



Special report

on the performance of government tasks related to
the Federal Government's shareholding in the
European Investment Bank

19 June 2024

0 Executive summary

The European Investment Bank (EIB) is a public development bank. Its shareholders are the EU member states. The EIB finances investments by providing loans and guarantees to public and private investors on favourable terms. In doing so, it aims in particular to contribute to the balanced and steady development of the internal market in the interest of the European Union (EU).

The EIB's subscribed capital currently totals €248.8 billion. Germany's share is €46.7 billion. Germany has also provided additional funds to the EIB on a bilateral basis. If the EIB suffers losses, Germany is liable with its share in the EIB's subscribed capital and the additional funds respectively. On top of that, Germany is indirectly liable for funds that the EIB receives from the EU budget.

We examined the performance of government tasks related to the Federal Government's shareholding in the EIB. With this report, we inform the German Parliament, the Federal Council, the Federal Government and the public about structural shortcomings in the EIB's supervisory and control framework. The comments made by the German Federal Ministry of Finance (Finance Ministry) and the EIB on the draft of this report have been taken into account.

Our key audit findings are as follows:

- 0.1 The European Union and its member states determined that banks within the EU must fulfil specific requirements, especially relative to risk management. An independent external supervision is to ensure that banks fulfil these requirements and have effective protection mechanisms in place. The aim is to prevent financial market crises. This is because such crises usually cause high social and economic costs. The EIB is not subject to any external banking supervision. Instead, it supervises itself by means of an internal procedure that falls far short of EU banking standards.

The Finance Ministry emphasised that it attached major importance to professional structures, effective risk management and appropriate supervision. The EIB has recently introduced reforms in this area and made considerable progress, largely on the initiative of the Finance Ministry. Nevertheless, the Finance Ministry will continue to request further enhancements. The EIB, however, stated that it did not consider any changes to be necessary in this context, referring to the legal framework applicable to it and its special status as a multilateral financing institution.

We share the Finance Ministry's assessment of the importance of professional supervisory and control structures. We acknowledge the progress made by the EIB, which was largely initiated by the Finance Ministry, as well as the commitment to pursue further enhancements. The EIB's arguments, however, are not convincing. It does not explain why it would not make sense for the EIB to be supervised by an external body. Consequently, it is also not apparent why the EU member states

should accept a lower level of protection. All public bodies that use public funds bear a special responsibility. In the light of the above, the EIB should be subjected to independent external banking supervision without delay.

- 0.2 The EIB may only grant development loans if the binding requirements laid down in the EIB's Statute are met. The EU member states play a role in decision-making as to loans via the EIB's Board of Directors. In early 2022, the EIB approved a €120 million loan to the European Union for the construction of a new conference centre for the European Commission. The loan did not fulfil the criteria set out in the EIB's Statute. In addition, the loan-financed construction of a new administrative building for an EU institution did not comply with applicable budgetary provisions. Nevertheless, the Finance Ministry failed to oppose the application within the Board of Directors.

The Finance Ministry stated that, at the time of the decision, it saw no reason to doubt that the eligibility criteria were met. Moreover, the issue of consistency of the project with budgetary provisions had not been brought up by any party during the procedure. However, the Finance Ministry pledged to work towards clarifying this legal issue at the next occasion. According to the EIB, the project fulfils the requirements laid down in the Statute. This, in the EIB's view, is because it increases economic productivity in general and promotes the attainment of the EU's internal market. What is more, the European Union was unable to obtain comparably favourable funding from another party at the time.

The statements made by both the Finance Ministry and the EIB are not convincing. Funding from the EIB must result in additional positive effects for economic productivity and the EU's internal market. This is not the case: the European Union would construct the new building even without a loan from the EIB, as the conference centre is needed. Otherwise, it would not be allowed to implement the project at all. If the argumentation of the Finance Ministry and the EIB was accepted, the EIB could fund all projects of EU institutions for which it can offer slightly better conditions than those available on the market. The EIB would then run the risk of increasingly becoming the "house bank" of the EU institutions and failing to be the development bank of the EU member states. We therefore recommend that the Federal Government applies a strict standard on future funding applications and works towards ensuring that projects of the EU institutions are always financed via the EU budget, or alternatively via a credit institution.

- 0.3 Pursuant to the German Constitution, the Federal Government is obliged to inform the German Parliament comprehensively and at an early stage on EU matters. This should enable the German Parliament to shape the Federal Government's decision-making. With the withdrawal of the United Kingdom from the European Union, the remaining EU member states were to take over the British share in the EIB's subscribed capital. In mid-2018, the Federal Government decided to support the planned capital increase and to speak out for an endorsement of the proposal. For Germany, this meant an increase of €7.5 billion in its share in the EIB's capital. However, the Federal Government failed to adequately inform the German

Parliament in advance about the preparations for the capital increase and its effects. This restricted the German Parliament's ability to deal with the pending assumption of additional liability risks.

The Finance Ministry did not concur with our view. According to the Finance Ministry, the German Parliament was not prevented from dealing with the assumption of additional liability risks and shaping the Federal Government's decision-making. In November 2018, the Federal Government submitted a report to the German Parliament on the planned amendment to the EIB's Statute, which also explicitly mentioned the capital increase. It had also sent a briefing note on this matter to the German Parliament's Budget Committee.

The Finance Ministry's view is not convincing. The Finance Ministry should have informed the German Parliament about the planned capital increase as early as mid-2018. What is more, neither the report nor the briefing note were suitable to enable the German Parliament to shape the Federal Government's decision-making. The motivation behind reporting was not the planned capital increase, but the planned amendment to the EIB Statute. The capital increase was only mentioned in the report. Furthermore, a briefing note to an individual committee cannot replace information to the German Parliament as a whole. The Federal Government should therefore ensure that the German Parliament, in future, is informed comprehensively and at an early stage.

- 0.4 The purpose of independent external auditing is to create transparency and accountability for the use of public funds vis-à-vis the parliament and the public, or to make this possible. The EIB is not subject to external auditing for approximately three quarters – and thus for a significant part – of its operations. Instead, an audit committee set up by the EIB carries out audits. This is an internal control body that cannot replace independent external auditing and therefore cannot ensure that the audit gap is closed.

The Finance Ministry pointed out that making the EIB an audit subject requires a legal basis.

We concur with the Finance Ministry's view. The Federal Government should work to ensure that the legal basis is created to close this audit gap at the EIB without delay.