

European Investment Bank:

Basic facts

Created: The EIB was set up in 1958 under the Treaty of Rome, which established the European Union (EU), then known as the European Economic Community.

Mission: The EIB states that its Mission is to further the objectives of the EU by making long-term finance available for sound investment. It is at the service of the Union.

Shareholders: The 15 Member States of the EU are the shareholders of the EIB, and jointly provide the EIB's capital, their respective contributions reflecting their economic weight within the Union. The EU Member States are fully eligible for EIB loans, without having any geographical or sectoral quotas applied. However, the biggest contributors France, Germany, Italy and the United Kingdom — are also the biggest recipients of EIB projects. The 10 new members who will accede to the EU in 2004 will also become EIB shareholders.

Governing and decision making structure:

The EIB Board of Governors - The Board is composed of Ministers from the Member States, from the Ministries of Finance, Economic Affairs or the Treasury. They are not nominated, and usually a new Minister of Finance automatically becomes a Governor. The Board lays down general directives on credit policy, decides on capital increases, and authorises EIB activities outside the Union. It also receives the Audit Committee's report and approves the financial statements, including the balance sheet and profit and loss account, and the annual report. Finally it appoints the members of the Board of Directors, the Management Committee and the Audit Committee. Having EU member state ministers as Governors is one of the key reasons why the EIB has been able to function as it does. The very status of the Governors lends legitimacy to the EIB operations and lending procedures, supporting it against criticism while simultaneously not pushing for any

Board of Directors - The Board of Directors consists of 25 Directors and 13 Alternates appointed by the Board of Governors. The Member States nominate 24 Directors and 12 Alternates, while one Director and one Alternate represent the European Commission. With the accession of new countries the composition will also change. The Board of Directors will consist of 26 directors and 16 alternate directors. The directors will be appointed by the Board of Governors for five years, one nominated by each Member State, and one nominated by the Commission.

The Board is supposed to ensure that the EIB is managed in keeping with the European Treaties, the EIB's Statute, and directions lay down by the Governors. It approves loans, authorises guarantees and borrowing, and recommends changes in the EIB's credit policy to the Board of Governors. The Board has the crucial role of approving projects, yet it is non-resident and only meets 10 times per year to review over 300 projects. This means that the majority of the projects are not as carefully scrutinized as they should be, considering the implications they may have on the recipient areas, or the environment and social issues raised. With so few meetings, Directors are unable to properly supervise projects, which is in stark contrast to the European Bank for Reconstruction and Development (EBRD) and the World Bank with resident Boards of Directors and a more robust project approval process.

Management Committee – The Management Committee, under the authority of the President (currently Philippe Maystadt) and the supervision of the Board of Directors, is the EIB's full-time executive body and oversees day-to-day business. They are appointed by the Governors, after proposals from the Board of Directors, for a period of six years, yet it is possible for the members to be nominated for a second term giving them a long-term influence on policy and direction. They have an

immensely powerful role within the EIB, as they recommend decisions to Directors, notably on borrowing and lending decisions, meaning that they can influence projects' environmental policy and access to information.

EIB role in the EU

The EIB's main task is supposedly to contribute to the integration, balanced development and economic and social cohesion of the Member States. Most of its operating funds are raised by floating its bonds in global capital markets. The size of its lending portfolio gives the EIB immense influence regarding large-scale infrastructure projects within the EU, many of which have serious environmental and social implications. The EIB continuously adapts its activities to developments in Community policies and theoretically is bound to the 'vision' of the EU. Outside the EU the EIB implements financial components of agreements concluded under European development aid and cooperation policies. Thus it influences the development of recipient nations, and many of its loans outside the EU have had adverse environmental and social consequences (See EIB fact sheet 5).

EIB borrowing and lending procedures and the EU

While the EIB formulates its borrowing and lending activities in line with the EU's economic policies, it enjoys decision-making independence within the Union's institutional system. It does so by funding its operations through borrowing on the capital markets rather than by drawing on the EU budget, thus giving it the option of financing projects that may not strictly adhere to EU policy.

The EIB makes loans mainly from proceeds of its borrowings which, together with 'own funds' (paid-in capital and reserves), constitute its 'own resources'. It is therefore effectively a public bank that functions like a private bank, and this has permitted it to develop its own legal personality and autonomy within the Community system. Outside the Union, EIB operations are conducted principally from its

own resources but also, under mandate, from EU budgetary resources.

The EIB's independence from the EU is reflected in its management and control structures, which, it claims, allow it to take lending and borrowing decisions solely on the basis of projects' 'merits' and the 'best opportunities' available on the financial markets. Such 'merits' and 'best opportunities' are assigned to projects and borrowing opportunities through a process of private sector engagement rather than directed by the Bank's original mandate, that of serving the public. As a public bank operating like a private bank outside the public sphere, this has had obvious implications for the EIB's access to information and environmental standards.

The dual status of the EIB - a law-abiding institution?

The EIB's Statute as part of the Treaty of Rome gives it a legal, financial and administrative personality. Yet the EIB's legal status and its obligations with respect to the EU have never been properly clarified. Rightly treated as a European body, the EIB is subject to European law. It is legally bound to act within the limits of the EC Treaty and its own statute. This means that while the EIB should only operate within the boundaries of EU policy and laws, which originate from EU legislative bodies, there is confusion over how exactly it can be held responsible to these laws, and made accountable for its failures to abide by relevant laws, policies and regulations.

The EIB's dual 'personality' affects the extent to which it can be held accountable for its operations, particularly in two areas: environmental responsibility and access to information, where it lags markedly behind other financial institutions (i.e. the World Bank and the EBRD). In spite of some recent positive developments, the EIB still remains essentially a non-transparent and secretive institution, which fails to comply with concrete EU environmental legislation.

Lending strategy and policy

The Board of Governors assigns certain objectives to the EIB, which are then translated into a strategic document called the Corporate Operational Plan. This is approved by the Board of Directors, and it defines medium-term policy and sets operational priorities. The plan spans three years, but may be adapted in this period to take account of new mandates and changes in the economic climate. The present plan was adopted in December 2001 and covers the period 2002- 2004.

Lending activity is geared to five operational priorities:

- Regional development and economic and social cohesion within the Union.
- Implementation of the 'Innovation 2000 Initiative'.¹
- Environmental protection and improving quality of life.
- Preparing the Accession Countries for EU membership.
- Community development aid and cooperation policy in the Partner Countries.

The Corporate Operational Plan also defines policies for:

- Financing Small and Medium Enterprises via global loans and venture capital operations.
- Trans-European transport and energy networks (TENs).
- Human capital formation.

Lending to countries

The EIB provides loans to the EU member countries and about 150 non-member countries. It lends primarily to EU countries as part of its mandate, while lending outside the

¹ The Innovation 2000 Initiative (i2i) has the goal of paving the way for technological modernisation and the tailoring of human capital to the 'European economy of tomorrow'. This includes research and development, development of Small and Medium Enterprises (SMEs) and entrepreneurship, information and communications technology (ICT) networks, human capital formation and Audiovisual 'i2i'.

EU is based on Community agreements (i.e. The Cotonou Agreement²). However for some projects in certain countries, one example being Russia, exceptions have been made on a case-by-case basis. Currently about 18% of total lending is to non-EU countries, giving the EIB influence in the development of countries by financing what are often large-scale projects. The fact that the EIB's environmental standards are not up to date, and that the recipient nation may not have adequate standards or legislation, has meant that environmentally and socially destructive projects have been financed (See fact sheet 6 for EIB project case studies).

Relationship with the banking community

The EIB has a close partnership with Europe's banking community, with relations with more than 180 banks and financial institutions across the EU Member States³. These 'public private partnerships' aid the EIB by making sure that its bonds are placed and traded on the secondary market as profitably as possible. Furthermore, co-financing with other banks allows for the financing of large-scale projects, which otherwise might not have been possible. The EIB is a key global player in supporting projects that are co-financed with a mix of public and private money.

While such partnerships enable the EIB to finance projects on favorable terms, it also means that environmental and social responsibilities are passed on to institutions that may not regard such areas as priorities. The EIB has no guidelines or verification system of how its money is used by private banks or by Small and Medium Enterprises (SMEs), for example. In this light, the EIB remains unaccountable for the effects of its lending through its partnerships with the private banking community. Moreover, such relationships often hinder public access to information, as documents are said to have become part of the private domain.

² EC agreement with African, Caribbean, Pacific Countries (ACP)

³ See www.eib.org for a list of banks and institutions.

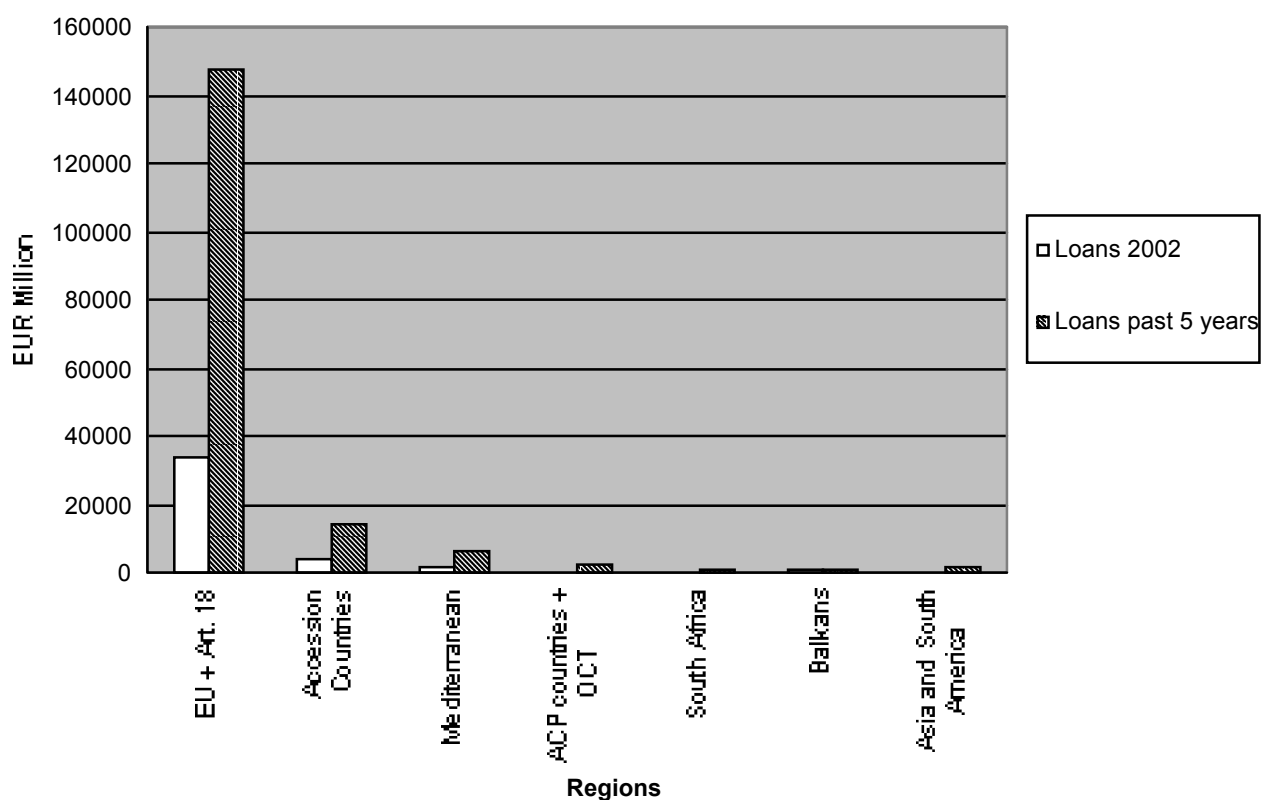
Loans: breakdown by region

In EUR Million

Region	2002	Past 5 years (1998-2002)
European Union + Article 18 ⁴	33443	147213
Accession countries	3641	14010
Mediterranean countries	1588	5890
Africa, Caribbean, Pacific (ACP) countries + OCT ⁵	298	2145
South Africa	50	627
Balkans	425	1050
Asia and Latin & Central America	174	1921
Total Amount	39 618	172856

Source: EIB Annual Report 2002

EIB lending by region



⁴ Article 18 includes countries such as Iceland, Norway and Switzerland, normally for transport, energy, water and services.

⁵ OCT - Overseas Countries and Territories.

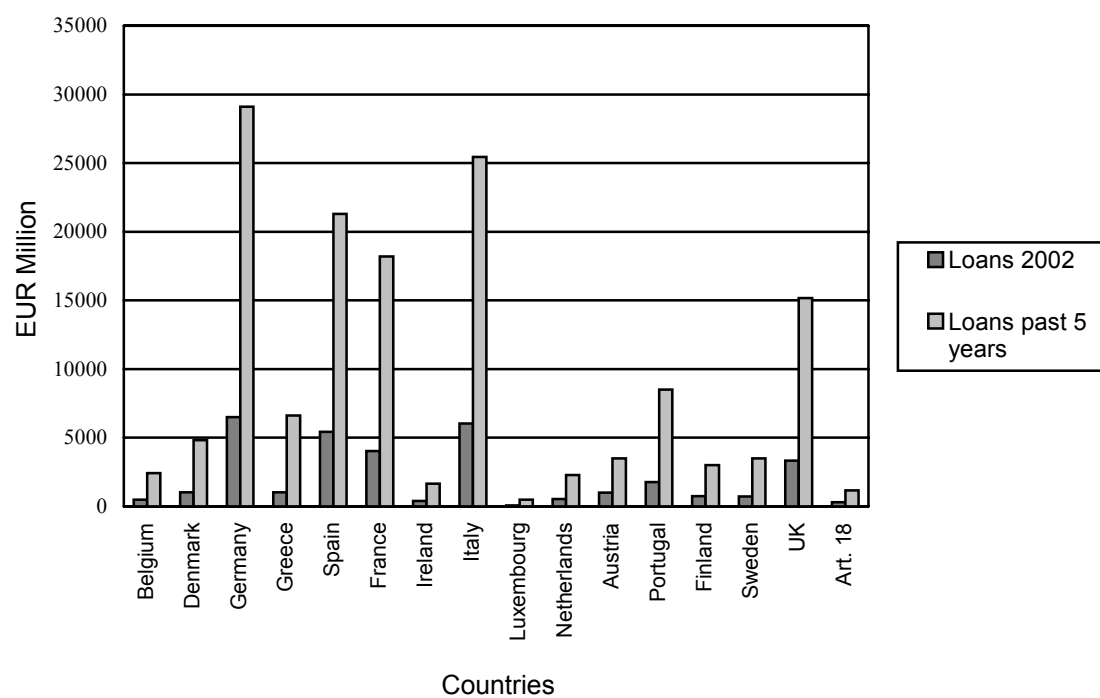
Loans: Europe

In EUR Million

Country	2002	Past 5 years (1998-2002)
Belgium	479	2430
Denmark	1027	4826
Germany	6504	29103
Greece	1027	6607
Spain	5426	21302
France	4023	18209
Ireland	400	1647
Italy	6041	25451
Luxembourg	74	489
Netherlands	538	2295
Austria	998	3489
Portugal	1770	8515
Finland	744	3011
Sweden	720	3490
United Kingdom	3328	15175
Article 18	300	1174
Total Amount	33443	147213

Source: EIB Annual Report 2002

EIB lending by EU country



Being a public institution, the EIB has a primary role to play in ensuring high standards and good performance. It should set high standards in a very clear way. If such standards were demanded of the EIB not only as a matter of principle, but also required as a condition on loans, private institutions would have to fall in line and adopt similar measures.

Relationship with other EU institutions

The EIB claims to work closely with other EU institutions in pursuit of the Community's objectives with the aim of fostering European integration and coherence and balanced development of the Union. Even so, there is little knowledge about the linkages between the institutions and how they work together.

A tripartite agreement exists between the European Court of Auditors, the European Commission and the EIB. The agreement, which was confidential until recently, governs cooperation between the three institutions. Under the mandate of Article 248 of the EC Treaty, the Court is responsible for examining the accounts of all revenue expenditure of the Community.

However in the past the EIB has refused to cooperate with the European Court of Auditors. Also, in July 2003 the Court of Justice ruled against the EIB and European Central Bank (ECB) concerning fraud prevention and cooperation with yet another institution, the European Anti-Fraud Office (OLAF). Established in 1999, OLAF has powers to conduct administrative investigations of Community institutions, bodies, offices and agencies. The EIB and ECB however, decided to reserve the power to conduct such investigations within their organisations through their own

internal departments. The Commission brought two actions before the Court of Justice to annul the decisions of the EIB and ECB, claiming they are contrary to the 1999 regulation on investigations conducted by OLAF. The Court recognised that the EIB and ECB are granted some independence by the EC Treaty, yet that does not set them completely apart from the EU and exempt them from every rule of Community law. Hence the Court's final verdict granted investigative powers to OLAF regarding the EIB and ECB.

The EIB supposedly supports the EU's development aid and cooperation policies (Cotonou agreement) to countries throughout the world, making it an important financier of projects in less-developed countries. While such cooperation enables the EIB to coordinate its operations with those of the other institutions, it maintains its independence and its own decision-making procedures. This allows for little influence from other EU institutions on EIB project lending and general operational procedures.

Relationship with Multilateral Development Banks (MDBs)

The EIB cooperates with MDBs through exchange of information, action plans and joint project appraisal missions. Projects are often co-financed through such relationships. Such ventures give institutional and operational support and provide a certain legitimacy to the financing of what would otherwise be seen as risky or controversial projects. The EIB works closely with the World Bank, the European Bank for Reconstruction and Development (EBRD) of which it is also a shareholder, and the Asian Development Bank, among others.

Such partnerships have often resulted in the financing of projects with serious environmental and social consequences, one example being the Chad-Cameroon pipeline (See EIB fact sheet 6). Yet while the World Bank and the EBRD have stringent environmental procedures and better access to information policies, the

EIB lags far behind in both areas (See EIB fact sheets 3 and 4). The EIB claims to adhere to the guidelines of partner development banks when co-financing projects, yet examples in the past have not proved that.

Further reading and information:

European Parliament reports and documentation on the EIB
<http://www.bankwatch.org/issues/eib/main/officialdocs.html>

EIB Annual Reports
<http://www.eib.org/pub/report/en/t03.htm>

EIB Annual Report 2002
<http://www.eib.org/pub/report/pdf/fr2002.en.pdf>

EIB Annual Report 2002 Statistics
<http://www.eib.org/pub/report/pdf/st2002.en.pdf>

Tripartite Agreement
<http://www.eib.org/about/partners/dynamic.asp?cat=101>
http://www.eib.org/Attachments/thematic/acctrip_en.pdf

The European Investment Bank: A European Institution Subject to EU Policy?
<http://www.bankwatch.org/issues/eib/downloads/lawclinicstudy.pdf>

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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