

'EIB: not your average bank' from EUROPE

Caption: This article looks at the dual identity of the European Investment Bank (EIB) and the problems caused by its special legal status. Whereas its role as an intergovernmental bank grants it a substantial degree of independence, its role as a Community institution requires the EIB to be fully committed to serving the objectives of the European Union. This dual identity lies at the heart of the debate on the remit of the European Anti-Fraud Office (OLAF) regarding its monitoring of the bank's financial activities.

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EIB: not your average bank

Is it a bank? Is it an institution of the European Union? The Luxembourg based European Investment Bank is both, and therein lie its strengths and, occasionally, its problems.

Let's be clear straight away that the EIB is not the sort of bank where you go to apply to for a home improvement loan. Its clients are governments, major public bodies, and increasingly, large private-sector companies. A bank it is though, if you accept the definition of banking as the receiving of deposits and the re-lending of them to others. The EIB's subscribed capital is 100 billion euros (roughly \$100 billion) giving a lending ceiling of about \$250 billion. It lent a total of \$31.8 billion in 1999 and borrowed \$28.3 billion on the international capital markets in 120 operations in sixteen currencies.

Clearly, the EIB talks big bucks. Its outstanding loans at the end of 1999 amounted to \$178.8 billion. But don't look for profits or dividends. The bank's shareholders are the fifteen EU member governments, who collectively underwrite its borrowings. It's obviously not your familiar main street money shop or Wall Street colossus, but they certainly don't come any bigger or more creditworthy than this.

That profile reflects the EIB's role as a European institution comparable to, though in many ways fundamentally different from, the European Council, Commission, and Parliament. This can lead to misunderstandings as the new president, Philippe Maystadt, acknowledged in February: The fact was, he said, "that the EIB has not always succeeded in gaining recognition of its specific status as an organization with a dual identity — on one hand, a European institution fully committed to serving the Union, on the other, a bank subject to market constraints calling for retention of a certain degree of independence."

Maystadt, the fifty-one-year-old former Belgian finance minister and deputy prime minister, was appointed to a six-year term as president on January 1, 2000. His remarks about the bank's dual identity were prompted by differences between the EIB and the other EU institutions over the role of the new European Anti-Fraud Office (OLAF) in investigations of the bank's business.

The point here is that the EIB believes that OLAF's automatic remit should only extend to funds managed by the bank on behalf of the EU and that funds that are the EIB's "own" property — i.e. those raised on capital markets on its own credit — should be investigated only if the bank itself so decides.

The matter has now gone to the European Court of Justice for a ruling, pending which the EIB has agreed to a "pragmatic" approach to allow OLAF to do its work. No allegation of actual fraud has been made but the dispute has somewhat soured the EIB's relations with the other EU institutions.

In particular some members of the European Parliament (MEPs) believe that the EIB is not sufficiently open to scrutiny. Last year MEPs claimed that the EIB had made major misjudgments in the financial markets in the early 1990s and had resorted to devious operations to hide the facts from auditors. This matter has now been settled, according to EIB officials, though MEPs are still demanding greater access to the bank's operations. Maystadt seems sympathetic.

"I feel that we should adopt a more proactive stance," he said in February. He intended to act "to strengthen institutional dialogue with the Commission, the Council, and the European Parliament with a view to increased openness and to making our actions and intentions generally better known within the family of EU institutions."

It seems especially important that the EIB and the other EU bodies should be of one mind over the question of EU enlargement, where the EIB has become the main source of multilateral financing for the entry candidate countries but where the Council and Parliament take the political decisions involved. Maystadt said it was "particularly significant that the bulk of this financing, namely \$1.5 billion out of a total of \$2.4 billion, has been advanced by the EIB at its own risk and without the guarantee of the Community budget." This showed, he said, the bank's resolve to make a direct contribution toward modernizing the economy in these countries without calling on the public purse.

You might think that since the EIB is governed by the same people who also form the EU Council it would be easy to agree on such matters, but apparently things don't always work that way.

Alan Osborn