

**The European Investment Bank and its role in fostering european cohesiveness:
the case of Italian southern regions**

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Abstract

The range of instruments that the Bank used to achieve its purposes has expanded over time. Currently, the Bank uses many tools (loans and guarantees, technical assistance, venture capital) and promotes a wide range of interventions. In this paper it will be focused on the core instruments of the Bank, historically represented by the granting of loans to institutions and firms their importance for the Italian southern regions. As a rule, EIB can contribute up to a maximum of 50 per cent of total investment. Loans granted by the EIB were of two types: direct and intermediated (or global loans). The former were granted directly to the borrower in order to finance specific investment projects of significant size. The global loans (created in 1968) are credit lines to banks that use them to finance investments of small and medium enterprises (SMEs). It will describe the results of a detailed analysis of direct and indirect loans that the EIB granted since its establishment in Italy. The data set consists of 3,620 loans granted between 1959 and 2007. Also through the help of archival documentation and annual reports of the EIB we were able to classify them individually by size, nature, technical form, geographical area of activity of beneficiary. With respect to the technical forms of financing, the use of credits to small and medium enterprises intermediated by the banking system, introduced in 1968, remained very limited for over a decade, and then strengthened significantly since the early eighties, when the weight of the global loans reached 30 percent.

In general, as is clear, the EIB has provided the Community countries with important resources to rely; aid that has also reached countries outside the Community in accordance with Article 18 of the Treaty establishing the Bank or in accordance with Association Agreements. Over the years considered in the analysis among the three main objectives of its action (valorisation of less favored regions, reconversion and modernization of enterprises, financing of projects of common interest to allow the approximation of markets and European integration), the Bank has focused its energies on the first objective, aware of the fact that a balanced economic growth at Community level had to necessarily go from an equally balanced and uniform process of economic growth and human development in those regions which, due to historical legacies, they could not autonomously activate a self-propelling mechanism of growth.

Keywords: European Investment Bank; Southern Italy; Loans; Economy Policies

Aim

The EIB was the first IFI (International Financial Institution) created with the purpose of promoting regional economic integration and not just alleviating capital constraints and promoting development, as was the case for previously established IFIs, such as the World Bank. However, it remains a neglected EU institution.

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.

¹ I Thank you a lot Matteo Gomellini for collaborating in the creation of counterfactual data

This work aims to respond to this lack by analyzing the case of Italy and in particular of Southern Italy from 1958 to 1972 to know the impact of EIB loans nationally and regionally.

The significant monetary imbalances at the end of the WWII were obviously largely due to the lack of cooperation between states in working to solve economic and financial problems.

This experience led to a new way of thinking about the world economy and the problems of international economic relations and to the belief that the solution consisted in coordinating the economic policies of foreign governments. The result of this was the establishment of international organizations as supranational bodies which in fact, would influence both the reconstruction and the development of the economy in the following decades. This represented a historically significant step indicating growing governmental awareness of the need for international collaboration.

Institutions are important because the development of organizations that create an environment conducive to cooperative solutions in the complex context of trade is the basis of economic growth (D.C. North 1990 wrote: *Institutions are the rules of the game*).

Two main approaches can be seen: market integration, related to infrastructure lending; and political integration, supporting enlargement. The quantitative findings are consistent with the qualitative analysis of the four periods demarcated by the enlargements: 1958–73 with two priorities, helping Italy (the least developed) and promoting the Common Market; 1973–81, particularly focused on development and rewarding newcomers; 1981–86 and 1986–95 with a lesser emphasis on development but a clear interest in encouraging integration through the Common Market and enlargement (Clifton J., Diaz-Fuentes D, Lana Gomez A. 2018)

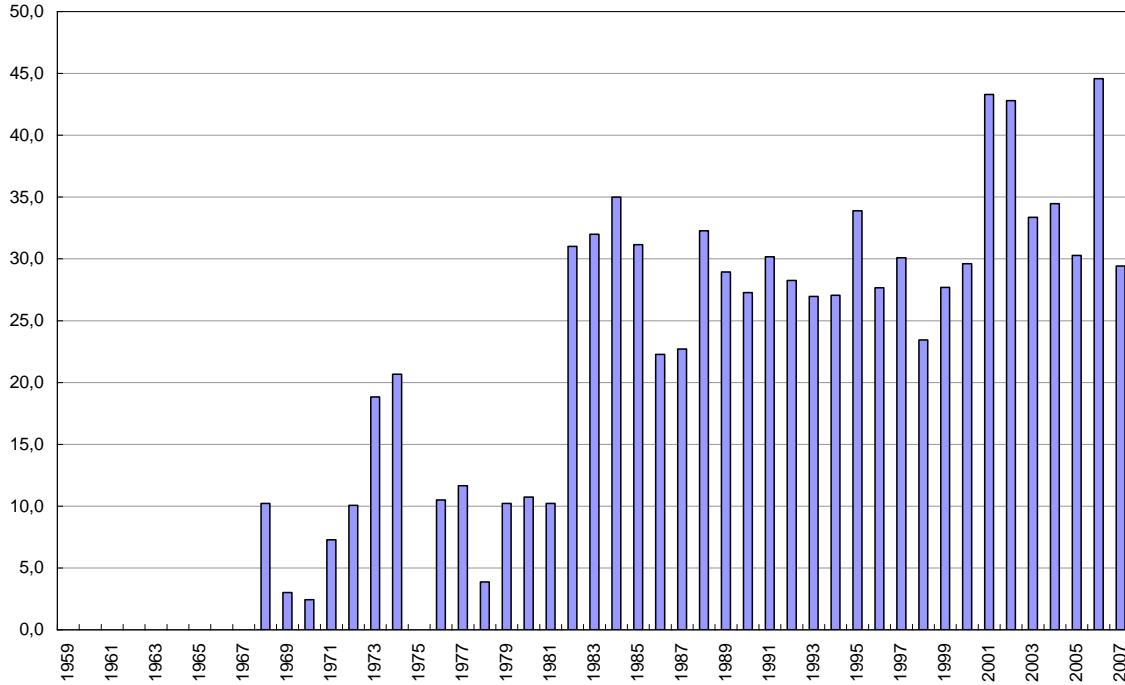
The range of instruments that the Bank used to achieve its purposes has expanded over time. Currently, the Bank uses many tools (loans and guarantees, technical assistance, venture capital) and promotes a wide range of interventions.

This paper focuses on the core instruments of the Bank, historically represented by the granting of loans to institutions and firms. As a rule, EIB can contribute up to a maximum of 50 per cent of total investment. Loans granted by the EIB were of two types: direct and intermediated (or global loans). The former were granted directly to the borrower in order to finance specific investment projects of significant size. The global loans (created in 1968) are credit lines to banks that use them to finance investments of small and medium enterprises (SMEs). In the following part of this work, it will describe the results of a detailed analysis of direct and indirect loans that the EIB granted since its establishment in Italy.

The data set consists of 3,620 loans granted between 1959 and 2007 ((beginning of the financial crisis) see Figure 1

FIGURE 1. GLOBAL LOANS

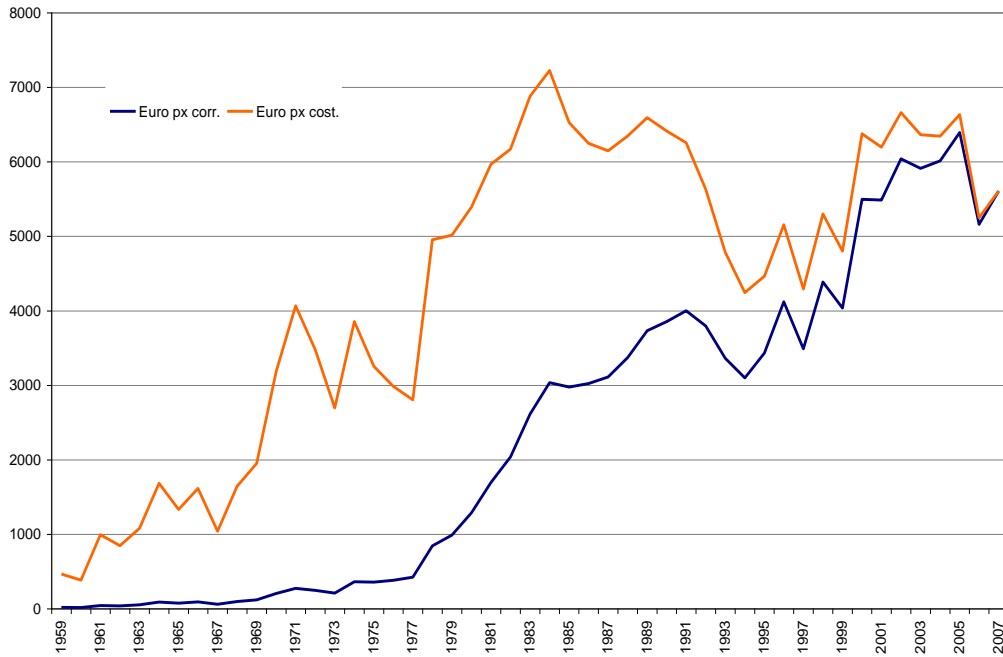
(share over total loans)



Also through the help of archival documentation and annual reports of the EIB It was able to classify them individually by size, nature, technical form, geographical area of activity of beneficiary. With respect to the technical forms of financing, the use of credits to small and medium enterprises intermediated by the banking system, introduced in 1968, remained very limited for over a decade, and then strengthened significantly since the early eighties, when the weight of the global loans reached 30 percent. (see **Figure 2**)

FIGURE 2 - EIB LOANS

(million of euros)



In general, as is clear, the EIB has provided the Community countries with important resources to rely on during the troubled decade of 1970-1979; aid that has also reached countries outside the Community in accordance with Article 18 of the Treaty establishing the Bank or in accordance with Association Agreements. Over the years considered in the analysis among the three main objectives of its action (valorisation of less favored regions, reconversion and modernization of enterprises, financing of projects of common interest to allow the approximation of markets and European integration), the Bank has focused its energies on the first objective, aware of the fact that a balanced economic growth at Community level had to necessarily go from an equally balanced and uniform process of economic growth and human development in those regions which, due to historical legacies, they could not autonomously activate a self-propelling mechanism of growth. Nowadays, it is a modern international institution, financing investment projects to many countries, even outside European borders. But at the time of its birth in 1958, and for many years after, its most important counterpart was with undoubtedly Italy (see **Figure 3 and 4**).

FIGURE 3 - EIB LOANS IN SELECTED EU COUNTRIES (1959-2007)
(shares, percentage)

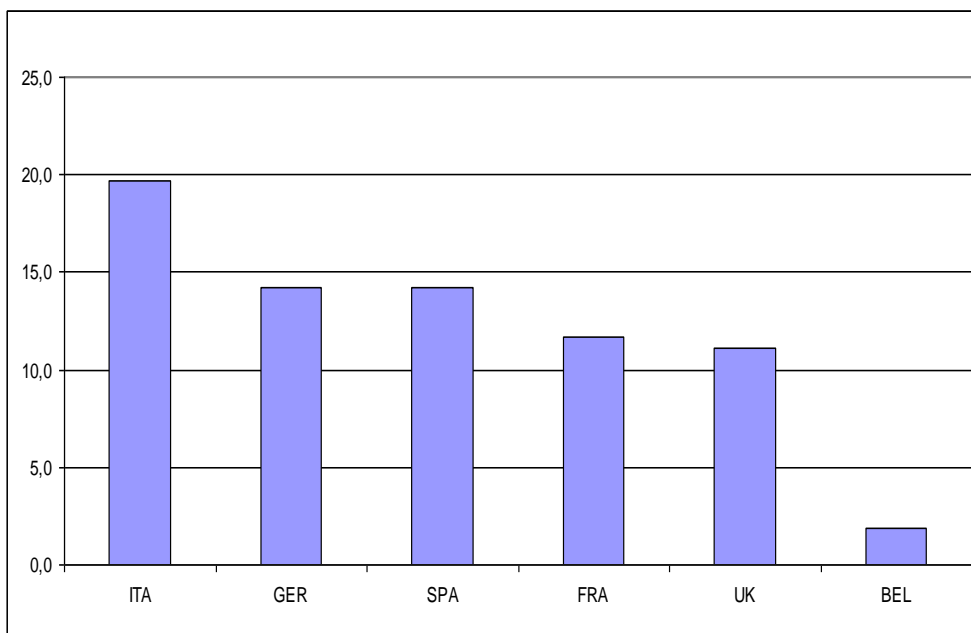
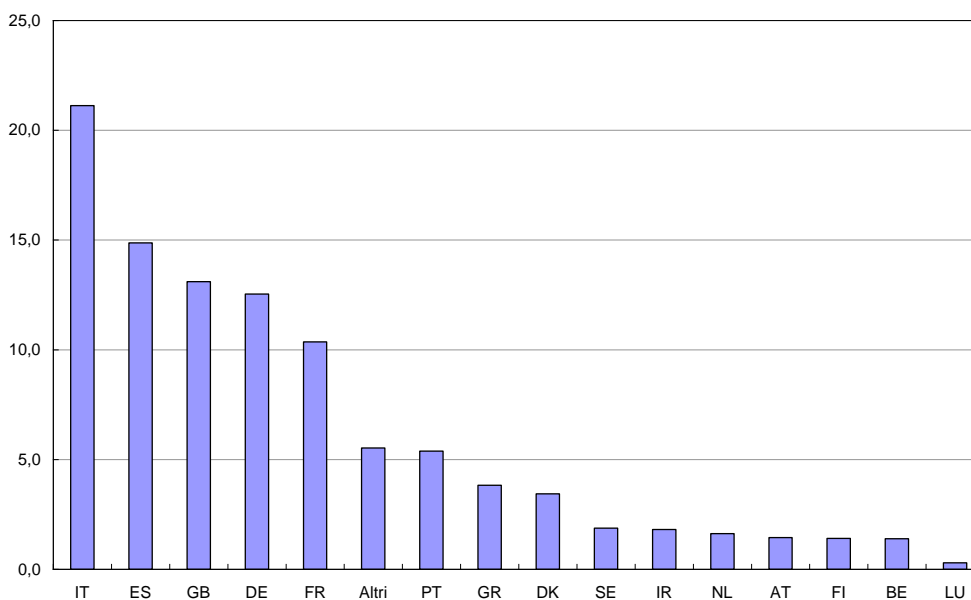


FIGURE 4 - EIB LOANS (DIRECT FORM) IN SELECTED UE COUNTRIES (1959-2007)
(shares, percentage)



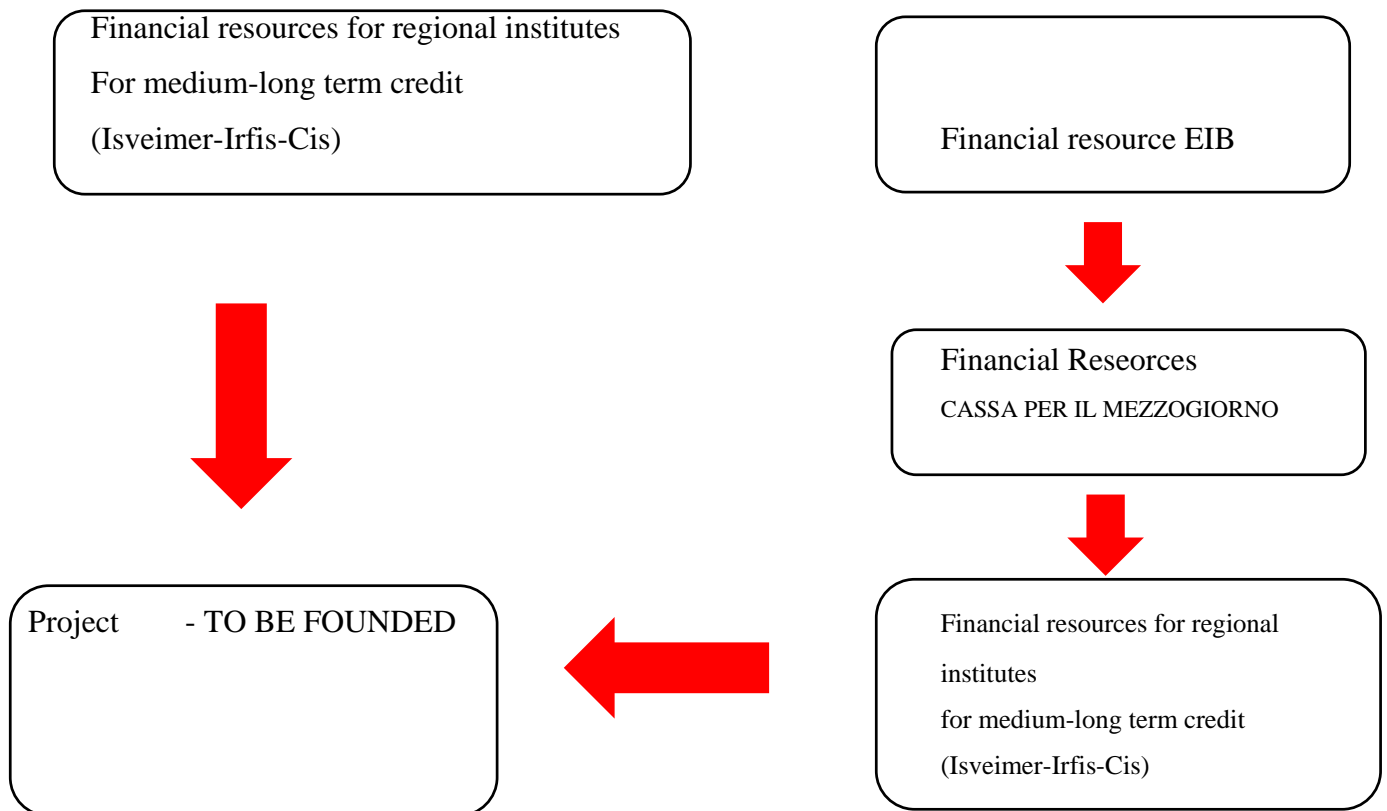
Southern Italy and EIB

The Bank's activity in Italy was carried out as a priority by means of a public law institution: the Cassa per il Mezzogiorno. This was born in 1950 and operated, between positive opinions and very strong criticisms, until 1986; its objective was not to participate in the management of the companies

it financed, but to grant credits to industrial companies and to ensure that the projects in question were carried out satisfying the ordinary rule of economic conduct.

As shown in Diagram 1, the financing of the economy of the Mezzogiorno primarily passed through the regional medium / long-term credit institutes (These were Isveimer, which had the purpose of granting medium and long-term loans to small and medium-sized industrial companies located in the South, with the exception of Sicily and Sardinia, respectively, of Irfis and Cis) to which the resources of the Bank approached which, through its continuous relations with the Cassa, coordinated the its interventions with the Italian authorities based on the regional development policies of the South from these decided without never departing from the orientation of the Community.

Diagram 1

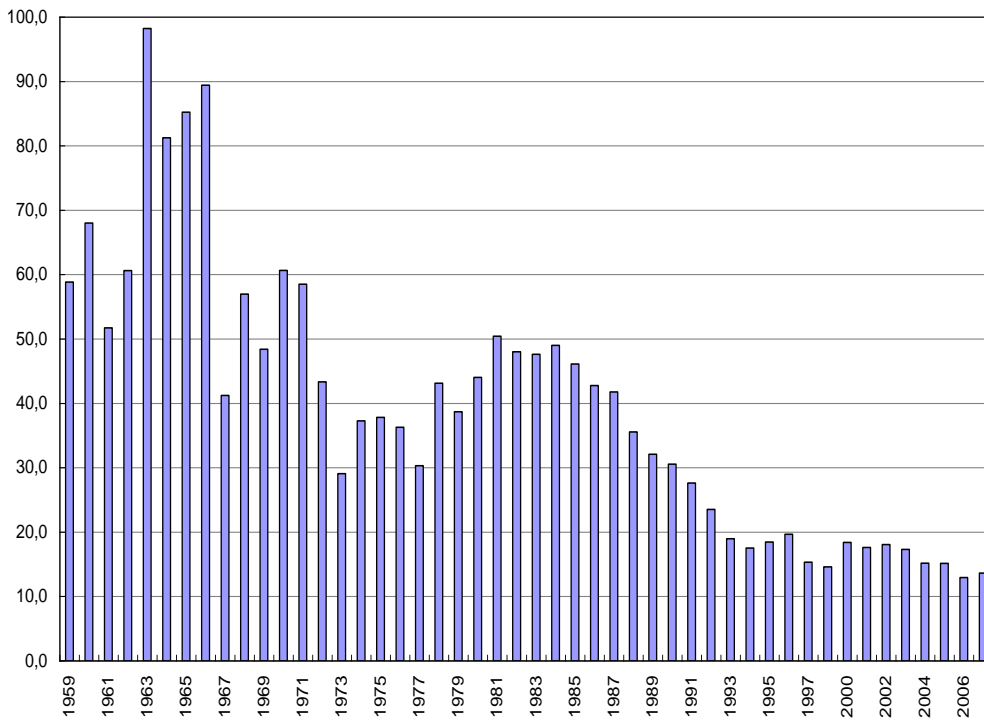


Furthermore, the peculiarities of each region and the related specific problems in terms of development have meant that the EIB's financing activity was always varied, both in relation to the sectors in which it helped and in terms of economic size. project physics funded by providing an important contribution to overcoming, or at least reducing, the economic gap - and in a more far-sighted, even social - vision between the North and the South of our country even when national

regional development policies Southern Italy underwent a process of containment by our government. It is thanks to the interest of the Community, expressed through the institution of the EIB, and to the initial commitment of the Italian government that, in the period between the end of the post-World War II reconstruction and the first oil shock, there is a substantial convergence between the two macro regions of Italy. Until the end of the Fifties, in fact, the South was still lagging behind in the North, demonstrating that the initial pre-industrialization policy did not show the characteristics suitable for southern development, identifying the industrial shortage in the South of Italy as the main economic disadvantage of the area. In the first ten years of the Bank's activity, in fact, attention was exclusively focused on the implementation of infrastructural endowments for agriculture, given that this was the sector in which the occupation of Southern Italy at that time was most concentrated. However, with the establishment of the European Investment Bank, the effort to recover the gap was redirected towards the problems of the southern industry rather than on infrastructure; thus a second cycle of politics was opened which led, from the early 1960s, to appreciable results in terms of economic growth and employment. The financing activities in the South was done entirely through the Cassa per il Mezzogiorno until the early seventies .

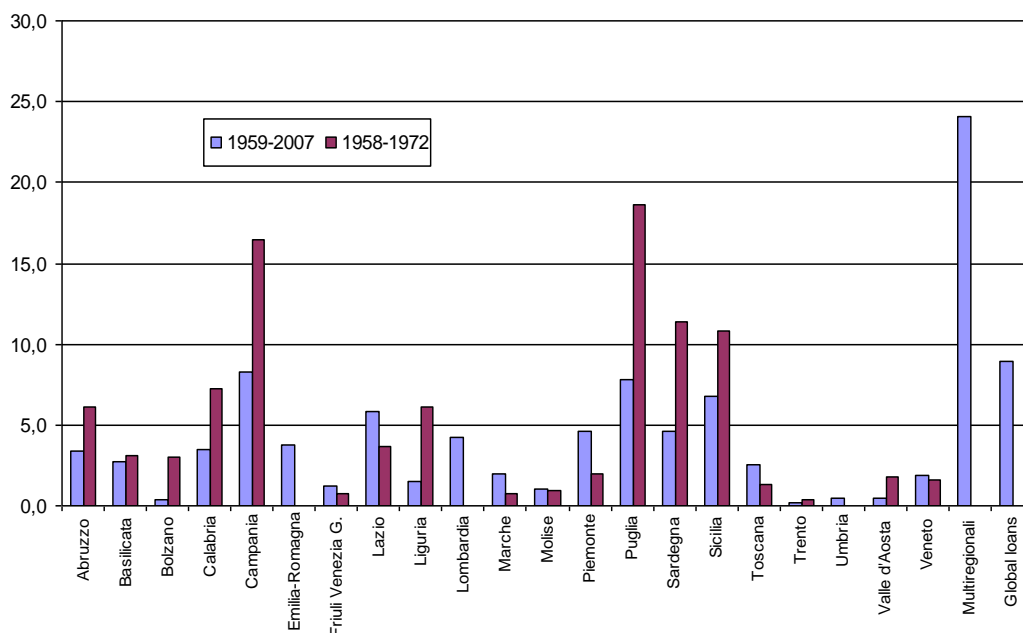
Subsequently, the share of loans made through the Cassa reduced gradually until it closed in 1984. The same trends are also evident at the level of individual regions. If it is possible to consider the data of the whole period, seven regions of the South are among the top ten Italian regions with the highest share of total loans (see **Figure 5**).

FIGURE 5 - EIB LOANS : ITALIAN SHARE (1959-2007)
(shares, percentage)



In particular, in the region of Campania was granted a share of 8.3 percent of total loans; in Apulia and Sicily, respectively 7.8 and 6.8 percent. This due entirely to the first fifteen years, when all regions of the South recorded a significantly higher share of loans. (See **Figure 6**)

FIGURE 6 – REGIONAL DISTRIBUTION
(shares)



Not all the demands forwarded by the Cassa were subsequently financed. There are many evidences, although not a complete list, that EIB made a selection. So, it is guessing that from the evidence of the loans granted it is possible to infer about policy choices. (EIB Annual Report, 1967; ASBI, Studi, Pratt., n. 777, fasc. 1, p. 463).

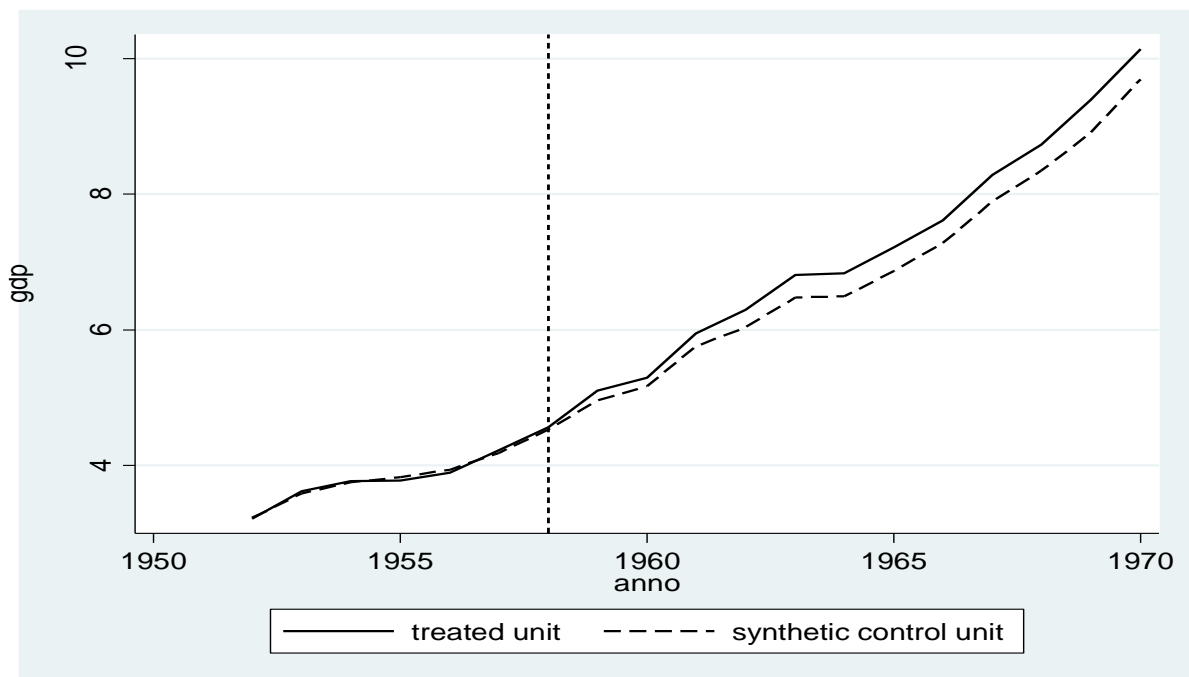
By means of a counterfactual analysis, it made an attempt of evaluating the contribution of EIB to the growth of per capita GDP in those provinces were EIB granted loans. It was replicated the method of Abadie and Gardeazabal (2003).

This method aims at comparing the dynamics of per capita GDP of the regions that received loans from EIB, with a counterfactual per capita GDP as if those regions did not have any loan from EIB.

In this vein, it was constructed a “synthetic” GDP. The synthetic GDP is obtained using per capita GDPs of other provinces in the South that, although included in the Intervento straordinario policy (Cassa Mezzogiorno), did not received any loan from EIB (not “treated” sample). A weighted combination of those provinces’ per capita GDP was used to estimate the synthetic per capita GDP for those provinces that actually had loans from EIB (treated sample). This gives a counterfactual per capita GDP as if, after 1958, treated provinces had zero loans from EIB.

What it was obtain is reassumed in the **Figure 7**.

FIGURE 7 – The effect of EIB loans on per capita GDP of selected provinces
(per capita GDP, million of lira)



The dashed line represents the evolution of the GDP per capita for the treated sample (provinces that received loans from EIB) as if they had no EIB loans. This path is estimated using the GDPs of non-treated provinces, i.e. the provinces that did not have any EIB loan. The continuous line is the actual path that per capita GDPs of treated provinces experimented. As we can see the two lines (synthetic and actual) separates after 1958 with the actual line growing faster. According with this result, had the treated provinces not received EIB loans, their GDP per capita in 1970 would have been 4.7 per cent lower than actually was. Since from 1952 to 1970 their per capita GDP tripled, it means that EIB intervention supposedly contributed to a share of 6.4 per cent of the total growth (14 percentage points of growth over a total growth of 215 percentage points)

The question then arises spontaneously: why has the South not been able to recover the gap that has always distanced it from the economic and social condition of Northern Italy despite this "union"? In the opinion of the writer, at least two factors were previously affecting the success of the intervention in the South. Firstly, the evolution of the Italian economy starting from 1960 and the role of incentives and secondly the enlargement of the European Economic Community since 1973.

Some remarks

This paper identified the extent to which development, integration and investment explain 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, it was selected all finance destined for projects in southern Italy over the period 1958–72. 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 in promoting development, at least, until the mid-1990s, as demonstrated Clifton, Fluentes Gomez (2018). 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.

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 (EEC Treaty, 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 World Bank. But they also served as an instrument to encourage the Common Market and enlargement, as shown by the southern Italian

regions from 1958 to 1972.

This is a useful testimony about the importance of institutions and a policy of cooperation between European countries. This example should encourage European countries to pursue an increasingly strong policy of cooperation and to strengthen the idea of a European Union.

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