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## **DRAFT 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 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’<sup>1</sup>,
  - having regard to its resolution of 20 January 2000 on human rights violations in connection with the Chad/Cameroon oil and pipeline project<sup>2</sup>,
  - having regard to its resolution of 5 February 2002 on the EIB Annual Report for 2000<sup>3</sup>,
  - having regard to its resolution of 21 November 2002 on the EIB Annual Report for 2001<sup>4</sup>,
  - having regard to its resolution of 22 April 2004 on the activity report for 2002 of the European Investment Bank<sup>5</sup>,
  - 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 (A6-0000/2005),
- A. whereas the European Investment Bank (EIB) is the world’s largest public lender, its level of lending amounting to EUR 40 billion,

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<sup>1</sup> Project No EP/ExPol/B/2004/09/06.

<sup>2</sup> OJ C 304, 24.10.2000, p. 211.

<sup>3</sup> OJ C 284 E, 21.11.2002, p. 111.

<sup>4</sup> OJ C 25 E, 29.1.2004, p. 390.

<sup>5</sup> Texts adopted on that date, P5\_TA(2004)0371.

- 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 operates as an independent bank that is, nevertheless, bound by commitments to its shareholders – the 25 Member States of the EU,
  - E. whereas the EIB does not impose any uniform environmental or social standards with regard to its lending activities outside the EU,
  - F. aware of the particular risks surrounding lending in many developing countries, which the EIB must be in a position to combat,
  - G. 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. Calls on the EIB to support the EU's development policy objectives set out in the Cotonou Agreement and defined in accordance with the eight MDGs and to stipulate that lending be conditional on the relevance of the projects being supported to the attainment of the MDGs;
  3. Recommends that when evaluating the success of its projects, the EIB also adopt the key indicators defined by the Commission with regard to the MDGs, thereby falling into line with 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 taking into account the positions of NGOs as early as in the follow-up stage to project monitoring but calls on the EIB 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;
  6. 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;

7. 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;
8. 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;
9. 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;
10. 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;
11. 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;
12. Calls on the EIB to develop an independent complaints mechanism open not only to EU citizens but also to the people affected by EIB-funded projects in developing countries;
13. 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;
14. Recommends the establishment of an EIB budget line for knowledge transfer and technical support;
15. Expects the EIB, on the basis of the positive experiences of its first projects, to step up significantly its commitment to the area of 'micro lending' and, at the same time, to provide particular support for aid aimed at helping women set up in business;
16. 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;
17. 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;

18. 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;
19. 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;
20. 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);
21. 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;
22. Calls on the EIB to employ a less conservative risk management strategy with regard to lending in developing countries
23. 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;
24. Calls on the EIB, in the interests of providing the best possible support for small and medium-sized undertakings, to establish on-the-spot representation or to arrange lending to such clients through institutions operating as clearing houses and made up of external experts in order to allow the recipients of loans 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;
25. Recommends the introduction of a continuous dialogue between its Committee on Development and the EIB;
26. 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;
27. Calls on the Council and the Commission to support Parliament's requests with regard to the EIB;

28. 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.