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REPORT

on the impact of the lending activities of the European Community in
developing countries
(2004/2213(INI))

Committee on Development

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MOTION FOR A EUROPEAN PARLIAMENT RESOLUTION

on the impact of the lending activities of the European Community in developing countries (2004/2213(INI))

The European Parliament,

- having regard to the report from the Commission to the Council and the European Parliament on the borrowing and lending activities of the European Communities in 2003 (SEC(2004)1073) and to the accompanying Commission staff working paper (SEC(2004)1074),
- having regard to the 2004 Annual Report on EC development policy and external assistance (SEC(2004)0536 and SEC(2004)1027),
- having regard to the study entitled ‘The European Investment Bank and the ACP Countries: An Effective Partnership?’, drawn up by the Commonwealth Secretariat,
- having regard to the document of the European Investment Bank (EIB) entitled ‘Development Impact Assessment Framework of IF Projects’,
- having regard to the negotiations under way concerning the review of the EIB’s external lending mandate,
- having regard to the external study commissioned by its Committee on Development entitled ‘The Development Impact of European Investment Bank (EIB) Lending Operations in the Cotonou and ALA Framework’¹,
- having regard to its resolution of 20 January 2000 on human rights violations in connection with the Chad/Cameroon oil and pipeline project²,
- having regard to its resolution of 5 February 2002 on the EIB Annual Report for 2000³,
- having regard to its resolution of 21 November 2002 on the EIB Annual Report for 2001⁴,
- having regard to its resolution of 22 April 2004 on the activity report for 2002 of the European Investment Bank⁵,
- having regard to the findings of the hearing held in its Committee on Development on 18 January 2005,
- having regard to Rule 45 of its Rules of Procedure,
- having regard to the report of the Committee on Development (A6-0183/2005),

¹ Project No EP/ExPol/B/2004/09/06.

² OJ C 304, 24.10.2000, p. 211.

³ OJ C 284 E, 21.11.2002, p. 111.

⁴ OJ C 25 E, 29.1.2004, p. 390.

⁵ Texts adopted on that date, P5_TA(2004)0371.

- A. whereas the European Investment Bank (EIB) is the world's largest public lender, its level of lending amounting to EUR 40 billion,
 - B. whereas the EIB operates in over 100 developing countries, in the Mediterranean region, in the African, Caribbean and Pacific (ACP) States, in Latin America and in Asia, implementing important EU development programmes in the Mediterranean region and in the ACP States, although the arrangements for lending to developing countries is not defined by a modern political mandate,
 - C. aware that the EIB has made great efforts in recent years to follow the constructive proposals put forward by the European Parliament,
 - D. whereas the EIB is currently reviewing its policy on public access to information which must take account of requirements resulting from the application to European institutions of the Aarhus Convention on Access to Information, Public Participation in Decision-Making and Access to Justice in Environmental Matters,
 - E. whereas the EIB operates as an independent bank that is, nevertheless, bound by commitments to its shareholders – the 25 Member States of the EU,
 - F. whereas, as far as its lending activities outside the EU are concerned, the EIB is taking the welcome step of giving practical expression in its new Development Impact Assessment Framework to the endorsement it gave in its 2004 Environmental Statement of the 'UNEP Statement by Financial Institutions on the Environment & Sustainable Development' and of the 'Equator Principles', at least for projects under the Cotonou Investment Facility,
 - G. aware of the particular risks surrounding lending in many developing countries, which the EIB must be in a position to combat,
 - H. aware of the efforts of the European Union and of the international community to make a long overdue, decisive breakthrough in development policy by putting the Millennium Development Goals (MDGs) into practice,
1. Thanks the EIB for its exceptional willingness to engage in dialogue and to provide information;
 2. Welcomes both the fact that the EIB supports the EU's development policy objectives set out in the Cotonou Agreement and defined in accordance with the eight MDGs and the fact that the EIB stipulates that lending be conditional on the relevance of the projects being supported to the attainment of the MDGs with its new Development Impact Assessment Framework for projects under the Investment Facility; calls, however, for these criteria to be extended to cover all projects supported by the EIB in developing countries;
 3. Calls on the EIB, when evaluating the success of its projects, to adopt also the key indicators defined by the Commission with regard to the MDGs and to integrate them into its Development Impact Assessment Framework; recommends that the EIB set up an

independent evaluation unit, responsible only to the Board of Directors, thereby meeting the standards set by multilateral development banks;

4. Calls on the Commission to ensure better integration of the EIB and of its project planning into the planning of the Commission and of the Member States, in accordance with the commitments made in Barcelona with regard to improved coordination and harmonisation of development policy measures;
5. Commends the EIB for signing the Memorandum of Understanding with the Commission and the World Bank of May 2004 and calls on the EIB also to step up the coordination of objectives, criteria and methodology with the European Development Finance Institutions (EDFI) and cooperation within the Interact Network in order to guarantee that EIB funding is used in a way that complements the measures taken by the Commission and by the Member States;
6. Commends the setting-up by the EIB and ten of the EDFI partners of European Financing Partners S.A. and calls on the EIB to strive for more Community-funded projects with other development finance institutions and, in particular, to consider risk-sharing models involving the taking on of a first-loss tranche;
7. Recommends that the Commission and the EIB propose to the Council and Parliament a new integrated approach and organisation for the programming and delivery of EU external assistance, within the framework of the preparation of the future financial perspectives of the EU and of the next generation of EIB external mandates; this proposal should allow an optimal exploitation of potential synergies between the human and financial resources of the Commission, the EIB and bilateral development agencies, and aim at reinforcing the overall effectiveness, coherence, transparency and visibility of EU external assistance, notably for the achievement of the MDGs;
8. Commends the EIB for taking into account the positions of NGOs and of the public as early as in the follow-up stage to project monitoring, but calls on the EIB, in the interests of increasing local participation and acceptance, to carry out this consultation at the pre-appraisal stage of credit authorisation and to document the outcome thereof for the Commission and the Member States;
9. Commends the integration of the environmental impact assessment and the environmental impact statement into the EIB's project cycle but recommends as a matter of urgency that the social and employment policy consequences of investment also be taken into account, in a manner in keeping with the MDG indicators, in the catalogue of the documents pertaining to authorisation analysis;
10. Calls on the Member States, as the Bank's shareholders, to provide the EIB with a development policy mandate appropriate to attaining the MDGs for the ALA region and to distance themselves from the priority hitherto awarded to external economic aid;
11. Calls on the Council to increase the level of funding for EIB activities in the ALA region and expects the EIB to give priority to economically weaker countries in its commitments to that region;
12. Recommends that the EIB expand its strategy paper entitled 'Funding of Reconstruction

and Restoration Projects following Natural Disasters' to include regions beyond the Union and applicant countries and recommends that the Council and the Commission draw up an emergency aid mandate for the EIB which would allow the Bank to provide efficient and region-specific construction aid independently of the criteria currently set by external economic aid, for example in the ALA region;

13. Calls on the Council and the Commission to make the necessary resources available so that the funds made available by the EIB for tsunami reconstruction aid, in line with the criteria of the International Development Agency (IDA), may be duly allocated;
14. Calls on the Commission, together with the EIB, to enter into negotiations with the IMF with the aim of enabling projects pertaining to services of general interest in the public sector in developing countries to be financed so as to achieve progress in the area of publicly funded general interest services and, in this way, to prepare the ground for private sector investment;
15. Calls on the EIB to make greater use of the interest subsidy instrument provided for in the Cotonou Agreement in order to enable indebted developing countries to benefit from investment in the area of public services of general economic interest;
16. Calls on the EIB to update its sectoral objectives in terms of its credit policy towards developing countries, particularly in the areas of energy, forestry, transport, water and waste management, and to take into account its analyses of the reasons why private investors have withdrawn from these areas;
17. Recommends the establishment of an EIB budget line for knowledge transfer and technical support;
18. Expects the EIB, on the basis of the positive experiences of its first projects, to step up significantly its commitment to 'micro lending' and, at the same time, to provide particular support for aid aimed at helping women set up in business; calls on the EIB in so doing to follow the recommendations of the Consultative Group to Assist the Poor (CGAP) produced in cooperation with the Commission;
19. Asks the EIB to provide a greater proportion of credit in local currencies and to investigate the possibilities of supporting local currencies through an EIB commitment;
20. Calls on the Commission to produce a study before the end of 2005 which would evaluate whether the issuing of 'Eurobonds', comparable with US Treasury Bonds, might create considerable resources allowing greater EIB involvement in the achievement of development policy objectives;
21. Asks the EIB to commission in the short term a feasibility study into whether regional funds could be set up in Africa, Asia and Latin America, comparable with the Asian Development Fund proposed by the Japanese Government, through start-up funding in euro and EIB share ownership;
22. Expects the EIB to develop further its guidelines on lending to the private sector, which should be founded on respect for human rights, maintenance of environmental and social standards in line with existing international standards, compliance with ILO labour

standards and, where appropriate, compliance with OECD guidelines for multinational enterprises, and expects the EIB to monitor compliance with those guidelines;

23. Calls on the EIB to align its 'Development Impact Assessment Framework of Investment Facility Projects' with international standards of development assessment, and to facilitate the inclusion of comments by Parliament and international civil society in this revision process;
24. Calls on the EIB in particular not to support projects that lead to the destruction of natural habitats, contribute to the illegal exploitation of natural resources, involve the production of substances banned or intended to be banned in the EU or finance the building of dams that do not comply with the World Commission on Dams (WCD) criteria; calls on the EIB to adopt the recommendations laid down in the World Bank's 'Extractive Industry Review' (January 2004);
25. Calls on the EIB to make sure that its lending in the ALA and ACP regions is accompanied by measures to improve the environmental sustainability of loans, inter alia through:
 - the financing of projects in all of the four EIB 'environment' categories including, in particular, projects for the protection of the natural environment;
 - an assessment of all hydropower projects early in the project cycle against the guidelines of the World Commission on Dams (WCD);
 - in line with the MDGs, an increase in lending in the water sector from the current 3 % for ACP and 8 % for ALA countries to at least 20 % of its regional lending portfolio, particularly through lending to local companies for sustainable micro-projects;
 - an increase in lending for renewable energy projects in the ACP and ALA regions reflecting the global commitment of the EIB to reach 15 % of lending to renewables of the total energy portfolio by 2006 and 50 % by 2010;
26. Calls on the Commission to support increased EIB lending for environmental projects in the ALA and ACP regions through the granting of interest subsidies of 3 %, as is successfully practised in the MEDA Framework, and through the granting of interest subsidies of 5 % for new renewable sources of energy projects;
27. Asks the EIB to take effective measures against corruption and money laundering and, as part of a comprehensive anti-corruption policy, to commit itself to supporting contracts resulting from an open and transparent negotiating process that oblige the EIB's clients in developing countries to demonstrate that they have internal revision systems capable of identifying bribery and corruption; further asks the EIB to investigate and to pass on to the relevant authorities all accusations of corruption and to impose appropriate sanctions on those found guilty;
28. Calls on the EIB to continue to develop its Inspectorate General into an independent complaints mechanism to which complaints may be addressed regarding any of the project approval criteria, without going via the European Ombudsman, thereby making it open

not only to EU citizens but also to the people affected by EIB-funded projects in developing countries;

29. Calls on the EIB to employ a less conservative risk management strategy with regard to lending in developing countries, which it could support by directing profits from projects financed by development funding made available by the Member States into a risk fund to enable the financing of more very high-risk projects; calls on the EIB to make use of the instrument of subordinated tranches for high-risk Community-funded projects;
30. Calls on the EIB to bring its activities into line with the International Finance Corporation (IFC) with regard to the transparency of the projects for which support is provided;
31. Calls on the EIB, in the interests of providing the best possible support for small and medium-sized enterprises, to establish on-the-spot representation and, in future, to make full use to this end of all the resources made available to it for the management of the investment facility, as well as to consider arranging lending to such clients through institutions operating as clearing houses and made up of external experts in order to allow loan recipients to take advantage of favourable terms, in the true spirit of an investment bank in the risk capital sector and, at the same time, to develop a separate credit line to support the local private banking sector;
32. Recommends the introduction of a continuous dialogue between its Committee on Development and the EIB;
33. Calls on the Commission to report to it and to the Council each year on the success achieved by the programmes implemented in coordination with the EIB with regard to the MDGs;
34. Calls on the Commission to submit to Parliament, by September 2005, an interim report on the state of negotiations concerning the review of the EIB's external lending mandate;
35. Calls on the Commission to produce a study before the end of 2005 on the financial, political and legal opportunities for strengthening the development mandate and lending operations of the EIB through the setting up of a separate loan facility, as a specific entity within the EIB Group, with due attention being paid to the need to maintain the AAA credit rating of the EIB Group;
36. Calls on the Council and the Commission to support Parliament's requests with regard to the EIB;
37. Instructs its President to forward this resolution to the Council and Commission, the governments and parliaments of the Member States, the European Investment Bank, the ACP-EU Council, the United Nations and the World Bank.

EXPLANATORY STATEMENT

In its 2004 Annual Report on EC Development Policy and External Assistance, the European Commission states that the European Union and its Member States declare their clear support for the United Nations' Millennium Development Goals. In addition to their other instruments for financing development policy, the EU Member States have at their disposal a credit instrument, in the form of the European Investment Bank (EIB), that is the envy of the world.

The EIB proudly describes itself in its promotional material as the EU's 'policy-driven bank'. However, in the EIB's activities outside the European Union, recent developments in the development policy objectives set by the countries that are the Bank's shareholders have not had the requisite effect.

The agreement reached on the Millennium Development Goals in September 2000 was intended to be a historical contribution to harmonising and increasing the efficiency of worldwide development activities. When the achievements to date are analysed at a United Nations conference in September 2005, the EIB will also have to answer questions about the contribution that it has made towards the attainment of the objectives shared by all.

It is true that the EIB views its contribution to fighting poverty, a task conferred on it with respect to the ACP States by the Cotonou Agreement, principally in stimulating investment in the private sector. It rightly states that it does not even have a development policy mandate for the ALA (Asia and Latin America) region, but it is becoming active there, principally on the basis of criteria relating to external economic support.

However, it is in keeping with the will of the Member States, as expressed in the agreements reached over the MDGs, that activities supporting the private sector should not be carried out in isolation but placed in the context of attaining all the objectives. The EIB currently lacks the means to measure the efficiency of its lending activities against these objectives. As a result, the Bank is failing to live up to the efforts of the Commission, which has identified a set of 10 main indicators to help evaluate MDG-oriented projects from the 48 indicators included in the MDGs.

There is also a lack of coordination between the EIB's development activities and those of the Commission and of the Member States. The effect in practice is that these uncoordinated activities prove counterproductive. The Bank, the Commission, the Member States, the European Parliament, the representatives of the countries targeted and NGOs should, in future, all sit at the same table in order to achieve the important objective of harmonising and increasing the efficiency of development policy measures.

Measures must also be tailored to the experience acquired since the signing of the Cotonou Agreement. Strict emphasis on developing income from private investment, as is still expressed in the Agreement, has proved ineffective, particularly in the area of services of general interest. The EIB itself considers that there has been a widespread withdrawal of investors in the water and electricity sectors in the interim. Attainment of the Millennium Goal of halving the number of people without access to clean drinking water by 2015 will be possible only if the public sector is given responsibility for provision and put financially in a position to do so.

The Bank rightly indicates that IMF conditions generally make it impossible to finance projects in the public sector. Therefore, it is a matter of urgency for investments for services of general interest to be taken from the IMF's calculation of national budgets. If the people dying as a result of a lack of clean drinking water were customers of major life assurance companies, there would perhaps already be a greater readiness to ignore the assessment criteria.

Particularly in the water sector, the EIB's experts recommend mixed financing packages as the best way forward, made up of loans and cofinancing from donor countries. Positive results in this area have been achieved by Germany's *Kreditanstalt für Wiederaufbau* [Credit Institution for Reconstruction].

A mixed package made up of repayable and non-repayable loans, comparable with support for projects on the basis of IDA criteria, would also be required in order to maximise the efficiency of EIB activities in exceptional situations, such as reconstruction measures after natural disasters. A topical example is the need for the world to show its solidarity and ability to act effectively in the aftermath of the tsunami disaster. The European Union wants the EIB to make EUR 1 billion in project funding available for essential reconstruction in the affected region. However, considerable structural obstacles currently hamper the development of this funding. While the ALA III mandate allows the EIB to act in the region, the projects that it supports in so doing must serve European economic interests or involve European firms. It would be a political scandal if the EU were manifestly to line its own pockets on the back of loans for the region granted through measures of external economic support. Only an extension of the ALA mandate to include development policy goals or the creation of a special emergency aid mandate can avert such a scandal.

Another central obstacle to the deployment of available EIB funds in the countries affected is the deplorable state of affairs whereby countries that want to accept these funds will have their international credit rating lowered as a result, thereby making future loans more expensive. This report therefore recommends that a mixed financing package based on the IDA criteria be used generally in disaster situations in order to allow the intended transfer of funds to take place at all. The Commission must not, of course, make the money required for this available by transferring it from funding earmarked for other poor regions.

In order to create an opportunity out of the tsunami crisis, the resources and measures identified as necessary in this connection must be combined in a new emergency aid mandate which incorporates the EIB's past wisdom and experience as set out in its strategy paper 'Funding of reconstruction and restoration projects following natural disasters'.

However, improvements can and should also be made to the current EIB project cycle, although this report readily acknowledges that the EIB has made great efforts in this area in recent years and has made good progress. Particularly worthy of praise in this area is the integration of the environmental impact assessment and the environmental impact statement in the project authorisation process, as well as the planned analysis of questions posed by NGOs and by the public. This last point, however, still seems to have too little impact in practice. In general, consultation of people in the region and the structures involved, as well as of experts from NGOs working in the region and beyond, should take place earlier in the project cycle.

This would also be helpful for participatory project devising and evaluation, an aspect of

development aid generally viewed as being of decisive importance. To do so would help issues related to evaluating the consequences in terms of social affairs and employment to be integrated from an early stage. Such questions are understood in this report to involve specifically the evaluation of consequences for women in terms of employment policy and social affairs and the consequences for children in terms of social affairs and education policy. The EIB's project cycle currently fails to include any statement whatsoever about those consequences, but it is vital in the context of the MDG criteria. By taking greater account of regional participation in the profits that result from investment, the EIB would be able to counter the justified criticisms that have been expressed not least by the European Parliament with regard to support for the Chad/Cameroon pipeline project, for example.

Projects of this kind should, however, disappear completely from the EIB's financing list, in particular in response to the findings of the World Bank report 'Extractive Industry Review' of January 2004.

After all, the Millennium Development Goals will not be the only basis for the EIB's financing criteria in the 21st century. The wealth of knowledge provided by expert rounds of the World Commission on Dams (WCD) and by institutions such as the International Labour Organisation (ILO), by regional UN commissions (UNECA and others), by the OECD and its guidelines for multinational enterprises or by the United Nations and its agencies should be reflected in the lending guidelines followed by a modern EIB. If the EIB is unwilling to employ its own staff qualified in these subject areas, it should consider making use of external expertise to revise its guidelines accordingly.

Cooperation with external expertise seems currently to be generally underdeveloped at the EIB in comparison with commercial banks or indeed with other development banks. This poses considerable problems for the Bank with regard to evaluating projects using the yardsticks referred to in this report. In particular, the global support instrument seems to escape evaluation to a large extent. This creates the impression in target countries that, while the instrument may be suited to financing the development of the private banking sector, it is not suitable for making available the investment resources to small and medium-sized undertakings in the Caribbean region, for example, on the favourable terms originally intended. If more successful work is to be done in future to attain the last-named objective, it would be advisable to set up a clearing house, consisting of regional and independent experts, in each of the regions receiving support, which would accompany the development of every project cycle from its launch to the evaluation of its success. Such an agency could also be of enormous significance in the important area of combating corruption.

In striving to increase the level of effectiveness of the European Community's lending activities in developing countries, as well as the level of effectiveness of its most important instrument, the EIB, this report welcomes the excellent dialogue with the EIB and the EIB's exceptional willingness to share information during the consultations, and strongly supports the consistent development of cooperation between the European Parliament and the EIB.

Forthcoming stages of this cooperation are the conference evaluating the MDGs in September 2005 and the planning of Community activities for North-South cooperation for the budgetary period 2007-2013. In addition, it would be advisable to ensure that academic expertise and expertise from NGOs specialising in development are better integrated in this constructive dialogue. If that were to be done, this report could mark the beginning of increased

cooperation between the EIB and other important actors on the development cooperation stage.

PROCEDURE

Title	The impact of the lending activities of the European Community in developing countries		
Procedure number	2004/2213(INI)		
Basis in Rules of Procedure	Rule 45		
Committee responsible Date authorisation announced in plenary	DEVE 18.11.2004		
Committee(s) asked for opinion(s) Date announced in plenary			
Not delivering opinion(s) Date of decision	BUDG 31.1.2005		
Enhanced cooperation Date announced in plenary			
Motion(s) for resolution(s) included in report			
Rapporteur(s) Date appointed	Gabriele Zimmer 6.10.2004		
Previous rapporteur(s)			
Discussed in committee	18.1.2005	15.3.2005	6.6.2005
Date adopted	6.6.2005		
Result of final vote	for:	26	
	against:	1	
	abstentions:	0	
Members present for the final vote	Margrete Auken, Danutė Budreikaitė, Alexandra Dobolyi, Michael Gahler, Hélène Goudin, Jana Hybášková, Filip Andrzej Kaczmarek, Glenys Kinnock, Ģirts Valdis Kristovskis, Maria Martens, Miguel Angel Martínez Martínez, Gay Mitchell, Józef Pinior, Jürgen Schröder, Feleknas Uca, Margrietus van den Berg, Anna Záborská		
Substitutes present for the final vote	John Bowis, Milan Gaľa, Ana Maria Gomes, Bernard Lehideux, Manolis Mavrommatis, Karin Scheele, Zbigniew Zaleski, Gabriele Zimmer		
Substitutes under Rule 178(2) present for the final vote	Syed Salah Kamall, Carl Schlyter		
Date tabled – A6	9.6.2005	A6-0183/2005	