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## **REPORT**

on the European Investment Bank's annual report for 2006  
(2007/2251(INI))

Committee on Budgetary Control

Rapporteur: Jean-Pierre Audy

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## MOTION FOR A EUROPEAN PARLIAMENT RESOLUTION

### on the European Investment Bank's annual report for 2006 (2007/2251(INI))

*The European Parliament,*

- having regard to Articles 266 and 267 of the EC Treaty, on the subject of the European Investment Bank (EIB), and to the Protocol (No 11) on the Statute of the EIB,<sup>1</sup>
- having regard to Article 248 of the EC Treaty, on the subject of the role of the Court of Auditors,
- having regard to the Treaty of Lisbon, signed on 13 December 2007 by the Heads of State and Government of the Member States of the European Union,
- having regard to its resolution of 15 February 2007 on the EIB annual report for 2005,<sup>2</sup>
- having regard to the Council Decision of 19 April 2007 on the Community participation in the capital increase of the European Investment Fund,<sup>3</sup>
- having regard to the Court's judgment of 10 July 2003 on the subject of the power of the European Anti-Fraud Office (OLAF) to investigate the EIB,<sup>4</sup>
- having regard to the Council Decision of 19 December 2006<sup>5</sup> granting the EIB a new mandate authorising it to grant loans to the value of EUR 12,4 billion to the neighbouring countries of the European Union,
- having regard to Regulation (EC) No 680/2007 of the European Parliament and of the Council of 20 June 2007 laying down general rules for the granting of Community financial aid in the field of the trans-European transport and energy networks<sup>6</sup> and to Decision No 1982/2006/EC of the European Parliament and of the Council of 18 December 2006 concerning the Seventh Framework Programme of the European Community for research, technological development and demonstration activities<sup>7</sup> (which relates to the Risk-Sharing Finance Facility (RSFF)),
- having regard to the signing on 11 January 2008 by the EIB and the Commission of the cooperation agreement establishing the Loan Guarantee Instrument for Trans-European Transport Network Projects (LGTT),
- having regard to Decision 1639/2006/EC of the European Parliament and the Council of 24 October 2006 establishing a Competitiveness and Innovation Framework Programme

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<sup>1</sup> Protocols annexed to the Treaty establishing the European Community.

<sup>2</sup> OJ C 287 E, 29.11.2007, p. 544.

<sup>3</sup> OJ L 107, 25.4.2007, p. 5.

<sup>4</sup> Case C-15/00 ECR 2003, p. I-07281.

<sup>5</sup> OJ L 414, 19.12.2006, p. 95.

<sup>6</sup> OJ L 162, 22.6.2007, p. 1.

<sup>7</sup> OJ L 412, 30.12.2006, p. 1.

(2007 to 2013),<sup>1</sup>

- having regard to the EIB’s 49<sup>th</sup> annual report (2006) and to its policy of disclosure of 28 March 2006,
  - having regard to the ‘European Principles for the Environment’ launched by the EIB in 2006,
  - having regard to the Bank’s Operational Plan 2007-2009, as approved by its Board of Directors at its meeting of 12 December 2006,
  - having regard to the speech delivered by Mr Philippe Maystadt, President of the EIB, to the Committee on Budgetary Control on 11 September 2007,
  - having regard to the financial statements for 2006, which have been approved and given a favourable audit opinion by an independent auditor and by the EIB’s Audit Committee,
  - having regard to the study on the new financial instruments for European transport infrastructure and services,<sup>2</sup>
  - having regard to the work and conclusions of the symposium held in Clermont-Ferrand (France) on 14 December 2007 on the subject of the ‘planning and development of the territory of the European Union: the challenge of investments in the Union and their funding: the place of the European Investment Bank’,
  - having regard to Rules 45 and 112(2) of its Rules of Procedure,
  - having regard to the report of the Committee on Budgetary Control (A6-0079/2008),
- A. whereas it is the task of the EIB to contribute towards the steady, balanced development of the common market, using the capital markets and its own funds,
- B. having regard to the role of the EIB in the harmonious development of the Community as a whole and in reducing the disparities in the development of the various regions, including the most remote regions,
- C. having regard to the capital subscribed, which amounted to EUR 163,7 billion on 31 December 2006, of which the Member States have paid up EUR 8,2 billion,
- D. whereas the Statute of the EIB provides that the totality of the loans and guarantees granted by the EIB must not exceed 250% of the capital subscribed,
- E. whereas the EIB is not subject to the Basel II obligations, but has decided to comply voluntarily with these rules in so far as they are applicable to its activities,
- F. having regard to the agreement by the Luxembourg Financial Sector Supervisory Commission to monitor closely the EIB’s management and risk policies, but only in an

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<sup>1</sup> OJ L 310, 9.11.2006, p. 15.

<sup>2</sup> PE 379.207, IP/B/TRAN/IC/2006-184.

informal and purely consultative capacity, leaving it to the EIB to define the framework for application of Basel II in the light of its own needs,

- G. whereas the EIB has made the reliable, competitive and sustainable energy supply one of its priorities, in addition to the following: economic and social cohesion, support for research, technologies and innovation, trans-European transport and energy networks, long-term viability of the environment, the fight against climate change, and support for small and medium-sized enterprises (SMEs),
- H. having regard to the European Union's considerable infrastructure financing needs, which are assessed at EUR 600 billion,<sup>1</sup>
- I. having regard to the crucial role of the EIB in developing trans-European networks by making various instruments and mechanisms available,
- J. having regard to the difficulties encountered by the European Union in funding projects that are European in scale, such as the Galileo project,
- K. having regard to the quality of the EIB's human resources, particularly in terms of financial engineering and help in setting up projects,
- L. having regard to the prominent role played by the EIB in financing projects in the developing countries,

#### ***General remarks***

1. Congratulates the EIB on its 2006 activity report and encourages it to continue with its activities to promote the development of the European economy and foster growth, job creation, and interregional and social cohesion;
2. Welcomes the EIB's transparency and its total cooperation with Parliament;
3. Calls for an information session on – at least – an annual basis between the EIB and Parliament's Committee on Budgetary Control regarding the execution of the European Development Fund (EDF) investment facility, in parallel with the EDF discharge procedure;

#### ***Budgetary control and management***

4. Invites the EIB to make every effort to retain the AAA rating which safeguards the bank's activities and the best rates for its loans, and to adapt its prudential policy with this in mind without, however, neglecting very long-term investment;
5. Emphasises that the EIB pursues a 'zero-tolerance' policy towards fraud and corruption, and welcomes the rise in the number of investigations and the increased cooperation with OLAF; also calls on the EIB to adopt an Anti-fraud Policy and Procedures which include measures leading to:

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<sup>1</sup> PE 379.207, IP/B/TRAN/IC/2006-184.

- i) an administrative debarment mechanism for companies found guilty of corruption by the Bank and other Multilateral Development Banks;
  - ii) a whistleblower protection policy, and
  - iii) a review of the existing procurement guidelines;
6. Welcomes the existence of a complaints office to receive and deal with external complaints, as well as of an appeals mechanism for complaints received via the European Ombudsman; welcomes and actively supports dialogue between the European Ombudsman and the EIB; calls on the EIB to consequently review its internal grievance mechanism and issue new appeal mechanism guidelines extended to all EIB financed operations;
7. Welcomes the EIB's desire for transparency in the framework of its disclosure policy, and the large amount of information that it makes available to the general public, including, annually, the lists of projects funded, with brief information concerning those projects; encourages the EIB to develop the activities of its 'Operations Evaluation' department, which carries out an *ex post* evaluation of a representative sample of projects and programmes;

*Accounting and prudential control mechanisms and result measurement mechanisms*

8. Notes the favourable opinion of the external audit and the conclusions of the annual report of the Audit Committee; reiterates its desire to see the EIB subject to the same prudential rules as credit establishments and to real prudential control, while at the same time noting that these rules do not apply to comparable international financial institutions;
9. Calls for an independent regulatory mission to be established to oversee the quality of the EIB's financial situation and ensure that its results are accurately measured and the profession's rules of good conduct observed;
10. Suggests that the EIB apply to the Committee of European Banking Supervisors (CEBS) for an opinion on this supervisory mission, which should state who could carry it out pending the establishment of an official European banking regulator; suggests that every possible scenario should be envisaged, including, for example, involvement of the CEBS, of a national regulator or of a number of national regulators on an annually rotating basis;
11. Congratulates the EIB on its efforts in introducing International Financial Reporting Standards (IFRS) into its consolidated financial statements, as well as into those of the European Investment Fund (EIF), for which 2006 was the first financial year in which the IFRS accounting standards were applied;
12. Shares, on condition that full information is given to third parties, the EIB's reservations about applying IFRS accounting standards too hastily to the statutory accounts, before broad consensus has emerged in the Member States regarding, for example, fair value

accounting, which could introduce a large element of volatility into the determination of the EIB's unconsolidated financial results;

13. Recommends, nevertheless, that a technical watch be kept on this issue, which will become crucial in terms of presentation, approval and use of accounting results with the development of venture capital operations, financing of SMEs and the financial engineering that the European Union will have to put in place to finance its infrastructure;
14. Notes the methodological choices adopted by the EIB to assess credit risks with a view to offsetting the disadvantages arising from lack of experience of losses on credits, while drawing attention to the need to introduce preventive measures to minimise the risks as regards maximum safeguarding of financial resources with a view to ensuring implementation of the goals of European policy;
15. Notes the efforts made to overcome these difficulties on the basis of techniques for transposing internal and external parameters, and wishes to receive information about the new methods introduced to rate EIB clients and evaluate credit risks; notes, with reference to securitisation operations, that the simplified approach adopted at present could be reviewed at a future time;
16. Hopes, with regard to the application of Basel II, that the EIB can show its ability to carry out its mission with its own funds – EUR 33,5 billion – and to maintain the best rating – AAA;

### ***Strategy and objectives***

17. Welcomes the approach of the new strategy for 2007-2009, including the reinforcement of value added, the gradual increase in risk taking, inter alia in activities for the benefit of SMEs and local government, the use of new financial instruments and the stepping-up of cooperation with the Commission; unreservedly supports the Bank's programme of activities for 2007-2009;

### ***New strategic priorities and instruments***

18. Welcomes the inclusion of promoting reliable, competitive and sustainable energy in the main features of the Bank's programme of activities, including alternative and renewable energy sources and calls for the development of environmentally friendly funding criteria, in line with the European Union's strategic goals of reducing greenhouse gas emissions;
19. Welcomes the fact that sustainable development remains a fundamental requirement for the EIB; congratulates the EIB on its excellent results in terms of loan activity for environmental protection and social and economic cohesion; encourages the EIB to reinforce its environmental and social policies, to further improve and update its current standards, in particular concerning its external lending activities and to ensure the coherence of these activities, more specifically on the African continent, with the

European Consensus on Development<sup>1</sup> and the achievement of the UN Millennium Development Goals ; asks the EIB to ensure that it engages actively with civil society, inter alia via consultation procedures;

20. Congratulates the EIB on the framework contracts signed by the Bank and the Commission: the RSFF and the LGTT; encourages the Commission and the EIB to develop more joint instruments in support of European Union policies, while making efforts to mobilise more private capital to fully ensure implementation of the EIB priority goals;

*Financing major infrastructure projects*

21. Recalls that the EIB must avoid all competition with the private sector, even though acting complementarily with it, in seeking an optimal leverage effect for financing European projects;
22. Reiterates its encouragement to the EIB to give priority to funding Trans-European Networks (TENs), including cross-border infrastructure that enables national networks to be interconnected, which is an essential element in developing a market economy centred upon social cohesion; calls on the EIB, with regard to the funding of TENs, to give priority to infrastructure or transport projects with a lower or negative carbon footprint;
23. Suggests that, given the quality of the EIB's human resources, its detachment and its experience of financing major infrastructure, the Commission should give it the task of carrying out a strategic reflection on the funding of infrastructure, taking into account the need for balanced regional development and excluding no possible scenarios: subsidies, payment of sums subscribed by the Member States to the EIB's capital, loans (including EIB loans, for example those financed by special loans from the Member States<sup>1</sup>), innovative instruments such as the RSFF and the LGTT, financial engineering appropriate to long-term projects that are not immediately profitable, development of guarantee systems, creation of an investment section within the European Union budget, financial consortia between European, national and local authorities, public-private partnerships etc.;

*Help for SMEs*

24. Calls on the EIB to ensure that enough venture capital is made available to SMEs which experience difficulty in attracting venture capital; welcomes the launch of the JEREMIE joint initiative (Joint European Resources for Micro to Medium Enterprises) developed in 2005 by the Commission's Regional Policy Directorate-General and the EIB to give businesses better access to financial engineering mechanisms, and encourages the

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<sup>1</sup> Joint statement by the Council and the representatives of the governments of the Member States meeting within the Council, the European Parliament and the Commission on European Union Development Policy: 'The European Consensus' - The European Consensus on Development (OJ C 46, 24.2.2006, p. 1).



development of the Competitiveness and Innovation Programme (CIP) in the framework of the Lisbon Agenda priorities;

25. Recalls that Parliament approved the Community's participation in increasing the EIF's capital in order to make available to the EIF the resources it needs to fulfil its task and implement the policy of economic and social cohesion;
26. Confirms the need to provide a better response to the shortcomings in the market for financing SMEs and encourages the Commission, the EIB and the EIF to continue with the diversification of Community financial instruments upstream (technology transfer) and downstream (mezzanine capital) of venture capital, and to promote the development of micro-credit in Europe in the framework of the new European initiative for the development of micro-credit in support of growth and employment (COM(2007)0708);

#### *Help with setting up projects*

27. Emphasises the role of the EIB's expertise in setting up projects, thanks inter alia to the JASPERS programme (Joint Assistance for Preparing Projects in European Regions); recalls that an important added value of the EIB lies in its engineering capacity in setting up financing for projects and public-private partnerships, not least in the framework of the EPEC (European Public-Private Partnership Expertise Centre), and calls on the EIB to communicate better with project leaders at local level on the technical help it can provide;
28. Congratulates the EIB on the opening of new offices in the Member States, which will give the EIB better visibility and greater proximity to project leaders with a view to facilitating projects and will assist the EIB in forging closer links with organisations, institutions, and local authorities as regards the favourable development of the policy of the European Union of balanced regional development as well as the accelerated involvement of the countries that have joined the European Union since 2004;

#### *Operations outside the European Union*

29. Notes with satisfaction the favourable conclusions of the review of the activities of the Facility for Euro-Mediterranean Investment and Partnership (FEMIP); on the basis of that review, welcomes the call from the Council to develop the FEMIP still further in order to strengthen the Euro-Mediterranean partnership; hopes, against this background, that the loans mandate given to the EIB for the period 2007-2013, supplemented with the appropriate budgetary resources, will enable the process of regional economic integration to be speeded up;
30. Calls on the EIB to operate in developing regions in line with the principles of the Paris Declaration on Aid Effectiveness, which was endorsed on 2 March 2005, particularly in delivering effective aid, enhancing mutual accountability, and adopting measurable development indicators;
31. Takes the view that the FEMIP must continue to be the pivot around which any European initiative carrying forward the ambition to further develop the Mediterranean region is

structured;

32. Encourages the EIB to pursue its policy of diversified emissions in different world currencies, including the currencies of the emerging countries, while always continuing to cover itself against exchange risks;

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33. Instructs its President to forward this resolution to the Council, the Commission, the European Investment Bank, the governments and parliaments of the Member States.

## EXPLANATORY STATEMENT

The European Investment Bank (EIB), which was created by the Treaty of Rome, is celebrating its fiftieth anniversary in 2008. Its members are the Member States of the European Union, whose Finance Ministers make up its Board of Governors. Its task is to contribute, using the capital markets and its own funds, to the steady, balanced development of the common market in the interests of the Community.

It is a Community instrument, but one within which power is exercised intergovernmentally.

Since 1999 the European Parliament has regularly given an opinion on the EIB's activity report. As regards the relations established between the EIB and the European Parliament, your rapporteur wishes to emphasise the total cooperation shown by the EIB under the leadership of its President, Philippe Maystadt, and the high quality of the contacts and information offered to Parliament. This desire for transparency is also manifested in the information made available by the Bank to the general public, inter alia on its website ([www.eib.org](http://www.eib.org)).

This report has no legislative purpose, of course, but is intended to express the opinion of the representatives of Europe's citizens at a time when the European Union is faced with the need to produce results for those same citizens, who, often without knowing it, are the beneficiaries of the EIB's work. In this report the European Parliament has the opportunity to give a political assessment of the activities and management of the EIB; in it the rapporteur invites his colleagues to congratulate the EIB on its work and its ambitious programme of activities.

It may be noted that until now the task of drafting the report on the EIB's annual report has been entrusted to the Committee on Economic and Monetary Affairs; however, the European Parliament's Rules of Procedure stipulate that the responsibilities of the Committee on Budgetary Control include *'the control of the financial activities of the European Investment Bank'*. Your rapporteur has interpreted this responsibility in broad terms, while nonetheless paying particular attention to matters of financial control, including regulation of banking activities.

*Budgetary control and management: the rapporteur proposes a banking regulatory mission for the EIB*

In terms of control mechanisms, the EIB has its own internal control mechanism: the general inspection. External control is carried out by an audit office of international repute and an audit committee. In addition, the EIB points out that its management was also scrutinised by the rating agencies, which awarded it the maximum rating – AAA. The rapporteur felt that the time had come to put in place a real banking supervisory control. He suggests that the EIB itself should apply to the Committee of European Banking Supervisors (CEBS) to look into the conditions for this supervisory mission and, inter alia, to determine who could carry it out in the absence, which the rapporteur finds regrettable, of an official European banking regulator. The rapporteur asks for every possible scenario to be envisaged, and makes concrete suggestions, including involvement of the CEBS, of a national regulator or a number of national regulators on an annually rotating basis. The rapporteur wondered whether, if no public solution were found, an independent private body could not be entrusted with this task

on the basis of a European call for tenders. On reflection, he decided not to put forward this idea, but to stay with that of a public European banking supervisory mission, hoping that a way would be found to achieve this.

The rapporteur supports the EIB's reservations about applying IFRS accounting standards too hastily to the statutory accounts, before broad consensus has emerged in the Member States regarding, for example, fair value accounting, which could introduce a great element of volatility into the determination of the EIB's unconsolidated financial results, and asks for a technical watch be kept on this issue.

While welcoming the EIB's willingness to comply voluntarily with the Basel II rules, which do not apply to it, the rapporteur hopes that these rules will be implemented so as to show the EIB's ability to carry out its mission and to maintain the best rating – AAA – with its currently available own funds of EUR 33.5 billion. The rapporteur nevertheless notes the specific situation of the Bank in respect, for example, of the operation of its own capital: low paid-up capital in comparison with capital subscribed (EUR 8.2 billion paid up as against a subscribed capital of EUR 163.7 billion on 31 December 2006); the ability of the EIB's Board of Directors to require payment, in order to cover the Bank's needs, of all or part of the balance of the unpaid subscribed capital (i.e. in theory, EUR 155 billion); the specific prudential ratio laid down in Article 18(5) of the Bank's Statute, which provides for a restriction of commitments to no more than 2.5 times the subscribed capital (a ratio which is very slightly altered by the Lisbon Treaty, currently undergoing ratification), etc. The rapporteur wondered whether the EIB should continue to submit itself voluntarily to a standard that is not applicable to it. In the light of his reflections, he suggests supporting the Bank in this voluntary and laudable action, while recognising its special character, and expresses the wish that third parties should be properly informed as to these special characteristics.

#### *Strategy and objectives; one priority – financing major infrastructure projects*

The rapporteur stresses the high quality of the EIB's new strategy 2007-2009, including the reinforcement of value added, the gradual increase in risk taking, inter alia in activities for the benefit of SMEs and local government, the use of new financial instruments and the stepping-up of cooperation with the Commission.

Nonetheless, as regards financing of European infrastructure, the needs of which were estimated at a minimum of EUR 600 billion in an internal European Parliament study, the rapporteur suggests that a reflection be carried out on the role of the European Union in terms of investment, and that this task be given to the EIB.

The funding implemented by the EU Member States, which, the rapporteur emphasises, must be complementary to private capital, and not in competition with it, is far from able to meet these needs. One could refer to the problems of funding Galileo, where many credit lines were mobilised: appropriations transferred from the CAP, the 7th R&D Framework Programme, flexibility instruments etc. One is well able to understand, given the complexity of setting up funding and its extraordinarily unpredictable nature (the rise in world prices of certain agricultural products), that it is unimaginable that the same procedure could be gone through for every European-scale project. In this context, the EIB, given both its experience in financing investment in Europe and its expertise in methods of financing, can make a valuable

contribution to addressing this issue.

Given the breadth of infrastructure investment (motorways, airports, ports, high-speed rail and freight networks, inland waterways, information and communication technology, space, health policy, drinking water production and supply network, research and development etc.) needed on European Union territory in the current state of acceleration of global economic and social competition, bearing in mind environmental objectives, the rapporteur suggests that, given the quality of the EIB's human resources, its detachment and its experience of financing major infrastructure, the Commission give it the task of carrying out a strategic reflection on the funding of infrastructure, excluding no possible scenarios: subsidies, payment of sums subscribed by the Member States to the EIB's capital, loans (including EIB loans, for example those financed by special loans from the Member States as provided for in Article 6 of the EIB's Statute), innovative instruments such as RSFFs and LGTTs, financial engineering appropriate to long-term projects that are not immediately profitable, development of guarantee systems, creation of an investment section within the European budget, financial consortia between European, national and local authorities, public-private partnerships etc.

It is becoming necessary for us to think about a policy for planning and developing Europe's territory and about the financing that needs to be put in place. The EIB can help us carry out this reflection with reference to the financing of investments; basically, it is a matter of bringing Jacques Delors's old idea of a 'major works' plan based on 'a large loan' into line with today's financial technologies and of guiding the European Union towards the role of acting as the motor of territorial planning. We must always keep it in mind that the private sector will not invest if it thinks that the public sector is not doing so: it is a question of collective confidence in the future.

As far as help for SMEs is concerned, the rapporteur emphasises the high quality of the programmes set up, not least by the EIF, an increase in whose capital has recently been approved by the European Parliament. The paragraphs relating to help with setting up projects aim to draw the EIB's attention to the fact that all too often projects fail because the financing has been badly set up: information, technical assistance and proximity are criteria on the basis of which the EIB can continue to make progress, so that the greatest possible number of projects receive adequate funding.

Finally, the rapporteur thought it important to recall the important role of the EIB in the European Union's development policy, as well as in its neighbourhood policy. He calls in particular for further development of the FEMIP against the background of strengthened partnership with the Mediterranean countries.

## RESULT OF FINAL VOTE IN COMMITTEE

<b>Date adopted</b>	26.3.2008
<b>Result of final vote</b>	+: 28 -: 2 0: 2
<b>Members present for the final vote</b>	Jean-Pierre Audy, Herbert Bösch, Costas Botopoulos, Mogens Camre, Paulo Casaca, Jorgo Chatzimarkakis, Antonio De Blasio, Petr Duchoň, James Elles, Szabolcs Fazakas, Markus Ferber, Christofer Fjellner, Lutz Goepel, Ingeborg Gräßle, Umberto Guidoni, Dan Jørgensen, Rodi Kratsa-Tsagaropoulou, Nils Lundgren, Marusya Ivanova Lyubcheva, Ashley Mote, Jan Mulder, Bill Newton Dunn, Bart Staes, Søren Bo Søndergaard, Jeffrey Titford, Paul van Buitenen, Kyösti Virrankoski
<b>Substitute(s) present for the final vote</b>	Dumitru Oprea, Pierre Pribetich, Gabriele Stauner, Ralf Walter
<b>Substitute(s) under Rule 178(2) present for the final vote</b>	Pilar Ayuso, Albert Deß, Markus Pieper