

The European Investment Bank

Caterina Amicucci

CRBM - Counterbalance Campaign

Basic Facts about the European Investment Bank

The European Investment Bank (EIB) was set up in 1958 under the Treaty of Rome, which established the European Union. Originally set up to finance the physical infrastructure of the EU member states and to provide investments in less-developed areas of the EU, the EIB has now become one of the largest international financial institutions (IFIs) in the world. With an annual portfolio of almost EUR 45,8 billion (for 2006), the EU's house bank is responsible for almost double the amount of financial investments made by the World Bank. However the EIB is the only IFI without any binding standards or protocols to constrain its work. As a body of the EU, the EIB states that its mission is to further the objectives of the EU by making long-term finance available for sound investment. In recent mandates, its objectives have been re-defined as the promotion of energy security and regional integration and the promotion of the private sector. The EIB is subject to European law and it is legally bound to act within the limits of the EC Treaty and its own statute which gives it a legal, financial and administrative personality. The EIB's legal status is, however, ambiguous and the independence it has secured for itself from other EU bodies makes it difficult to hold the bank to account.

The EIB provides loans to EU member countries and about 140 non-member countries, the so called Partner countries, as well as private companies. It lends primarily to EU countries as part of its mandate, while lending outside the EU is based on various Community agreements. Traditionally the EIB was responsible for infrastructure projects in the EU - transport, energy, industry - and now it is branching out into energy security and the promotion of the private sector. The EIB has several financial mechanisms through which it provides support for projects, depending on the project category and/or the region of operation:

- *Individual loans* are loans provided for concrete projects in both the public and private sector, including banking.
- *Global loans* are credit lines provided to intermediaries (banks, leasing companies or financial institutions), which in turn give loans to local authorities or SMEs for new capital investment projects worth up to EUR 25 million. The venture capital activities of the EIB are concentrated within the European Investment Fund.
- *Structured Finance Facility* provides senior loans and guarantees to support projects with a high-risk profile, in particular large scale infrastructure schemes, which the EIB is increasingly opening to finance.

The 27 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.

Budgeting for the Future, Building another Europe

In 2004, in the context of the EU enlargement with the 10 new Member States, the capital of the EIB increased to EUR 163.654 billion.

- The Bank's decisions are taken by the following bodies:
- *The Board of Governors*: composed of Ministers from the Member States (normally from the Ministries of Finance, Economic Affairs or Treasury).
- *The Board of Directors*: consists of 28 Directors - one nominated by each EU member state and one by the European Commission - and 18 Alternates, all appointed by the Board of Governors.
- *The Management Committee*: seated in Luxembourg, under the authority of the president. They are appointed by the bank's governors.
- *The Audit Committee*: composed of three members and three observers. It is appointed by the governors for a three year term of office.

The EIB is already a major financier of development projects around the world, with almost 13% (EUR 5.9 billion) of its overall lending portfolio lent outside of the EU last year. But in December 2006 the Bank received, agreed by the European Council, a new mandate for greater external EU lending. The new mandate amounts to EUR 27.8 billion from 2007-2013, an increase of over EUR 7 billion. Additionally, under the renewed Cotonou Partnership Agreement 2008-2013 for the Africa, Caribbean and Pacific (ACP) countries, the EIB can now lend up to EUR 3.5 billion of EU money as well as EUR 3.7 billion of its own resources. Within the framework of the new mandate the EIB is playing a key role in shaping development policies and this is causing major worries. Because the EIB lacks both binding operational policies and any form of accountability system, the prospects of serious environmental and social damage are disturbingly high. In its EU operations, these concerns are mitigated by the existence of EU law, but of course such law does not apply to the bank's operations outside the EU.

Critical Elements of the EIB statue and its operations

Coherence with the EU goals

In its lending the EIB does not act in full compliance with key EU goals such as promoting sustainable development, reducing the threat of climate change, protecting biodiversity and creating employment. The EIB is involved in supporting projects where there is significant conversion or degradation of critical natural habitats such as projects in the extractive industries, big dams or other major infrastructure projects, support of transport sector. In its external lending the bank is failing in contributing to the poverty reduction.

The EIB is demand-driven and as such is not currently promoting sustainable development: it simply responds to the needs of its clients. This is a practice that is in no way sufficient for a public EU institution that is mandated to support EU goals.

Between 1996 and 2005 the EIB invested EUR 112 billion in transport, over half of which went to roads and air transport. In Central and Eastern Europe this figure amounted to 68 % of the total portfolio. During this period the EIB also lent EUR 16 billion to the aviation industry

for airport expansions and the purchase and manufacturing of airplanes. The total of annual CO₂ emissions from selected EIB-financed airport expansion projects such as Heathrow Terminal 5 and Schiphol 5th runway, if the new capacity is fully used (45.15 mt), are probably more than the individual total annual CO₂ emissions of Switzerland, Ireland, Norway or Slovakia.

Outside the EU, the EIB is a significant financier of projects in the extractive industries, despite the devastating consequences of this sector on the environment. In Zambia, where from 2000 to 2006, over 81 % of the EIB's investments went to mining projects, studies have shown that mines financed by the EIB have caused major air pollution, not to mention the contamination of streams and underground aquifers. When it comes to hydroelectric projects, the EIB likes to describe these as "renewable energy projects," and thus categorises them as environmentally friendly, disregarding their often massive impact on local ecology and communities. In 2005, the EIB financed only one "environmental" project in Asia or Latin American countries, the Nam Theun Hydroelectric project in the Lao People's Democratic Republic. The project is cited as contributing to the EIB's overarching goal of promoting environmentally sustainable development in EU partner countries. However, Nam Theun is predicted to have serious impacts on the lives and the livelihoods of tens of thousands of rural Laotians, with the eviction of 6,200 indigenous people living on the Nakai Plateau to make way for the Nam Theun 2 Dam and its reservoir. Another 120.000-150.000 people depend on the Xe Bang Fai and Nam Theun Rivers for their livelihoods. Environmental studies have analysed the likely destruction of fisheries, the flooding of riverbank gardens and other disastrous impacts expected from this project .

Transparency and participation

Despite recent improvements to the EIB information disclosure policy, obtaining relevant and timely information from the bank is still difficult. In 2006 the EIB organised its first-ever public consultation process for a review of its Public Disclosure Policy which should be considered an important step for the EU's multi-billion euro lending house bank which had been lagging for many years behind other international financial institutions in terms of transparency. The policy was also subsequently updated to the requirements of the regulation applying Aarhus Convention on Access to Environmental Information, Public Participation and Access to Justice to EU institutions. This means that today EIB publishes in advance information on new projects including environmental and social assessments (though not on all of them). Some more information might be available upon request after project approval. While the policy is improving, the practice of information disclosure from the EIB follows at a somewhat slower pace. The EIB retains the right to withheld basic information to fully assess projects it is financing; the information released is not always timely; and the extent of information given remains insufficient. A big problem remains with the EIB neglecting public participation, while it also lacks clear requirements on consulting with impacted communities. These practices are plainly inadequate under EIB's new legal obligations under Aarhus, and also under best project impact assessment practices, which encourage community ownership and

Budgeting for the Future, Building another Europe

participation in projects to minimise impacts and improve productivity. NGOs expect EIB to come up to expectations as rapidly as possible.

Safeguards policies

Unlike other international financial institutions, the European Investment Bank does not have binding and operational safeguard policies or procedures to guarantee a high standard of protection for the environment and communities affected by its lending activities.

Human Rights

The European Union is theoretically very much committed to the promotion and respect of human rights but guaranteeing and adequately ensuring the respect of human rights in its financial development operations remain still difficult, due to the prevailing economic interests and the lack of operational policies.

This is particularly the case of the EIB that, under its external mandate, has still not appropriate standards in assessing human rights and keeps supporting projects provoking a variety of human rights violations (e.g.: forced displacement of people, impoverishment of local communities, significant degradation of social and cultural environments, worsening of health and living condition).

From the EIB internal procedure is possible to argue only general commitment in protecting and promoting Human Rights but the Bank does not have a separate policy on human rights and it is not clear which international standards, laws and conventions the EIB refers to in its operation.

Moreover the EIB supports projects in areas where infringements of freedom of expression and other civil and political rights deny affected communities the possibility of raising concerns about the project and participating in its planning and implementation.

Accountability

The EIB lacks an independent complaint and appeal mechanism that could be successfully used by individuals and/or communities affected by bank's projects. At present only European Citizens can complain to the European Ombudsman against the EIB for its operation within the EU but the Ombudsman's opinion is not binding. Non-European citizens affected by the projects can complain to the European Ombudsman but he can discretionally take the case. Currently, due to NGOs' prodding, the EIB has begun working on the issue and the European Ombudsman announced its readiness to take on complaints not only from the European citizens but also those who wish to complain on the EIB operations outside the EU.

Global loans

A major but largely overlooked part of the EIB's operations are its "Global Loans". These provide financial intermediaries - often large private European and non-European banks in EIB client countries - with funds which they can then on-lend to local project promoters. Under this set-up there is little access to documents from the EIB or the intermediaries about what project these loans are financing and about the environmental and social standards they follow.

What can be done: Reforming the EIB

The EIB should ensure that all future financed projects contribute to sustainable development and, while lending outside Europe, they must show how they contribute to meeting the UN Millennium Development Goals. EIB should phase out support for projects that are essentially incoherent with poverty alleviation and sustainability, such as:

- projects involving significant conversion or degradation of critical natural habitats, supporting the destructive exploitation of natural resources, or entailing the production of substances that are banned or scheduled to be phased out of production
- large mining projects that do not comply with the World Bank's Extractive Industries Review's recommendations
- large dams that do not comply with the World Commission on Dams' recommendations
- fossil fuel projects and nuclear power plants as well as aviation projects

Instead the EIB should support green decentralised energy projects, public and inter-modal transport, development projects concretely aimed at reducing poverty.

The EIB should live up to the global development commitments of the EU and the standards set by other multilateral development banks.

The EIB should inform and listen to affected communities. The participation of the local community in the decision-making process, as well as greater protection and redress for local people affected by the projects outside the EU, should be guaranteed.

The EIB should set up an Advisory Committee for Sustainable Investment and Lending composed of representatives of the bank, European institutions, member governments, non-governmental organizations and industry, charged with developing policy guidelines for EIB investments in energy, forestry, transport, water and other projects.

The EIB should adopt a full-fledged accountability and compliance mechanism, which provides equal access for citizens from outside the European Union. The mechanism should be fully independent in its fact-finding tasks, it should ensure that activities supported by the EIB abide by all human rights, social and environmental policies, should provide affected communities with effective remedies, and finally it should have the right to apply to client companies a range of sanctions.

The EIB should improve the performance of its Public Disclosure policy and allow an high public scrutiny of the global loans lent to the financial intermediaries.

Categorical prohibitions must proscribe EIB support for all projects in areas where infringements of freedom of expression and other civil and political rights deny affected communities the possibility of raising concerns about the project and participating in its planning and implementation.