

The European Investment Bank's

Role in Development

Introduction

The European Investment Bank (EIB), as the European Union's (EU's) major financing institution, plays a key part in the EU's relationship with developing countries. Increasingly it has funded large projects in the global South with major economic, environmental, social and political impacts. Even so, its role in development is not as well known or documented as sister development banks, particularly the World Bank, though they often co-finance projects. Moreover, little is known about the status of such development lending and whether, like the World Bank, the EIB sets certain conditions on such lending and therefore has a role in determining government policy as well as economic and market structures of developing countries.

EIB Development lending

The majority of EIB lending outside the EU, in accordance with the Cotonou Agreement, is directed towards African, Caribbean and Pacific (ACP) countries¹. EIB lending outside the EU has grown substantially since 1990, with its portfolio in ACP increasing from 491 million Euros in 1999 to 520 million Euros in 2001. There are EIB loans in most of the 78 ACP countries. Until 2010, the EIB's projected increase of loans to ACP and other developing countries will rise by 4.9% each year. The lending is spread over energy, agriculture, water, transport and construction projects.

On 2 June 2003, the EIB started the

Cotonou Agreement Investment Facility for ACP countries, which channels money to the private sector. From 2003 to 2008, about 2.2 billion Euros will be disbursed by this investment facility, which is funded by EU Member States for private sector support, in particular small and medium enterprises. Additionally, the EIB plans to make available 1.7 billion Euros from its own resources to the ACP countries. To manage the business generated by the new facility, the EIB has announced the opening of three new regional offices in Dakar, Nairobi and Pretoria, and is examining the possibility of opening offices in the Caribbean and Pacific. As the EIB did not previously have any offices outside the EU, this is a clear sign of its growing interest and role in the region.

Even though the amount it lends puts it in line with other International Financial Institutions (IFIs), the EIB differs in that it is a EU institution and therefore guided by EU objectives. Unlike the World Bank, it does not offer structural adjustment loans, nor are its loans officially tied to conditions affecting government policy. Hence the EIB is kept out of the debate surrounding debt issues. The Bank, however, does cooperate with other development banks on certain projects, for example with the World Bank in the controversial Chad Cameroon pipeline and the Lesotho Highlands water project (See EIB Fact sheet 6).

The EIB, the EU and the Cotonou Agreement

Even though the EIB has no explicit development mandate and does not consider itself a development bank, it has much in common with other IFIs since it uses budget resources from EU Member Countries classed as development assistance, such as under the Cotonou Agreement. It also administers the

¹ The Cotonou Agreement, formerly the Lome Convention(s), is the EU agreement with African, Caribbean and Pacific (ACP) countries. It contains special trade and development agreements between the ACP and the EU.

European Development Fund.

The Cotonou Agreement states that the EIB shall 'act in accordance with the objectives of this Agreement' — defined as 'reducing and eventually eradicating poverty consistent with the objective of sustainable development and the gradual integration of ACP countries into the world economy'². Fundamental principles in the agreement include ownership of development strategies, participation of a wide range of non-state actors including civil society, the pivotal role of dialogue and mutual obligations and respect for regional differentiation. Other elements include respect for human rights, democratic principles, and the rule of law, as well as contributing to a stable political environment, the sustainable and equitable development of productive resources and essential services and justice.

The EIB - a development bank?

In theory, the EIB should adhere to the objectives and principles of the Cotonou Agreement, yet the reality in practice is illustrated by the fact that EIB's project appraisal is done on economic, financial and technical terms rather than by placing sustainable development at the core. Indeed, there is no evidence that the EIB gives any substantive consideration to the development objectives of the Cotonou Agreement. This is confirmed by the absence among EIB goals of the key Cotonou objective of reducing and eventually eradicating poverty in ACP countries, the main guiding principle of EUACP co-operation. The EIB does not have its own development strategy, which would help to guide project selection and operation in developing countries, such as incorporating social development standards in the project appraisal prior to any implementation. A step in the right

² See Cotonou Agreement
http://www.europa.eu.int/comm/development/body/cotonou/index_en.htm

direction would be to develop policies and operational guidelines in coherence with the EU's development objectives as laid down in the Commission working document 'The European Community's Development Policy'³ and the Commission Staff Working Paper 'Programme of Action'⁴.

The EIB needs to take steps to address the effectiveness of its operations in furthering the EU's international development policy objectives, yet it lacks clear and transparent performance indicators for achieving these⁵. The Gothenburg European Council (2001) and the European Parliament (2002) have both underlined the need for the EIB to integrate the general priorities of the Union in its banking activities and internal procedures⁶.

Public participation and EIB information policy

From 1989-1999, the EIB engaged in about 300 risk capital operations in almost all ACP countries, yet only 4 countries were mentioned in the evaluation report of Risk Capital Operations over that period, with a total of 31 projects or 17% of operations. This means that evaluations of many projects were either not conducted or not made available for public scrutiny, which is a clear short-coming of the EIB's overall information policy. The European Parliament has also called for all evaluations to be made available on the EIB website and for the intensification of its project evaluations before and after project realisation.

As far as access to information and public participation regarding EIB projects is concerned, it is not up to modern standards.

³ February 2000

⁴ May 2001

⁵ A report by Department for International Development (DFID) in the UK from March 2000 found that much needs to be done by the EIB to develop into a successful development institution.

⁶ See the European Parliament resolution in February 2002 on the EIB Annual Report for 2000.

In some projects, especially in the non-EU countries, this has been to the detriment of people and the environment. In order for the EIB to become a true partner for development, it must change its emphasis to embrace public participation and bottom-up development rather than business as usual.

A step forward?

In February 2003, the EIB took part in the Multilateral Development Bank (MDB) Task Force session of the G7 Finance Ministerial meeting for the first time, resulting in the 'Rome Declaration on Harmonisation'. This requires the harmonisation of MDB policies along the lines of OECD/DAC recommendations. Even though the Bank claims its role was only one of an observer, the declaration requires all the MDBs to:

- 'harmonise the operational policies, procedures, and practices of our institutions with those of partner country systems to improve the effectiveness of development assistance, and thereby contribute to meeting the Millennium Development Goals (MDGs)'.
- 'Improving fiduciary oversight and public accountability and enhancing the focus on concrete development results'.
- 'ensuring that development assistance is delivered in accordance with partner country priorities, including reduction strategies and similar approaches, and that harmonisation efforts are adapted to the country context'.

As it operates in the development field, the EIB needs to recognise its development mandate. This should involve accepting international standards for sustainable development such as the UN Millennium Development Goals, and international best practices with regard to social and environmental safeguards policies.

NGO recommendations:

- The EIB should develop proactive sustainability strategies in key areas of engagement, such as energy and transport, and comply with the EU requirement for integration of environmental protection and sustainable development dimensions into all policies and practice. The EIB should develop its own comprehensive social and sustainable development policies and binding safeguard policies.
- Mandatory public consultations in the process of considering EIB financed projects with significant environmental and social implications are needed.
- The EIB should make available detailed public information about Global Loans made through inter-mediary banks, especially on how these loans will actually contribute towards the EU's objectives of sustainable development and poverty eradication, and about clear standards and criteria for selecting projects under these loans.
- The EIB should employ sufficient personnel to assess the possible development impact of risk capital and ordinary loan operations prior to the onset of operations, and to evaluate the development impact of all projects in ACP and other developing countries.
- The EIB should add experts on sustainable development to work with the existing staff of economists, engineers and lawyers in project appraisal and implementation.
- An independent inspection and appeal mechanism should be established in order to give affected communities the right to protect themselves from the impacts of EIB financed projects.
- The roles of controlling and evaluating institutions vis-à-vis the EIB should be strengthened. The EIB is lending public funds, and should thus be accountable to European institutions, including the European Parliament, the European Court of Auditors and the European Anti-Fraud office (OLAF)

Further reading and information:

EIB financing in ACP countries
<http://www.eib.org/lending/acp/en/index.htm>

European Commission development web site

http://europa.eu.int/comm/development/index_en.htm

European Parliament resolution on EIB Annual Report 2000
www.bankwatch.org/issues/eib/downloads/eibreform/epresolution-eibar.html

The Cotonou Agreement
http://www.europa.eu.int/comm/development/body/cotonou/index_en.htm

DFID report on the EIB
<http://www.bankwatch.org/issues/eib/downloads/dfid-eib-ukstratpaper.pdf>

Bankwatch website:
www.bankwatch.org

EIB website: <http://www.eib.org>

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European Investment Bank fact sheets:

Fact sheet 1: Invisible Power in the European Union: The European Investment Bank

Fact sheet 2: European Investment Bank: Basic Facts


Fact sheet 3: Kafka's World: European Investment Bank's Information Policy

Fact sheet 4: The European Investment Bank and the Environment

Fact sheet 5: The European Investment Bank's Role in Development

Fact sheet 6: Theory and Practice: European Investment Bank - Case Studies

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