Fact Sheet
EIB and private finance for development

What is the EIB?

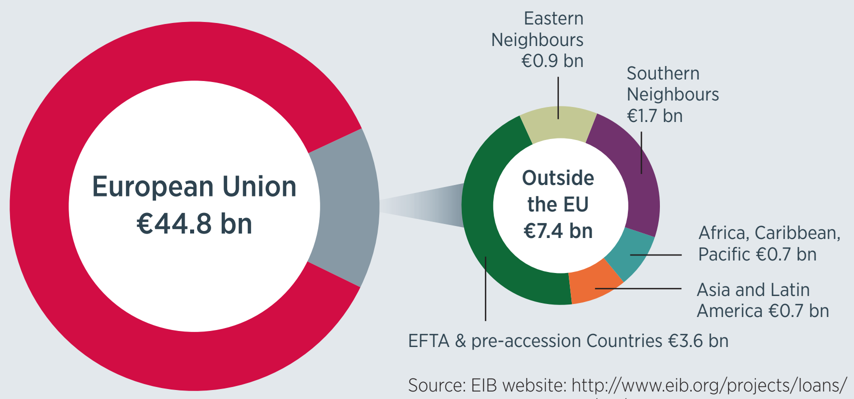
The European Investment Bank (EIB) was founded in 1958. The bank is both a European Union (EU) institution and an independent financial institution. EIB is owned by 28 EU member states, each of which has a governor on the bank's board – usually the country's Minister of Finance. Approval of the projects is carried out by the Board of Directors, which consists of a representative from each of the EU member states and the European Commission.

The vast majority of the EIB's operations take place within the EU while the rest are allocated in regions all over the world, with an emphasis on EU neighbouring countries. Outside the EU, the EIB operates under various mandates that are approved by the European Parliament and the Council of the European Union, which are based on EU external cooperation and development policies.

In the African, Caribbean and Pacific region (ACP), the EIB operates under the Cotonou Agreement, which is development oriented. However, since the Lisbon Treaty came into force in 2007, the EU aims to streamline sustainable development objectives throughout all its external actions, including EIB operations. Article 209 of the Treaty on the Functioning of the European Union (TFEU) calls upon the EIB to contribute to implementing the EU's development cooperation policies. The EIB itself has the objective of providing "*finance and expertise for sound and sustainable investment projects which contribute to furthering EU policy.*"[1] Therefore, a wide set of EU policies should be reflected in EIB's operations, including the EU development policy and its Agenda for Change.

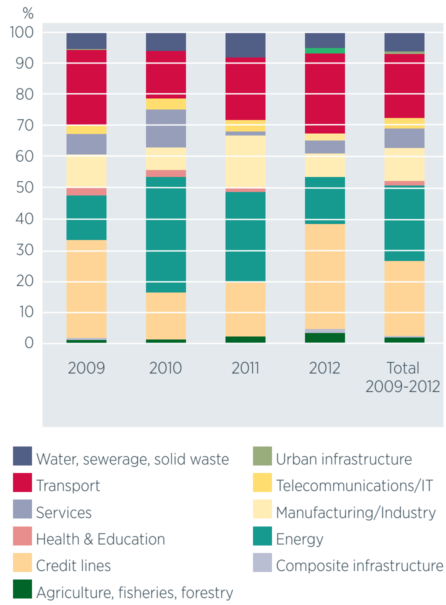
Apart from loans to ACP countries, most of the other EIB operations outside of the EU are covered under the bank's External Lending Mandate (ELM). This states that the bank must act in accordance with the relevant principles of the European Consensus on Development and the principles of aid effectiveness outlined in the Paris Declaration of 2005, the Accra Agenda for Action of 2008 and the Busan Partnership Agreement of 2011, as well as with the EU Strategic Framework and Action Plan on Human Rights and Democracy adopted by the Council on 25 June 2012. The ELM's general objectives are:

Projects financed by the EIB

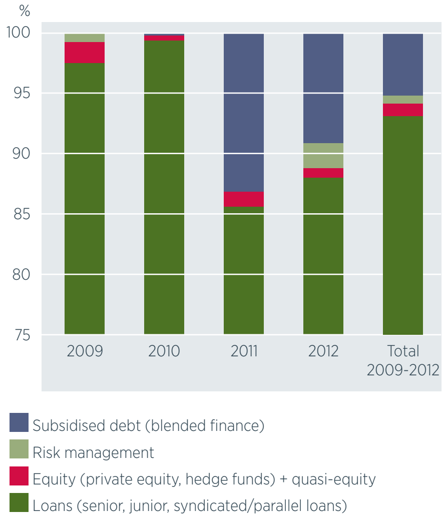


Source: EIB website: http://www.eib.org/projects/loans/index.htm, accessed 25/09/2012

EIB operations per sector



EIB operations by financial instruments



- local private sector development, in particular support to small and medium-sized enterprises (SMEs);
- development of social and economic infrastructure; and
- climate change mitigation and adaptation.

In return, the European Commission guarantees potential losses under loans, which is important for the bank to keep its maximum credit rating. Renewed every seven years, the mandate is established through the co-decision process at EU level.

The guarantee from the EU budget is rarely used to cover losses. However, this was the case, for instance, when the EIB stopped all its financing operations in Syria in 2011 after a Council decision.[2] Questions have been raised about how the EIB makes the decision to finance a project outside the EU under its own resources or via the guarantee of the EU budget. An allocation policy has never been published by the bank despite repeated calls from the European Parliament for such methodology to be developed[3] and disclosed.[4]

The EIB's subscribed capital amounts to €243.3 billion. This is the amount guaranteed by the bank's shareholders – the EU member states. The subscribed capital is the key to the bank's AAA rating, which is a crucial aspect of its business model (raising cheap money on the market and lending it to projects in line with its objectives). The five biggest shareholders are Germany, France, Italy, the UK and Spain. In 2012, the EIB signed loans worth €52.16 billion. Due to a €10 billion capital increase in the beginning of 2013, this amount is expected to rise with an additional €60 billion over the period 2013-2015. At the end of 2012, the EIB owned assets worth €508.1 billion, an increase of 7.7% compared to 2011. The bank earned €3 billion on net interest income, resulting in an overall profit of €2.7 billion.

Objectives and practices

Firstly, it should be noted that the EIB is not purely a development bank. As the bank of the EU, it spends about 90% of its annual budget within the EU. To make comparisons with other development finance institutions (DFIs) more accurately, we decided only to look at projects financed outside the EU. Those projects are both public and private in nature, which is different from specific DFIs focusing only on support to the private sector. However, a specific instrument like the Investment Facility in the ACP countries is only dedicated to private sector projects,[5] while around two thirds of the FEMIP (Facility for Euro-Mediterranean Investment and Partnership) investments are directed towards private sector projects.[6]

Sectors

The biggest sectors funded by the EIB are: transport, energy and credit lines, which also includes SME finance (see Figure 3). While the EIB originally focused on infrastructure finance, in the last decade it also looked at ways of reaching SMEs. These are reached through financial intermediaries, but intermediated lending can also serve other purposes such as developing financial markets or leveraging private sector funding. Overall, 39% of the EIB's operations pass through intermediaries while 61% are direct funds.

Instruments

A large majority of EIB finance comes in the form of loans, which includes senior and junior loans, as well as syndicated/parallel loans. Over the period 2009-2012 loans accounted for 93% of total operations outside the EU. EIB use of equity-related investments and risk management is marginal, while the use of subsidised finance appeared prominent just after 2011. It is worth noting that sometimes loans are combined with other instruments such as guarantees, grants or risk management. The data provided by the EIB does not allow an assessment of the use and impact of these instruments in more detail.

Regions

The External Lending Mandate of the EIB prescribes lending ceilings for regions that are largely determining the geographical distribution of EIB lending. A specific geographical focus of the bank is EU pre-accession and neighbouring countries, which received 74% of all lending outside the EU. As pre-accession countries are mostly upper to middle high-income countries, they represent the leading group receiving 61% of overall funding. Low-income countries are barely reached by the bank and received only €1 billion or less than 3% of funding over the last five years. High-income countries do better and receive about 7%. The main beneficiaries in this group are Russia and Israel but also include European countries such as Switzerland and Norway. The second biggest group receiving 25% of overall non-EU funding are the low- to middle-income countries, which are spread throughout different regions.

How does the EIB determine development impacts?

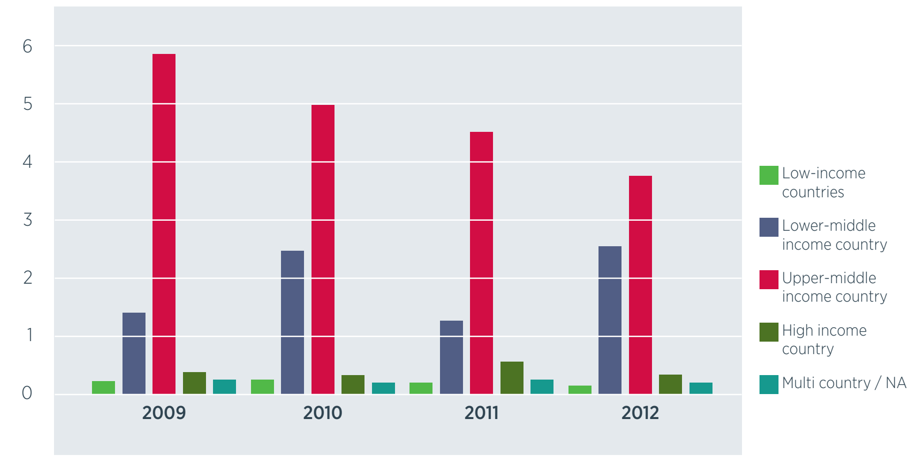
Since 2011, EU institutions have increased their scrutiny over the EIB and have put pressure on the bank to demonstrate its results.[7] This produced an intra-EU result measurement system – the 3PA (three pillars assessment) – to enhance reporting to shareholders on results and the impact of EIB interventions. In response to a revision of the External Lending Mandate of the EIB (for activities outside the EU), since 2012 the bank has gradually introduced the Results Measurement framework (REM) to replace the existing Economic and Social Impact Assessment Framework (ESIAF).

Table 1 - REM pillars

Pillar 1	Pillar 2	Pillar 3
An assessment of a project's consistency with EIB mandate objectives as well as its contribution to EU priorities and country development objectives, going beyond the current focus on eligibility alone.	A series of sector-specific standardised indicators to capture the economic, social, environmental and institutional outcomes of the project. It will also continue to measure project quality and its ability to achieve the expected results.	An assessment of the EIB additionality over market alternatives in terms of financial products, technical, structuring and sector contribution, standards and assurance.

Source: EIB website, http://www.eib.org/projects/cycle/monitoring/rem.htm, accessed on 24/9/2013.

Commitments per income country 2009-2012 (€ billion)



The REM is still in a pilot phase, and a first report using the system was published in 2012.[8]

The new framework should harmonise result indicators to other International Financial Institutions (IFIs), simplifying client reporting requirements for co-financed operations. A working group bringing together IFIs and European Development Finance Institutions (EDFIs) will implement this policy objective.

It is worth noting that, in addition to the assessment under the REM, each project undergoes an appraisal by the EIB services during which it is assessed with regards to its economic, technical, financial, environmental and social merit. Then, ex-post evaluation work is also carried out by the EIB Operations Evaluation department during the later stages of the project's cycle, usually 1.5 years to 3 years after completion, which means during the loan repayment period.

Recent policy changes

Responsible finance

The '*standards*' of the EIB are described in its Environmental and Social Practices Handbook. The handbook[9] provides the internal processes and practices of the bank and aims to operationalise its environmental and social statements and principles.[10] The handbook was revised in December 2013 for the sake of clarification and now includes the EIB standards grouped across ten thematic areas covering environmental, climate and social impacts and issues.

Civil society organisations (CSOs) have criticised this handbook as it still lacks explicit operational procedures based on international or EU law,[11] which would constitute a consistent and effective framework for managing environmental and social issues in projects outside the EU.[12]

Transparency

The EIB adopted a new Transparency Policy on 2 February 2010 replacing the Public Disclosure Policy (2007) and the Transparency Policy (2004). The Transparency Policy was updated in May 2011 following a consultation with relevant stakeholders.[13] This means that today the EIB publishes information in advance about new projects, including environmental and social assessments. In addition, following long-standing demands from CSOs, the EIB set up a public register of environmental documents on 2 January 2014. The EIB is tasked with publishing an annual report on the implementation of this policy, providing an overview of the key elements of the policy, such as public access to information through disclosure and publication of information on the EIB website.

However, while the policy is improving, CSOs claim that the practice of information disclosure from the EIB is progressing at a slower pace.[14] The EIB retains the right to withhold information that is crucial to fully judging projects that it is planning to finance; the information released is not always made available in a timely fashion; and the level of information given remains insufficient.

It is worth noting that, in October 2013, the EIB joined the International Aid Transparency Initiative (IATI) – a voluntary, multi-stakeholder initiative that seeks to make information about aid and development finance easier to access, use and understand.[15] IATI has developed a common international standard that sets guidelines for publishing information about aid and development finance spending. In 2014, the EIB will work together with the IATI secretariat to fully implement the IATI standard by the end of 2015 and adapt its procedures. This offers an opportunity for the EIB to clarify its role in development finance and which financial instruments it uses in which countries.

Accountability

The EIB adopted its revised internal Complaints Mechanism Principles, Terms of Reference and Operating Procedures on 2 February 2010, following a process of extensive public consultation. This newly revised policy is a tool of horizontal accountability for the EIB Group vis-à-vis its stakeholders in terms of handling complaints about its activities. Any member of the public (whether from the EU or not) has access to a two-tier procedure, the internal Complaints Office and the external European Ombudsman (EO), a fully independent EU body. To this effect, the EIB and the EO signed a Memorandum of Understanding in 2008.

Despite these efforts, CSOs have raised several concerns in relation to the EIB complaint mechanism (CM) as they argue it still lacks efficiency[16] because of the flaws in the functioning of the current set up. The EIB's CM office is internal and its work and independence is seriously questioned. Despite its best efforts, the CM office seems to be hindered from completing its tasks in a manner that is meaningful for those who are impacted. In addition, the office does not scrutinise the institution's use of specific financial instruments.[17]

In 2008, the EIB also adopted an anti-fraud policy called "*policy on preventing and deterring corruption, fraud, collusion, coercion, money laundering and financing of terrorism in European Investment Bank activities*", which was reviewed in November 2013. CSOs criticised this revision for being purely technical, lacking a genuine whistle-blowing policy for external informants, not dealing sufficiently with intermediated lending and happening outside of the reality of the recent developments occurring at EU and international level[18] via the revision of the European anti-money laundering directive.

Tax issues

In December 2010, the EIB updated its policy in relation to the use of tax heavens, via its Policy on non-cooperative jurisdictions, which is based on the OECD Global Forum's peer review of jurisdictions. This policy towards weakly regulated, non-transparent and uncooperative jurisdictions sets out the commitments of the EIB to maintain a stringent policy that is in line with the EU and international policies to which the EU contributes. The EIB is one of the few IFIs to have adopted an official tax haven policy. However, CSOs have challenged the current policy for being still ineffective in terms of tackling tax dodging as loans through financial intermediaries in particular are sensitive to tax evasion practices.[19]

Sectors

(energy, water, health, education): DEG does not have sector policies, or does not make them available on its website. The KfW banking group published a position paper on the financing of coal-fired power plants. In practice DEG does not finance coal-fired power plants any more, but the position paper is also effective for the DEG. The paper states that modern coal power plants are more efficient and thus present an "important option for an improved access to energy for developing and emerging countries."[32]

In relation to climate change and carbon finance, the KfW banking group defined climate change and the environment as one of the key challenges for its business. In order to reflect this priority, KfW dedicated itself to dedicating roughly 33% of its funding to climate and environmental issues.

Energy

In 2013, the EIB adopted revised EIB energy lending criteria that replaced its previous energy strategy dating from 2007. A key development with the renewed policy is the EIB decision to introduce emission performance standards (EPS) for its lending to the fossil fuels sector, which was largely welcomed by CSOs, despite the room for improvement and ambitious criteria still remaining.[20]

Transport

The EIB adopted a revised transport lending policy on 13 December 2011, which sets the guiding principles and selection criteria for the bank to invest in this sector. It lists a number of priority areas of investment, selected as most important by virtue of being '*Climate Action projects*' through the establishment of a Climate Action indicator. The policy introduces positive discrimination towards projects in public transport, rail, inter-modal and waterborne transport but lacks a target for sustainable transport projects.[21]

Climate

The EIB corporate action plan states there is an overall horizontal target of 25% of the EIB lending portfolio going to climate action for every year of operation. In 2012, the EIB developed a Climate strategy for external mandate countries, which is supposed to present EIB's strategic vision for supporting climate action outside the EU in countries covered by the bank's ELM. The EIB works towards increasing its backing for projects reducing CO2 emissions and adapting to climate change. Nevertheless, according to CSOs, this document does not deal with the requirement from the ELM to phase out lending to projects that are detrimental to the EU's climate objectives.[22] Finally, the bank has stepped up its issuance of climate bonds, becoming the leading issuer of such bonds in recent years.

Carbon finance

The bank is currently also involved in carbon finance via the management of carbon funds, but does not have a clear policy in this regard.

Subsidised finance (blended finance)

The EIB has been particularly involved in subsidised finance since the creation of is Investment Facility (IF) for ACP countries in 2003. The IF is a revolving fund managed under an EU mandate by the EIB and is funded from the resources of the EU member states through discharges to the European Development Fund. Despite the fact that the EU budget is involved in the facility, there is currently only limited scrutiny from the European institutions (especially the European Parliament) about the instruments used by the EIB to reach out to the private sector in ACP countries.[23] In addition, despite a formal possibility of assessing the management of the EU budget in the IF, the European Court of Auditors has so far played little part in scrutinising EIB operations.

The EIB also plays an active role in blending facilities at EU level – being involved in 56% of projects going through facilities managed by the European Commission, as well as in managing blending facilities. This role is pushed by the EU institutions and especially the European Commission. Finally, the EIB plays a significant role in the work of the European Platform for Blending in External Cooperation (EUBEC), a platform launched in December 2012 to "*provide recommendations and guidance on the use of blending in the external cooperation of the European Union*", acting "*as a major forum [...] to improve the quality and efficiency of blending mechanisms*." In this platform, the EIB co-chaired a technical group in 2013 that were tasked with developing a results-based framework for measuring impact and standardising reporting practices among EDFIs and other financial institutions.

Endnotes

1 http://www.eib.org/about/index.htm

2 http://www.eib.org/infocentre/press/news/all/eib-suspends-loans-with-syria.htm

3 http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32011D1080&from=EN The External Lending Mandate for 2007-2014 states: "*The EIB shall, in consultation with the Commission, develop a clear and transparent allocation policy for deciding upon the source of financing of operations which are eligible both for coverage by the EU guarantee and for EIB own-risk financing.*"

4 http://www.europarl.europa.eu/oeil/popups/ficheprocedure.do?reference=2013/0152%28COD%29&l=en The External Lending Mandate for 2014-2020 states: "*The Commission and the EIB shall set out in the Guarantee agreement referred to in Article 13 a clear and transparent allocation policy allowing the EIB to identify, within its external activity, the operations to be financed under this Decision in order to ensure the most effective use of the EU guarantee. [...] The European Parliament and the Council shall be informed on the allocation policy according to Article 13.*"

5 http://www.eib.org/projects/regions/acp/funding-and-financial-instruments/investment-facility/index.htm

6 http://www.eib.org/projects/regions/med/about/index.htm

7 Especially through the co-decision power on the External Lending Mandate of the Bank, and the annual resolutions of the European Parliament on EIB activities.

8 http://www.eib.org/infocentre/publications/all/eib-rem-annual-report-2012.htm

9 http://www.eib.org/attachments/strategies/environmental_and_social_practices_handbook_en.pdf

10 http://ghum.kuleuven.be/ggs/publications/working_papers/new_series/wp71-80/wp-72-hachez-wouters-eib-26-july-2012.pdf

11 Ibid.

12 http://www.counter-balance.org/counterbalance-eib.org/?p=713

13 http://www.counter-balance.org/counterbalance-eib.org/?p=711

14 Reference to the Mopani case is an example: http://www.trust.org/item/20140403160619-sx982/?source=hptop

15 http://www.eib.org/infocentre/press/news/all/eib-reinforces-transparency-by-joining-the-iati.htm

16 http://www.counter-balance.org/counterbalance-eib.org/?p=1460

17 http://www.counter-balance.org/holding-the-eib-to-account-a-never-ending-story/

18 http://www.counter-balance.org/counterbalance-eib.org/?p=2373

19 http://www.counter-balance.org/counterbalance-eib.org/wp-content/uploads/2011/01/Hit-run-development_WEB.pdf

20 http://www.counter-balance.org/counterbalance-eib.org/?p=2603

21 http://bankwatch.org/news-media/blog/new-eib-transport-policy-not-yet-ready-sustainability

22 http://www.counter-balance.org/counterbalance-eib.org/wp-content/uploads/2013/09/Counter-Balance-Briefing-ELM-EIB-September-2013.pdf

23 http://www.europarl.europa.eu/document/activities/cont/201404/20140414ATT82907/20140414ATT82907EN.pdf This resolution of the European Parliament: "*Deplores, as in previous years, the fact that the investment facility is not covered by the Court of Auditors' Statement of Assurance or Parliament's discharge procedure, even though the projects are carried out by the EIB on behalf of and at the risk of the Union using EDFs' resources; calls, therefore, for an end to be brought to the Tripartite Agreement during the October 2015 revision and include the investment facility in the normal discharge procedure.*"

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