European Network on Debt and Development and **Counter Balance coalition** joint statement to the Wise Persons Panel in the context of the mid-term review of the European Investment Bank's external mandate

Brussels, 28th January 2009

The EIB was founded as an investment bank. It is difficult to implement a transformation of the institution into a development one, given the difficulty to change the culture of it, as the example of the IMF in the last ten years clearly shows us.

Civil society has serious concerns about the “Whole of the Union” approach promoted by the European Commission and the European Council in the context of the economic and financial crises – which is having dramatic impacts on developing countries. In this approach, the EIB was granted a significant role. Given that increased resources were needed and that EU Members States were not keen to increase their ODA contributions, the EIB remained the only institution that could easily increase its lending through bond issuing in capital markets and increasing the community guarantee scheme for its external lending. Civil society is extremely concerned with the proposal that the EIB should fill in the development role that EU MS have failed to provide in the crisis context. The EIB lends at quasi commercial rates, thus generating new foreign debt of developing countries. Moreover, as an investment bank, the EIB is not best placed to provide a holistic and meaningful response for developing countries in times of crisis. This is particularly true for low income countries, which should be given only grants to meet the needs generated by the crisis – a crisis that they are not responsible for – and which, in the worst case scenario, should only take up concessional lending but never commercial debt.

Even though foreign direct investment (FDI) might contribute to endogenous development processes, this is only the case to a limited extent and under some very specific conditions, as documented in detail by the UNCTAD in the last years[1]. Counter cyclical finance interventions in the context of the crisis require a much more ambitious approach than a mere leveraging of EIB financing in the South. Current attempts to limit negative environmental and social effects on local communities are welcome; but they are a poor substitute for strengthening other more effective development assistance mechanisms within the EU aid architecture. These principles are also valid

[1] Amont different reports published by UNCTAD,“Economic Development in Africa. Rethinking the role of foreign direct investment”, September 2005

in the case of the promotion of global public goods, as in the case of climate finance for climate mitigation and adaptation measures. Even though climate finance should be clearly kept separate from aid, a number of lessons learnt on how aid should be channelled and delivered in order to be more effective should be taken into account for climate finance.

Therefore, to force a transformation of some of EIB lending into proper development finance instruments by establishing operational links with the EU aid system (EDF, DCI and EuropeAid) may be too risky if done in a rush and without the appropriate guarantees that the EIB will live up to the standards of EU aid – rather than pushing down hard won progress on European aid effectiveness. The intrinsic different nature of these institutions and mechanisms would put at risk progress slowly achieved within European aid as concerns the implementation of key aid effectiveness priorities (among which, recipient country ownership, alignement to recipient country developing strategies and systems, transparency).

The EIB should not expand its role in other development finance roles, such as technical assistance. The EU Court of Auditors found in a report on 2008 that EU technical assistance remained highly ineffective.[2] Despite in some cases is necessary, recent studies have proven that technical assistance is a main vehicle for supporting Western firms and not mobilise effective resource deployment in the South. Technical assistance should instead be, as a minimum, demand-driven, tailored to the recipient countries' needs and integrate a strong capacity building component.

In the short term, rigorous do-no-harm policies (including mere development aspects) have to be put in place in order to align EIB lending to cross-cutting EU development and human rights objectives which should guide overall EU external action according to improvements in the Lisbon Treaty and minimise negative development impacts on the ground. However, resources generated by the EIB - which could be blended with grants - should be transferred to other existing European mechanisms or other IFIs.

This recommendation would trigger in the medium-term the need to redefine the overall EU development finance architecture. This approach is in line with the key priority of the aid effectiveness agenda to reduce fragmentation and duplication among donors-led institutions. Under this perspective the EIB could remain an investment vehicle, but its scope of action outside of the EU should be restricted (both geographically and sectorally) - and more effective institutional alternatives be found. The EIB external action should also be strictly aligned with overall EU development and human rights objectives. Moreover, development effectiveness principles go beyond aid and should be also applied to public-backed investment banking in developing countries. The EIB must ensure that any of its investments have clear development outcomes, in particular in sectors where it is most active such as infrastructure, energy, extractives. Moreover, the EIB, as a public institution, needs to ensure that the companies and investments it supports comply with the highest responsible financing standards, with a view to ending tax evasion and capital flight to the EU and help restore sstolen assets to the countries of origin.

The EU does not need to establish its own development bank. There is no need to yet add another MDBs to the existing global and regional ones and when much work still has to be done to reform and improve their effectiveness. In this regard signing MoUs between the EIB and IFIs has produced limited outcomes so far. The EU could consider transferring more resources to existing

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[2] Special Report 6/2007 of the European Court of Auditors on Effectiveness of technical assistance in the context of capacity development.

IFIs instead, if appropriate reforms are put in place in IFIs. In this regard, IFIs should at a minimum implement strict standards of responsible finance and European governments should perform a more coordinated and effective action in their boards. At the same time, new regional institutions are emerging which are fully owned by developing countries: the EU should support this trend encouraging regional financial integration and Southern led development finance.

On this basis, Eurodad and Counter Balance urge the Steering Committee (Wise-persons panel) to recommend to the European Council and the European Parliament that:

IN THE SHORT TERM (concerning the new "interim" mandate from 2011 to 2013)

Regarding sectoral interventions:

- few clear priority sectors in line with overall EU objectives should be identified for EIB action in the different regions;
- in line with EU climate change cross-cutting priorities, the Bank should not support fossil fuels (also because other IFIs active in the region still support this sector);
- concerning the possibility for the EIB to get involved in climate finance:
  - the EIB should stay out of adaptation funding. Some of EIB revenues could eventually reflow, together with EC and MS resources, into the UN Adapatation Fund;
  - regarding mitigation actions, the EIB should prioritise support within the EU which remains a major emitters comparing with neighbouring countries.

Regarding financing instruments:

- the EIB Group should not be equipped with a concessional finance window blending loans and grants and thus perfoming concessional lending. At the same time a clear management line for the EIB external lending (including ACP regions), different from the one dealing with the lending within the EU, should be put in place within the Bank;
- profits generated by the EIB lending could be allocated into other European institutions for development finance or in other IFIs. Regarding the topping up of 2 bn. Euro in the current mandate, this should be conditioned to the transfer of EIB profits to other mechanisms and institutions with a clear development mandate and for clear development purposes;
- concerning technical assistance, it should be used when this is explicitely requested by the partner country and TA should be provided externally only if this expertise is locally or regionally not available. In the context of EIB-backed operations technical assistance should support the implementation of EU social and environmental standards when these are higher that host country standards;
- support for financial intermediaries should be restricted only to local institutions not operating in offshore financial centres and which have a substantial local ownership and are equipped to implement a pro-development approach supporting the specificity of local SMEs in each country.

Regarding due diligence and project assessment and monitoring:

- the EIB should implement an enhanced development due diligence, including transparent and verifiable project-based development indicators, to be covenanted in project agreements;
- EIB operations should comply with national development strategies, and project agreements should comply with principles of responsible finance included in Eurodad

- Responsible Financing Charter[3];
- beneficiaries and all stakeholders (in host countries and the EU) should be involved in ex-ante project assessment, including option assessments;
- adequate tax due diligence should be put in place, including prohibition of support for entities based in secrecy and non-cooperative jurisdictions, and the requirement of reasonable national taxation compliance for corporations in order to increase income for national budget and mobilise domestic resources for development;
- the EIB should adopt a public registry of financial intermediaries which comply with criteria proving their capacity to perfom pro-development interventions in recipient countries;
- the EIB should implement a preferential treatment for recipient countries' economic actors by adopting a positive discrimination in favour of suppliers from these countries in the context of the operations that the Bank finances, in order to make sure that EIB support create jobs and income in recipient countries.

IN THE LONG TERM (concerning the mandate for 2013-2020)

The EIB regional scope of action should be shrunk as it follows:

- lending to the ALA regions should be stopped. Increased development support for low income countries of these regions should be prioritised in existing EU mechanisms (DCI), existing IFIs and new regional institutions;
- concerning the lending to Central Asia, the EIB should only financially support EBRD-decided interventions, given that the EIB is already an EBRD shareholder together with the EC and member states; therefore EIB should withdraw operationally from the Central Asia region;
- regarding lending to neighbouring regions (Eastern and Southern) the EIB as an investment bank should adopt stringent development and human rigths due diligence and adopt clear priorities in line with overall horizontal development and human rights EU objectives of the external action. The effectiveness of EIB's action and its relationship with ENPI instrument in these regions should be reviewed once again before the issuance of a new external mandate in 2013;
- regarding ACP lending (beyond the current remit of the Steering Committee's work), in the context of the IF review in 2010 the EC and MS should explore all possible alternatives for the management of the EDF resources currently administered by the EIB, including regional IFIs, existing EU mechanisms and eventually new mechanisms to be established in the medium-term. A decision on a new administrative entity should be taken in the context of the new EDF period agreement in 2013.

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[3] http://www.eurodad.org/whatsnew/reports.aspx?id=2060