

Policy brief on EIB's role in the EU Covid-19 crisis response

Counter Balance - April 2020

*/ **COUNTER BALANCE** / is a coalition of NGOs whose mission is to make European public finance a key driver of the transition towards socially and environmentally sustainable and equitable societies. Over the last decade, we have monitored extensively the operations of the EIB and led campaigns to make it a more sustainable, democratic and transparent institution.*

As the Covid-19 pandemic continues to unfold, European governments have been developing public stimulus packages to help relaunch the economy and avoid a historic recession.

The EIB will play a flagship role under the EU recovery package in response to the health crisis and its economic consequences:

- >>> The Bank has already released a EUR 40 billion [emergency package](#) to deal with the Covid-19 crisis.
- >>> In parallel, it will expand its activities with EUR 200 billion of new operations backed by the creation of a EUR 25 billion [guarantee fund](#) provisioned by EU Member States and opened to financial contributions of third parties, including through the EU budget. The creation of the fund was agreed by the Eurogroup on 9 April 2020 as part of a [post-crisis investment package](#), and then approved by the EIB Directors on 16 April 2020. The fund will be aimed at securing loans to the public and private sector, with an increased focus on reaching out to Small and Medium Enterprises (SMEs) via public and private banks.
- >>> Outside of Europe, the EIB [announced](#) that it will provide up to EUR 5.2 billion in the coming months, including through guarantees from the EU budget, to strengthen urgent health investment and accelerate long-standing support for private sector investment in more than 100 countries around the world.
- >>> An increase in the bank's capital is also on the table and could expand the EIB's lending capacity.

In this context, it will be crucial to ensure that the EU recovery plans do not exacerbate social inequalities and the climate and environmental emergency. Past mistakes that contributed to the vulnerability of our societies facing the crisis - such as financing the privatisations of public services - should not be repeated. The EIB has a responsibility in this regard since it channelled public funds to support the privatisation of the health sector (see for example cases of Public Private Partnerships in [Italy](#), as well as in Ireland and Sweden as described in pages 26 and 27 of our [report](#) on the Juncker Plan). The additional funding should protect the most vulnerable people and small businesses rather than those responsible for the fragility of our societies, and not destroy the chances of effectively transforming the EIB into the "EU Climate Bank".

Here are our key recommendations in this regard:

- >>> The objective to adopt the EIB's Climate Roadmap by the end of 2020 should be maintained. Indeed, the EIB should adopt an ambitious strategy to become the "EU Climate Bank" and set the long-term role of the EIB in steering our economies on a more sustainable and fair path. **The Climate Roadmap should ensure that its new counter-cyclical operations do not fuel projects and companies that run against the objectives of the Paris Agreement.** Any investments with long lasting unsustainable lock-in effects must be prevented.

 - >>> This means in practice that the climate commitments taken in November 2019 - from aligning all EIB operations with the Paris Agreement to the fossil fuels ban - should be the basis for EIB's future interventions and implemented as soon as possible. This should explicitly include intermediated operations via commercial banks and investment funds. Strong environmental and social standards should underpin all operations of the EIB, as part of its recovery package or not.
 - >>> In the transport sector, this would mean an end to support for carbon-intensive transport modes and infrastructure projects. The EIB should stick to its climate commitments and not use the new funds to help finance aviation and other polluting sectors which are experiencing economic difficulties and asking for public bail-outs without modifying deeply their business models.
- >>> Condition financing so that the companies supported by the new measures, including under the guarantee fund, are able to withstand future crises:

 - >>> The EIB should take the necessary measures to prevent any company receiving EIB support from paying dividends to its shareholders, giving out bonuses to its CEO or from carrying out share buybacks. It must help compel companies to **protect their employees**, safeguard employments and offer decent working conditions as a matter of priority.
 - >>> Require large and medium-sized companies supported by the EIB and the European Investment Fund (EIF), either directly or through financial intermediaries, to have a **credible plan for decarbonising their activities**, aligned with the objectives of the Paris Agreement.
 - >>> These conditions should also apply to all financial intermediaries asking for the EIB Group support and involved under the recovery plans.
- >>> The recovery plans of the EIB must contribute to the **EU Green Deal and its Just Transition Mechanism**. Challenges facing communities and regions already left behind or struggling with a green transition have been made even more acute with the Covid-19 crisis. Recovery plans must avoid business as usual and should secure greater investment in a carbon-neutral economy, offering social protection to the communities affected by decarbonisation.

 - >>> Priority should be given to investments in energy efficiency, building renovation, decentralized renewable energy sources, circular economy and other forms of infrastructures that are **connected to the needs of citizens and territories**.

- >>> Opening up EIB's support to **community-led initiatives and small-scale projects** would be an important step forward. The EIB should ensure sufficient human resources to be able to finance such projects and increase contacts with local and regional authorities and financial institutions like cooperatives and national public banks.
- >>> **Adopt a new approach towards the use of financial intermediaries:** the EIB's investment criteria - including social, environmental and climate criteria – should be applied to the financial intermediaries, which will be at the heart of the bank's action to support SMEs and the economic fabric of Member States. There is for instance a genuine risk that credit lines to commercial banks end up financing the fossil fuel and carbon heavy industry sectors and unsustainable large scale infrastructure projects.
- >>> The EIB should ensure that intermediated loans are subject to the **same transparency requirements** as other types of loans. The EIB needs to secure the human resources and methodologies in place to ensure this. As part of the review of its Environment & Social standards in 2020, a new standard on financial intermediaries should set this reinforced approach in stone.
- >>> **Financial instruments promoted by the EIB should not lead to privatisations and further financialisation of our economies.**
- >>> The securitisation programmes and intermediated operations promoted by the EIB and the EIF should have concrete impacts on the real economy, and not fuel the financial sector only to cover its losses.
- >>> The new guarantees proposed by the EIB should not reinforce the role of private finance and innovative mechanisms such as Public-Private Partnerships (PPPs). Public finance should work in the public interest and not focus primarily on furthering private interest. Assuming that promoting the private sector is in all of the public's interest is what led us to the current situation.
- >>> **The EIB should stop aggressively incentivizing and supporting PPPs and publicly recognise the financial and other significant risks** that this model entails, especially in sensitive public services sectors like health through its investments in hospital, healthcare and health innovation. The Covid-19 crisis in particular illustrates its failures, with the support for PPPs having played an important part in dismantling public health structures and undermining the universal right to health.
- >>> The new guarantee fund should **draw lessons and avoid reproducing the mistakes from the Juncker Plan**. Indeed, the set up of the previous European Fund for Strategic Investments (EFSI) could bear similarities with the one of the new guarantee fund. In particular, the following issues deserve particular attention:

 - >>> **Additionality of investments:** a clear additionality framework should be in place so that the EIB can in a transparent manner prove the additionality of its operations;

- >>> **Sustainability of investments:** During EFSI's pilot phase (2015 to 2018), despite the stated priority to support climate action, significant investments targeted unsustainable projects: EUR 2.6 billion in guarantees to fossil energy projects (more than the EUR 2.3 billion that supported energy efficiency) and 5 billion to high-carbon transport projects (in the transport sector, highways, airports, aircrafts and cars received 72% of EFSI's support whereas urban mobility and rail together received only 16% of transport investments);
- >>> **Geographical distribution:** most of the guarantees signed under EFSI were granted to projects in large member states. The EIB needs to deploy its financing more effectively across different states and regions and step up its support for European cohesion policies;
- >>> **Governance and transparency:** despite some progress in the final stages of the Juncker Plan's implementation, the EIB still failed to disclose key information on approved projects, even for investments in the public sector. The EFSI Investment Committee also did not make a significant difference in terms of independence and added-value to ensure the long-term orientation of projects financed.
- >>> The **European Court of Auditors** should obtain a full mandate to cover the EIB operations, not only under this recovery package but on the entirety of the bank's portfolio.
- >>> **Human rights abuses should not be the side effects of the EU Covid-19 crisis response.** Emergency situations should not fuel in any case human rights abuses and lead to ignoring meaningful engagement of all stakeholders and communities impacted by the EIB operations. The current situation is increasing the risk of reprisals (see for example this [statement](#) of Amnesty International), so planned efforts should make sure the '**do no harm**' principle is respected and should pay specific attention to the individuals most vulnerable to abuses associated with development finance.
- >>> Finally, a capital increase must be an opportunity to thoroughly reform the EIB to make it **a more sustainable, transparent and democratic bank**. If done right, public finance holds a genuine potential for steering the ecological transition, tackling social inequalities, and improving the long-term resilience of societies.

