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# A civil society perspective on EIB-financed infrastructure projects: challenges and lessons learnt



## Presentation of Counter Balance

- Coalition of 9 European NGOs created in 2007, with a Brussels-based secretariat.
- Counter Balance's mission is to make **European public finance** a key driver of the transition towards socially and environmentally **sustainable** and **equitable** societies.
- Created to **monitor** the activities of the **EIB** and push for its **reform**.



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# A variable geometry approach to fraud and corruption

- The **EIB anti-fraud policy** (Policy on preventing and deterring prohibited conduct in European Investment Bank activities) and associated “Zero Tolerance to Fraud and Corruption Policy ” are not fully implemented.
- The EIB should not finance projects under **corruption investigations** at national or European level, and stop further disbursements for such projects.
- In recent years, the EIB has financed projects under investigations, and is now about to do so once more in Italy.



## The case of Passante di Mestre (1)

- Passante di Mestre is a motorway bypass around the city of Mestre, close to Venice. In April 2013 the EIB disbursed **a loan of EUR 350 million** to refinance the debt the project has been accumulating since its start in 2003.
- In March 2011 the project was subject to a critical report by the Italian Court of Auditors. The concerns raised in the report included a lack of public supervision and control leading to an unjustified increase in costs, as well as the risk of infiltration of organised crime via subcontracting companies carrying out the construction.
- The project and several subcontracting companies are **under investigation** by the Italian authorities for alleged fiscal fraud and the possible infiltration of the Mafia. This is linked to one of the biggest corruption scandals in Italy's history.

## The case of Passante di Mestre (2)

- In January 2014, we filed a complaint to OLAF to open an **investigation** into the EIB loan, but this was rejected by OLAF.
- The European Parliament adopted in April 2015 the following via a resolution:



**Regrets that the EIB financed ‘Passante di Mestre’**, after the Italian authorities publicly announced the arrest of the CEO of its main subcontractor for fiscal fraud; in light of the still ongoing investigations by the Italian authorities into the corruption scandal related to the construction and management of the ‘Passante di Mestre’, **calls on the EIB not to finance the ‘Passante di Mestre’ project** through the PBI or any other financial instrument, and to ensure that it implements its zero tolerance to fraud policy when considering the use of project bonds

- In 2016, the EC and the EIB confirmed they will use the **EU Project Bonds Initiative** to refinance the project. Bonds are to be emitted for the project thanks to EU support, even if the investigations are still ongoing.



## What due diligence for ensuring sustainability and viability of projects?

- Financing to **unsustainable, untransparent and unviable projects** still happens (example of S7 project in Poland).
- Issue of **due diligence**: the EIB is not fully equipped to face the political push from EU Member States promoting projects violating European legislations.
- The complexity of financial instruments used increases the need for enhanced due diligence (Public Private Partnerships, Project bonds, etc).
- Example of Castor project: insufficient geological studies, even if the project was financed twice by the EIB. This raises doubts on the added value brought by the Bank in terms of due diligence.

## Case study: the D4 R7 Bratislava bypass

- New PPP highway project in Slovakia worth **EUR 4 billion** - one of the biggest **EU PPP projects**.
- Slovak think tanks, NGOs and independent experts are challenging the project from several aspects including over-pricing, tendential manipulative analyses, conflict of interests and false information provided to the public.
- The project is to be co-financed by the EIB with a EUR 500 million loan.
- The Foundation 'Stop corruption' filed an official complaint to the EIB, asking the bank to withdraw financing and to show consistency in its approach to transport projects in Slovakia. A response from the Bank is pending.

## What level of accountability for the EU Bank?

- The EIB is not sufficiently learning lessons from past mistakes:
  - Example of the Castor case, still branded as a success in financial terms.
- A limited involvement of the EIB Board of Directors around EIB problematic and sensitive cases – **governance** issues:
  - The Directors remain little informed about complaints lodged towards the EIB at the EIB internal Complaints Mechanism and at the European Ombudsman.
  - Corrective actions plans remain the responsibility of the EIB Management Committee.
- The EIB is still **lagging behind** other International Financial Institutions in terms of **transparency**:
  - Maladministration ruled by the European Ombudsman on a case in Zambia.
  - A controversial revision of EIB's transparency policy in 2015.





## Recommendations

- Reinforced due diligence at the EIB, prioritizing **quality of lending** rather than quantity.
- EIB to **stop** financing or further disbursement of **loans for projects under investigations** at national or European level.
- Guaranteeing strong checks and balances within the EIB: towards a more independent and efficient **Complaints Mechanism Office**.
- Ensuring the EIB follows recommendations from the **European Ombudsman**.
- More systematic and pro-active role for the **European Court of Auditors**.
- A more structured scrutiny and **engagement of the European Parliament** is highly necessary
  - **EFSI** as an opportunity to set a precedent

## Further readings (1)

- Re: Common: *Italian Malaffare, European Money - Or how the European Union funds Italian mega projects linked to corruption*, August 2015  
<http://www.counter-balance.org/italian-malaffare-european-money/>
- NGO letter to EIB, 8 July 2014 <http://www.counter-balance.org/letter-to-the-eib-regarding-the-financing-of-projects-in-italy-that-are-under-investigation-for-corruption/>
- The Ibori case in Nigeria <http://www.counter-balance.org/update-eib-and-corruption-the-ibori-case/>
- Counter Balance: *Towards a reinforced accountability architecture for the EIB*, July 2015 <http://www.counter-balance.org/new-report-towards-a-reinforced-accountability-architecture-for-the-european-investment-bank/>

## Further readings (2)

- CEE Bankwatch Network: *Climate's enfants terribles, How new Member States' misguided use of EU funds is holding back Europe's clean energy transition.* December 2015 <http://bankwatch.org/sites/default/files/enfants-terribles.pdf>
- CEE Bankwatch Network: *S7 – A road to nowhere* <http://bankwatch.org/sites/default/files/briefing-s7-15Sep2014.pdf>
- Counter Balance – *Activity Report 2014* <http://www.counter-balance.org/counter-balance-activity-report-2014/>

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# Thank you for your attention

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