

Invisible power in the European Union:

The European Investment Bank

The European Investment Bank (EIB) is one of the largest existing international financing institutions, with project lending larger than that of the World Bank. Set up in 1958 under the treaty of Rome, it is a public institution owned by the European Union (EU) member states, which provide its 'subscribed' and 'paid in' capital¹. The Board of Governors is composed of the Finance Ministers of the EU member states.

The EIB is guided by the EU's policies and active in all economic sectors, both within the EU and in its 150 non-member countries. Describing itself as 'at the service to the Union', it claims to contribute to European integration and social cohesion by supporting capital investment and furthering EU economic objectives, particularly in the EU's weaker regions. Its stated mission 'is to further the objectives of the EU by making long term finance available for sound investment'.

The EIB was originally set up to finance the physical infrastructure linking the national economies of the member countries, and to provide investment in less-developed areas of the Union. Its portfolio of investments, mission and area of investment has grown substantially since then with more than 18% of the EIB's total lending now outside the EU.

Yet the EIB seems to exist without any clear knowledge by the EU public of its functions, goals and operations, or even its very existence. This invisibility seems to have served it well, as little criticism has been directed towards it in comparison with the World Bank (WB) and the European Bank for Reconstruction and Development

(EBRD). The EIB seems to be shrouded in a kind of innocent secrecy, making it an enormous and powerful institution that exists in between the public and private domains in which it operates.

As the official financing institution of the EU, the EIB is bound by the European Treaties and their principles of representation, public participation, public accountability and sustainable development. However, because of its independent status vis-à-vis other European institutions, its close relationship with the market and private finance, and the fact that it is given a rubber stamp of approval by its shareholders with regards to its functions and lending procedures, the EIB manages to cleverly avoid living up to the EU principles mentioned above.

While it pertains to be a responsible European institution, it functions relatively independently and maintains legal obscurity in part due to its status created under the Treaty of Rome. This has enabled the EIB to pick and choose which EU regulations and strategies it wants to follow, making it difficult to hold the EIB accountable for bad project performance. Failure to provide proper public access to information or to enforce rigorous environmental procedures present particular problems. The regulatory deficiencies are amplified and compounded by the fact that not only is its lending increasing in size, but that the EIB increasingly finances projects outside the EU, in Eastern Europe and the global South where its legal obligations are even more blurred.

Presently the EIB is unaccountable to other European institutions such as the Commission and the Parliament, and to citizens and national parliaments of the member states. While there are some examples of criticism from the European

¹ The subscribed capital is a sum, which each member state assigns to the Bank and which could be call upon in a case of emergency. The paid in capital is actual money transferred by the countries to the Bank.

Parliament, there is no binding mechanism holding the Bank accountable to the people of Europe. The EIB lacks adequate supervision and monitoring of the projects it finances. Even the Commission, bound by the EC treaty and its provisions on sustainable development, seems to be uncritical of the EIB's performance as is the Council, which extends the EIB's mandate.

The EIB should have clear environmental and social standards as well as appropriate safeguard policies and legal obligations in place to deal with the realities in countries inside and outside the EU and to ensure acceptable project implementation. Its inadequacies have led to the emergence of an international civil society campaign aimed at challenging the EIB to improve its social and environmental performance so that it becomes a public institution actually serving the public interest.

Problem areas identified by NGOs

In recent years, NGOs from a variety of countries have been campaigning for institutional reform of the EIB. Several key problem areas were identified and a series of efforts undertaken by NGOs to hold dialogues with the EIB, giving it the opportunity to listen to the concerns of civil society. NGOs claim that the EIB lags far behind its sister financial institutions such as the World Bank and the EBRD in terms of transparency, accountability and the ways in which it addresses environmental and social issues. A number of consultations have taken place, yet the EIB still resists embracing modern environmental and public accountability standards. Thus it is necessary for the European Parliament and the European Commission, and especially the EU member states, together with civil society to provide the leadership for change. While it is unclear to what extent the Commission has taken steps to influence EIB policy, the Parliament has produced reports and resolutions on the EIB in response to the Bank's annual reports for 2000 and 2001.

NGOs have identified the following key areas as problematic:

Lack of standards - Despite EU requirements, the EIB has not established adequate policies for various sectors and environmental procedures for different types of projects. However, while EU policies may provide sufficient guidance for activities in EU member states, they may not suffice outside the EU where such policies are not always appropriate, especially in developing countries that may have different development priorities. Moreover, in many cases national standards of non-EU countries are often inadequate or even non-existent, and there are no clear guidelines that describe whether or how the EIB should implement relevant EU policies or legislation.

Absence of public accountability - Provisions of the Aarhus Convention on access to environmental information as well as the EU directive on Environmental Impact Assessment state that the public must be given access to documentation and information related to any proposed project, as well as given the opportunity to express an opinion before it is initiated. Yet often the EIB refuses to disclose vital information even to the groups or communities that will be most impacted by the projects it finances. The EIB maintains that confidential information is restricted to internal use only.

Inadequate staff size and expertise - The number of EIB staff totals about 1000 employees, with very few full time environmental experts to review its entire lending portfolio and to ensure compliance with relevant policies. This is in stark contrast with the World Bank, with about ten times the number of employees and more than 300 environmental experts.

Low threshold of environmental protection - The EIB leaves the responsibility for compliance with environmental standards to the project promoters receiving financing,

often resulting in them being disregarded or not being met (See EIB Fact Sheet 4: The European Investment Bank and the Environment). Moreover, the EIB Environmental Policy does not focus on proactive environmental protection lending, such as recognising the threats posed by financing projects that affect climate change. Rather they tend to direct lending for technological 'fixes' to existing environmental problems (See EIB fact sheet 6). The EIB is playing virtually no role at all in helping the EU live up to its Kyoto Protocol promises.

Unsupervised global loans - The EIB provides Global Loans through national or local banks, also known as intermediaries, with which the Bank has entered into partnerships. Such intermediaries are often unwilling to share information about environmental standards, and it has been impossible to learn if EIB or EU policies are being followed by them. NGOs have been denied access to documentation relating to the relationship between the EIB and the intermediaries and what the loans are actually used for.

Part time leadership - EIB Directors serve part time, generally meeting less than one day a month, and they lack the staff necessary to oversee projects. This non-resident Board, has hardly ever rejected a loan application brought to its attention, and it annually reviews more than 300 projects at 10 meetings a year. The approval process lacks a thoroughness and rigour that is standard in other International Financial Institutions, which has led to the implementation of many projects with adverse social and environmental consequences.

NGO Campaigns: EIB 'No Reform - No Money!' and 'Public Funds for Public Benefit'

In February 2002, environmental groups under the slogan 'EIB: No Reform - No Money!' launched a campaign demanding

reforms in key areas in line with the EIB's request for a capital increase. The 15 member states who own the EIB were asked to only give the requested capital increase on the condition that the EIB would undertake serious reforms in the areas of public access to information, environmental standards, development mandate and supervision. The EIB was seeking a substantial increase in subscribed capital in order to expand its lending. The decision on the increase was to be taken at the annual meeting in June 2002. Previously, pending capital increases at other International Financial Institutions had provided the chance to obtain basic improvements and in the case of the EIB, the NGO campaign was set up to use that opportunity.

Four key demands were made, backed up with specific case studies showing deficiencies in different 4 EIB projects:

Transparency and access to information – Full and timely access to all relevant project information.

Environmental standards – Establishment of clear environmental standards to underpin the EIB's role in promoting the EU Sustainable Development Strategy and meeting major treaty requirements such as the Kyoto Protocol of the United Nations Convention on Climate Change.

Development – Acceptance by the EIB that it does play a role in developing countries and that there should be more clarity about its actual development mandate. A related demand calls for the EIB to agree with civil society on how its activities outside the EU could be carried out in a transparent manner to avoid causing social and environmental problems.

Accountability and supervision – Greater supervision of the EIB, including enhancing the roles of the European Parliament, European Court of Auditors and the European Ombudsman in order to

promote greater public accountability.

During the Annual Meeting on June 4, 2002, the EIB governors granted a capital increase on the condition that financing for large private companies that can easily find funding on the private financial market would be limited. While civil society demands were not met, the NGO campaign influenced the decision making process, as for the first time member states discussed more broadly the EIB and the capital increase, including debates in the parliaments of Italy, Sweden, the Netherlands and the United Kingdom. In 2003 a new international civil society campaign was launched aimed at changing the EIB into a public institution serving public interest: Public Funds for Public Benefit.

Further reading and information:

European Parliament reports and resolutions on EIB Annual Reports
<http://www.bankwatch.org/issues/meib.html>

Bankwatch website:
<http://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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