

16 June 2023

RESTRUCTURING THE EIB TO MEET THE EU PUBLIC'S NEEDS

Dear European Ministers of Finance,
Dear EIB Board of Governors,

The EIB finds itself at a pivotal moment. This is the final shareholders meeting of current President Werner Hoyer's mandate. It is a moment to take stock and assess whether the bank is acting strategically to deliver on the most pressing needs of the European public.

How can €249 billion in subscribed capital - money coming from the taxes paid by people in the 27 EU Member States you represent - be leveraged in the most useful way to finance projects that will meet society's most important needs? This is the fundamental question we should ask ourselves in times when the climate and broader environmental emergency has combined with an unforeseen drop in living standards due to the cost of living crisis, past and future pandemics and increasing multilateralism. The EIB has been an international leader by becoming the first bank to stop lending for unabated fossil fuel projects. This was and remains an important step. Yet, the bank has enormous unrealised potential to use the economic power of its balance sheet to more effectively provide long-term solutions for the most important needs of the EU public.

The EIB positions [additionality](#) as central to its operations. However, we believe the current interpretation of 'offering financing conditions that can not be provided by the market alone' leads to too much derisking of private corporations and financial institutions that have ample access to finance. Additionality should focus more on guaranteeing affordable long-term access to the essential services which households and people need most in order to live decent lives while respecting environmental limits, such as high-quality affordable housing, utilities, transport and food. The less affluent a household is, the larger (and still growing) proportion of income it currently has to spend to access these services. Ensuring affordable and democratic access to them in the long term requires seeing them as public services.

This can be done by thoroughly evaluating whether projects and promoters have business models which ensure long-term affordable access to the essential services mentioned above. The EIB can achieve this by using the full capacity of its balance sheet to take on risks that directly support projects that address basic needs, democratising the bank and strengthening its investment and safeguarding policies.

- a** Currently the [economic appraisal of investment projects](#) is not very different from the methodologies used by commercial banks. A project's social and environmental benefits should carry important weight when it is appraised, including projects not supported by public guarantees.
- b** The EIB should recognise the [structural failure of markets to spark the real investment needed to deliver these services](#) and focus more on cooperation with non-market actors. Currently, a big part of the EIB's public investment power is being used to make public investments more attractive for private investors. Yet, this derisking should be put to use by working together with different national and regional state and other non-market actors. If public investment is financed in this way, more resources would become available for projects that have long-term economic viability and environmental and social benefits - but have below market level returns. The capacity to absorb risk for such projects could then be further enhanced by various forms of public guarantees. This is already the case, but is currently used to derisk private sector promoters and investors which expect unrealistic returns for projects that need to deliver affordable services to the people (in InvestEU for example).

c The EIB has room to adopt more risk by decreasing its profit target and increasing loan loss allowances for projects that have long-term economic viability and clear environmental and social benefits, yet have below market returns. The bank is currently too shy to play its role as a public bank. Despite its financial firepower, the bank has a very risk-averse investment strategy. It makes large profits, around €2.5 billion per year. The argument is sometimes made that the EIB cannot run more risk because it wants to keep its AAA status to borrow as cheaply as possible on financial markets. However, this seems to be overly cautious as the EBRD, a similar public investment bank, allows for over ten times more losses on loans than the EIB but still enjoys an AAA status by credit rating agencies.

Making large profits is not part of the EIB's mandate. There is ample room to aim for a far lower profit target and still run a sound financial bank. The EIB can and must use its unrealised potential to the fullest extent and finance more projects which provide the EU public with long-term, affordable access to crucial services for a decent life. It can do this while maintaining access to cheap finance on financial markets. Enhancing its risk-taking for such projects will also [enable the bank to overcome obstacles to climate finance](#) and fulfil its goal of becoming the EU Climate Bank.

d The EIB's current system of governance has a limited form of democratic accountability and control. Member States own the bank, but there are no mechanisms in place which allow parliaments, the public or civil society in the EU - the ultimate owners of the EIB - to take part in decision-making, evaluate the performance and co-create the strategy of the bank. The European Parliament's right to evaluate the bank should become binding, and democratic accountability should be created through a meaningful involvement of parliaments and civil society on Member State level. For operations outside the EU, governments and the people should equally have a place in the governance structure to defend their interests when the EIB decides which projects to finance in their countries.

e The current push for strategic control of supply chains, the development of green technologies and access to critical raw materials must not hijack the EIB. Adapting our economic model to social needs and environmental limits must be the top priority. In this context, the EIB must prioritise the improvement of its investment policies and safeguards to make sure it has a positive [environmental](#) and social impact, apply the highest standards for [protecting human rights](#) and [tackling corruption](#) and become [transparent](#) towards both the EU public and communities impacted by its operations outside of the EU.

We hope you will seriously consider our views and recommendations at this pivotal time. We remain available for questions, and look forward to your response.

Best regards,

Frank Vanaerschot
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