0.3	27.5

Notes: Intra-European trade is constructed as the percentage of intra-European exports of goods plus intra-European imports of goods over GDP.

Table 9.9 Sources of EIB performance

	Internal	*External*
Material	Bureaucratic politics - Bureaucratic career, self-interest - Inadequate resources - Competition among subunits - Dysfunctional human resources system - Lack of internal coordination	Realism / neoliberal institutionalism - Power politics (disagreement among states) - Short sighted principals - Inter-organizational dependencies - Constraints of field environment - Incoherent mandates
Cultural / Social	Bureaucratic culture - Culture of the organization - Ambiguity (goals, mandates, authority) - Routinization - Leadership deficit - Dissensus on goals - Politicized decision-making - Lack of organizational learning - Bureaucratic dysfunction	World polity model - Environment (ambiguous about missions) - Competing norms - Lack of consensus on problem - Limited understanding of causes and solutions to conflict (causal ambiguity) - Lack of coordination with external actors

Notes: the items in this table are drawn from Barnett and Finnemore (1999), Gutner and Thompson (2010) and Lipson (2010), and research for this article.

APPENDIX 9.3 CHAPTER 5 SUPPLEMENTARY DATA

Table 9.10 Lending per capita given by the EIB and the EBRD (2005 dollars) (cumulative for the periods marked)

		1991-1995		*1996-2000*		*2001-2005*		*2006-2010*		*2011-2015*		*Total 1991-*	
		EI	EBR	EI	EBR	EIB	EBR	EIB	EBR	EIB	EBR	EIB	EBRD
EU Members	Bulgaria	59	37	89	48	49	126	336	203	199	88	732	502
	Croatia	-	65	-	121	187	193	485	321	556	202	1228	900
	Cyprus*	122	-	591	-	109	-	105	-	121	129	4075	129
	Czech Republic	120	52	229	47	506	43	910	19	466	3	2230	163
	Estonia	57	131	105	216	168	112	993	37	638	107	1961	602
	Greece*	382	-	648	-	668	-	892	-	590	27	3180	27
	Hungary	103	107	123	63	486	87	963	80	661	22	2335	359
	Latvia	3	52	112	110	225	42	814	127	253	34	1408	365
	Lithuania	13	54	85	71	59	49	552	54	286	22	996	251
	Poland	41	22	93	43	234	46	585	47	767	87	1720	245
	Romania	29	48	106	56	110	99	242	130	149	98	635	431
	Slovakia	80	107	227	38	181	145	493	146	568	57	1550	494
	Slovenia	100	202	434	63	619	143	136	14	121	155	3732	576
EU Candidates and potential	Albania	18	36	28	15	59	91	50	162	22	97	177	401
	Bosnia and	-	-	34	71	88	100	291	264	232	154	646	589
	FYR Macedonia	-	88	87	227	18	127	106	131	191	417	401	991
	Kosovo	-	-	-	-	-	6	77	38	28	67	104	111
	Montenegro	-	-	-	-	75	83	436	514	338	407	849	1003
	Serbia	-	-	-	-	132	119	378	250	250	303	760	672
	Turkey*	3	-	21	-	57	-	207	13	158	91	445	104
Other European countries	Armenia	-	36	-	7	-	36	2	234	82	112	84	425
	Azerbaijan	-	15	-	44	-	106	-	79	8	116	8	360
	Georgia	-	9	-	374	-	48	54	226	133	143	186	800

	Moldova, Republic of	-	30	-	77	-	31	82	120	118	122	200	380
	Russian Federation	-	12	-	24	1	66	3	81	9	41	13	224
	Ukraine	-	7	-	19	-	63	13	144	92	78	105	312
Non European	Belarus	-	25	-	50	-	29	-	46	-	78	-	227
	Egypt*	17	-	16	-	32	-	29	-	19	18	114	18
	Jordan*	63	-	88	-	42	-	54	-	40	78	286	78
	Kazakhstan	-	4	-	103	-	108	-	176	15	109	15	501
	Kyrgyzstan	-	32	-	17	-	13	-	45	11	31	11	139
	Mongolia	-	8	-	-	-	2	-	191	19	325	19	526
	Morocco*	63	-	33	-	40	-	76	0	66	28	278	28
	Tajikistan	-	-	-	3	-	30	-	17	11	41	11	90
	Tunisia*	63	-	84	-	162	-	221	-	137	29	667	29
	Turkmenistan	-	3	-	38	-	3	-	7	-	15	-	66
	Uzbekistan	-	12	-	32	-	5	-	4	-	-	-	52
Average		23	15	43	26	75	43	163	64	143	60	448	208

Notes: countries with an asterisk (*) are non-transition countries; the rest (without an asterisk) are transition countries. Slovakia (=Slovak Republic), Kyrgyzstan (=Kyrgyz Republic), FYR Macedonia = Former Yugoslav Republic of Macedonia.

Sources: EIB Official Database (2017), EIB Annual Reports (1991-2015), EBRD Investments (1991-2017), World Bank (2017b).

Table 9.11 Average Gross Domestic Product (GDP) (millions 2005 US dollars) and GDP per capita (GDP pc) (2005 US dollars)

	1991-1995		*1996-2000*		*2001-2005*		*2006-2010*		*2011-2015*		*Total 1991-2015*	
	GDP	GDP pc	GDP	GDP pc	GDP	GDP pc	GDP	GDP pc	GDP	GDP pc	GDP	GDP pc
Albania	4193	1300	5546	1774	37953	2500	9954	3377	11478	3964	7753	2583
Armenia	3343	988	3559	1142	27825	1834	8635	2899	9723	3248	6165	2022
Azerbaijan	13194	1774	10101	1275	84233	2039	40854	4646	51286	5445	26456	3036
Bosnia & Herzegovina	2772	705	8479	2239	59915	3138	15309	3988	16041	4196	12027	3146
Bulgaria	28601	3365	29365	3554	175224	4471	45592	6070	47808	6583	37282	4809
Croatia	36022	7717	40774	9047	243348	10964	56658	12788	52945	12457	49107	11143
*Cyprus**	12664	20251	15676	23091	95677	26591	22722	28830	21888	25625	18417	24878
Czech Republic	118363	11465	132535	12880	760200	14901	186676	18004	194277	18468	156778	15144
*Egypt**	89099	1482	112172	1699	684824	1895	179309	2265	213497	2428	146208	1954
Estonia	9565	6658	11509	8250	78402	11448	19384	14484	20206	15323	16355	12104
Georgia	6438	1331	5433	1210	35283	1648	10007	2488	12489	3311	8285	1997
*Greece**	187012	17895	213137	19893	1300752	23805	291419	26317	228920	20871	236128	21756
Hungary	82102	7929	90161	8787	549713	10852	122346	12188	123356	12463	105581	10444
*Jordan**	9852	2492	12165	2634	77638	3057	21973	3646	26083	3624	17120	3091
Kazakhstan	66288	4078	55871	3689	418327	5589	122994	7789	158868	9314	97537	6092
Kosovo	-	-	2971	1748	19882	2334	4954	2834	5872	3253	4812	2741
Kyrgyzstan	3004	666	2670	560	16467	652	4113	771	5048	880	3626	706
Latvia	11612	4674	13544	5624	93474	8192	24465	11282	24466	12150	19879	9091
Lithuania	17584	4847	20678	5831	137878	8115	35666	11176	38399	12947	29961	9295
Macedonia, FYR	5899	2996	5921	2982	32670	3213	8090	3936	9087	4381	7106	3502
Moldova	3636	989	3301	904	19702	1091	5019	1405	6048	1700	4532	1261
Mongolia	2966	1313	3332	1414	20633	1668	5969	2265	9388	3276	5156	1987
Montenegro	-	-	2682	4418	14129	4621	3657	5925	3941	6340	3308	5374
*Morocco**	42504	1602	50024	1751	306363	2028	78108	2450	95834	2817	65549	2130
Poland	207441	5395	271098	7030	1604945	8402	405415	10637	477954	12569	336579	8806

Romania	95036	4169	100336	4455	593871	5495	153813	7455	161927	8099	125977	5935
Russian Federation	970869	6537	789226	5351	5149903	7122	1357666	9505	1495405	10334	1128629	7770
Serbia	21890	2871	23199	3066	139376	3729	35304	4803	36470	5090	30292	4110
Slovakia	39355	5901	48768	9054	289372	10769	77754	14450	87213	16114	63144	11257
Slovenia	27285	13713	30901	15563	186215	18659	44285	21851	43495	21124	38424	19033
Tajikistan	3631	652	2102	349	15841	483	4581	630	6363	783	3969	579
*Tunisia**	19010	2203	24035	2574	147799	3002	37261	3604	41870	3846	30347	3046
*Turkey**	363188	6136	449466	7025	2570483	7434	669137	8975	882010	10112	575580	7937
Ukraine	130340	2507	78932	1575	517062	2164	128959	2785	124993	2804	113327	2367

Notes: countries with an asterisk (*) are non-transition countries; the rest (without an asterisk) are transition countries. Slovakia (=Slovak Republic), Kyrgyzstan (=Kyrgyz Republic), FYR Macedonia = Former Yugoslav Republic of Macedonia.
Sources: World Bank (2017b).