

**British-Irish Parliamentary Assembly**

**Committee B (European Affairs)**

**Report on the European Investment Bank**

## Introduction

1. In October 2013, Committee B (European Affairs) of the British-Irish Parliamentary Assembly agreed to undertake an inquiry into the European Investment Bank. Lord German and Sean Conlan TD were appointed as co-rapporteurs for the inquiry.
2. The first hearing for this inquiry was held at the European Investment Bank headquarters in Luxembourg on 13 January 2014. Members present were Mr. Robert Walter MP (Chair), Mr Sean Conlan TD, Joe O'Reilly TD, Lord German, William Powell AM and Baroness Harris of Richmond. The Committee met with Jonathan Taylor, Vice President, Simon Barnes, Director, and Sean Fitzpatrick, Policy and Strategy Division, Economics Department, European Investment Bank.
3. One of the key benefits from the first hearing was to be informed of projects that the European Investment Bank had invested in that have come to fruition. Therefore, the Committee decided to visit Bilbao in Spain, where the Bank helped a number of initiatives to establish, to see what lessons can be learned from international comparators. The second hearing was held in Bilbao City Hall and the Bilbao tourist office on Monday 23th June. Members present were Mr Sean Conlan TD, Mr Aengus O'Snodaigh TD, Lord German, and Senator Imelda Henry. The Committee met with Mr Asier Abaunza Robles, Councillor for Mobility and Transport. Bilbao City Council, Mr Inaki Uriarte Pascual, Operations and External Actions, Basque Railway Network and Mr Ignacio Martin-Muñoz Sainz, Head of Treasury and Capital Markets, Kutxabank.
4. In addition to these two hearings, the co-rapporteurs also held meetings in Brussels, Belgium to gather further evidence for the report. On 13 November 2014, Lord German and Sean Conlan TD met with Paulus Geraedts, Maria Dimitriadou, Kay Parplies and Andon Kalibatsev, Coordination with the EIB Group, Directorate-General for Economic and Financial Affairs (DG ECFIN), European Commission, the Economics, Finance and Taxation Section of the UK Permanent Representation to the EU, Declan Kelleher, Ambassador of Ireland to the EU and Ernest Urtasun MEP (Greens/European Free Alliance, Spain), Member of the Committee on Economic and Monetary Affairs (ECON) and rapporteur on a report on the European Investment Bank.
5. The members of Committee B would like to thank all the witnesses and those who assisted and participated in the inquiry for their time and the insight into the work of the European Investment Bank that they provided.

## About the European Investment Bank

6. The European Investment Bank provides finance and expertise for investment projects, and is the EU's long-term lending bank, working on a non-profit basis. Formed of 28 shareholders, the EU Member States, its Board of Governors is composed of the EU Finance Ministers. As a "policy-driven bank" the EIB uses its financing operations to bring about "European integration and social cohesion". The Member States set the Bank's broad policy goals and oversee the independent decision-making bodies: the Board of Governors and the Board of Directors. Founded in Brussels in 1958, when the Treaty of Rome came into force, it is headquartered in Luxembourg, and has approximately 2,000 staff members, and 30 local offices.

7. The Bank is the largest multilateral lender and borrower in the world. The total subscribed capital of the Bank was €232bn in 2012. For the fiscal year 2011, EIB lent €61bn in various loan products, bringing total outstanding loans to €395bn; one-third higher than at the end of 2008, and it had new loans of over €52bn and disbursements of over €51bn. It financed 400 large projects in more than 60 countries. Following a €10bn capital increase from Member States, the EIB will lend up to an extra €60bn between 2013-2015. We were told that, based on average co-financing rates, this will support total investment of up to €180bn in that period.
8. Although it is owned by 28 EU Member State shareholders, the EIB does not directly lend taxpayer money. It raises funding as an AAA rated issuer and passes on the advantage to borrowers. The Irish Government told us “in terms of competing with private banks, the EIB can – as a result of its AAA rating – often provide cheaper funding than most European banks for projects fortunate enough to access its funding”.<sup>1</sup> This market-based model demands careful management of borrowing (and therefore lending) capacity. Nearly 90% of its lending was inside the EU Member States with the remainder dispersed between around 150 partner countries.
9. The EIB told us that, as the "Bank of the European Union", its mission is to make a difference to the future of Europe and its partners by supporting sound investments which further EU policy goals.

### **The Bank's areas of activity**

10. The activity of the Bank is concentrated on 3 strategic pillars: lending (the classic bank loan scenario); blending (combining EIB finance with EU budget and other resources); and advising. In the Bank's Annual Report, its President, Werner Hoyer, set out the activities the Bank was undertaking to respond to the economic crisis. He said:

*The European Union is facing difficult economic circumstances and increasing unemployment, with dramatic consequences for our societies, particularly youth. ... The EIB, as the EU bank, has a crucial role to play in ensuring investment in projects that support growth and jobs”.*

*We have agreed with the EU Member States to focus our financing activities in Europe on innovation and skills, SME lending, resource efficiency (including clean energy) and strategic infrastructure in support of our overall objective of sustainable growth. These are areas where access to finance has been most difficult and where EIB financing will unlock additional private sector funding to maximise growth and job creation. And by blending our EIB financing with EU budget resources, we can achieve even more effective results.*

*The EIB has responded, and will continue to respond, to the specific needs of the regions hit hardest by the crisis as in many instances our bank will be the only financier who can play this role on a significant scale.*

11. The areas in which the Bank is active can be broken down as follows:
  - unlocking Europe's growth potential

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<sup>1</sup> Written evidence from the Irish Government

The EIB signed finance contracts worth €52bn, focusing on projects with the greatest impact on growth and job creation.

- supporting economic and social cohesion  
The EIB lent over €15bn to support projects that will spur growth in the economically less advanced regions of the EU.
- safeguarding the environment – financing climate action  
The Bank is among the largest providers of finance for climate action, supporting the EU's goal of low-carbon and climate-resilient growth.
- promoting sustainable growth beyond the EU's borders  
The EIB's activities around the world underpin the EU's foreign policy goals, and the EIB is the natural partner of the European External Action Service.
- a solid financial partner  
For more than 50 years, the EIB has been a solid financial partner. In times of instability, the Bank's stability is a welcome.
- the world's largest supranational borrower  
The Bank is the world's largest multilateral borrower and lender. It raised €71bn on the international capital markets.

12. The main products that the Bank provides are:

- Direct project loans to individual projects for which total investment cost exceeds a certain threshold - typically €100m.
- Multi-component loans using a "framework loan" or "programme loan" approach, to cover a range of sub-projects in a given sector such as infrastructure, energy efficiency/renewables, transport and urban renovation, education.
- Multi-beneficiary intermediated loans to local banks and other intermediaries which subsequently "on-lend" to final beneficiaries, mainly SMEs and mid-caps.
- Loan Substitutes ("LS") whereby the Bank subscribes a Note issued by a Special Purpose Vehicle (SPV) or an intermediary, which in turn channels the funds to a final beneficiary.

13. The EIB also provide advisory services which it has increased. We were informed that technical and financial advice is helping to deliver projects, speed up disbursements and real investment, and increase Member States' absorption capacity of EU funds.

14. The benefits of EIB support include — scale; a broad range of currencies; long maturities; attractive interest rates; bespoke structures in a package; technical advice and benchmarking; and that this support can act as a catalyst for the participation of other banking or financial partners.

## **The work of the Bank in the UK and Republic of Ireland**

15. The activity of the Bank in the UK and Ireland has involved:

- approximately €4bn a year invested in the UK economy. Projects boosting environmental sustainability represented 30% of this lending, with support for the knowledge economy making up one quarter. In the past five years, total lending was €22.5bn. Infrastructure investment accounted for two-thirds of this, principally in the

energy, water and transport sectors. Manufacturing industry and credit lines (mainly to smaller businesses) each represented 12% of the total.

- approximately €500m a year invested in the Irish economy. Projects to boost the knowledge economy received just under one-third of this, as did investment in energy efficiency and renewables. Small and medium sized enterprises and midcap firms received 20% of the total. In the past five years lending was €2.7bn, with nearly half invested in energy infrastructure. Credit lines to smaller businesses represented 19% of the total, and support for transport infrastructure projects, 17%.

16. The table below provides examples of the projects that this investment has assisted:

<b>United Kingdom</b>	<b>Republic of Ireland</b>
<p><b>Walney wind farm</b>            Located in the Irish Sea, the wind farm will provide electricity for up to 320,000 homes. EIB investment was a key factor in attracting other investors to the project.</p>	<p><b>East-West link</b>            Ireland's first electricity link with Great Britain received €300m EIB funding. This very high capacity interconnector will secure the nation's energy supply and will allow it to export renewable energy.</p>
<p><b>Scottish innovation hub</b>            A £90m loan to the Strathclyde University is helping to develop the Technology and Innovation Centre and refurbish the campus. This will help to fund an environmental technology innovation hub to help business feed from the latest research.</p>	<p><b>550 new classrooms funded</b>            A €100m loan is supporting capital investment in school infrastructure. This programme will help renovate 47 schools over a five year period, benefiting more than 20,000 pupils.</p>
<p><b>Manchester tram</b>            Funding totalling £500m is being lent over a 30 year period to help expand Greater Manchester's Metrolink light rail system. The EIB support will cover a third of overall investment costs.</p>	<p><b>Financing for a smart network</b>            A €235m loan will help Irish energy company ESB develop a high capacity electricity distribution network.</p>

17. During our visit to Luxembourg, the EIB emphasised that to qualify for investment, each project must: meet at least one of its policy objectives; be technically sound; be financially viable; show an acceptable economic return; and comply with environmental protection and procurement regulations.

18. Most recently, on 7 November 2014, the EIB announced their largest ever loan, which provides £1.5 billion for UK National Grid investment. This new support for connecting new power generation, upgrading ageing assets and improving network resilience to climate and security risks, will also include capital investment by National Grid reinforcing infrastructure between the Wirral and Scotland, and the London Power Tunnels.<sup>2</sup> The EIB have also made major recent investments in Ireland, with €400m provided for the newly launched Strategic Banking Corporation of Ireland (SBCI) on 31 October 2014. The SBCI has been created by the Irish government to improve access to finance by Irish companies and will provide simple access for long-term and low cost

<sup>2</sup> <http://www.eib.org/infocentre/press/releases/all/2014/2014-248-largest-ever-eib-loan-provides-gbp-1-5-billion-for-national-grid-investment.htm>

loans. It is hoped that this investment will help SMEs in Ireland.<sup>3</sup> This investment was highlighted during our meeting with officials of the Permanent Representation of Ireland to the EU. Looking ahead, the EIB told us that the focus for the UK and Republic of Ireland is on infrastructure, energy and climate action, skills and innovation, and housing and urban regeneration.

### **EIB's role in the EU response to the crisis**

19. During our visit to the EIB's headquarters we were informed that, in response to the economic crisis, the Bank played a role in 3 areas:

- Political guidance from EIB shareholders;
- Implementing measures to support the EU economic recovery; and
- Policy outlook

20. With regard to providing guidance to EIB shareholders, it was stressed that the Bank was an integral part to the Compact for Growth and Jobs. This comprised of policies to stimulate growth, and included the decision to increase the EIB's capital by €10bn. The Irish Government reiterated this point, saying “with EU and Commission support, the EIB adopted a counter-cyclical approach to the economic crisis. ... [The] capital increase was intended to allow the Bank to substantially increase its lending capacity to Member States to assist infrastructural investment in support of EU economic recovery and employment creation”.<sup>4</sup>

21. The EIB also expanded its collaboration with the European Commission in using joint instruments. It was explained that using joint risk-sharing instruments blends the EU and EIB resources which allows for the leverage of scarce public funds. When EU funds absorb part of the risk of a given loan portfolio, it enables the EIB to expand activities in vulnerable countries, and high-risk sectors, such as research and development projects. Examples of this included the Guarantee Fund for Greek SMEs and a Risk Sharing Finance Facility (RSFF) in research and development investment. We were informed that this resulted in an increase in SME lending in 2013 from €12bn to €18bn, with a similar increase expected in 2014.

22. In relation to supporting the creation of jobs, the EIB estimated that its lending to infrastructure, resource efficiency and the knowledge economy generated 500,000 jobs in 2013. Additionally they claimed that EIB financing helped to sustain employment for a further 2 million people every year. The Bank highlighted that, in the future, it would be implementing its 'Skills and Jobs – Investing for Youth' Programme, which specifically targets investments to promote education, training and job placements for young people.

### **The UK and Irish use of the European Investment Bank**

23. The Irish Government told us that the EIB has been an important source of funding for Ireland, and that whilst Ireland had the 17th largest EU Member State shareholding in the Bank, it ranked 16th in terms of EIB loans approved, indicating that the Bank's lending to Ireland is broadly in line with its shareholding. This point was emphasised by officials of the Irish Permanent Representation to the EU.

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<sup>3</sup> <http://www.eib.org/infocentre/press/releases/all/2014/2014-240-european-investment-bank-to-provide-eur-400m-for-newly-launched-strategic-banking-corporation-of-ireland.htm>

<sup>4</sup> Written evidence from the Irish Government

24. However, the EU Commission told us that the UK makes less use of the EIB in comparison to its GDP. There had been an increase in the uptake in 2013, but usage still lagged in comparison to the EIB's biggest markets – Spain and Italy. The EU Commission suggested that the lack of uptake was because of the ease of access to capital in London. The “lively capital market in London” was also an explanation suggested by officials of the United Kingdom Permanent Representation to the European Union. They also suggested that, although the EIB loans were priced below the market rate, the conditions attached were often perceived as an extra hassle, particularly as the UK has been trying to keep regulation to a minimum. Additionally, the borrowing rate for the UK Government was cheap, so there was not a great need to use the EIB. Finally, where the EIB had been beneficial to other countries was through sharing its expertise on project finance, but again this was an area where the UK was well skilled.
25. In order to examine whether the UK and Ireland were making the best use of the EIB, during our visit to the EIB headquarters, we asked Bank officials to recommend an exemplar that we could look at to discover good practice. We were told that a large number of projects in Bilbao had benefited from EIB funding. During our visit to Bilbao, Spain, we were told how the City Council and the Basque Government work together to identify investment from a mix of different sources. Particularly through the EIB, this has included investment in the “Basque Y” rail line and a natural gas storage facility. This cooperation has helped to transform the city, and move it on from the problems it had in the 60s and the 70s. During that time the economy of Bilbao has changed from industry based to a service provider. In this Report, we have summarised two case studies which highlight the type of work being undertaken in Bilbao.

### **1. The “Basque Y” – a high-profile project**

In Bilbao we were examined the “Basque Y” – a new high speed rail line which will connect Bilbao, San Sebastian and Vitoria, and has benefitted from a €400m credit line from the EIB. The Basque Government applied for the loan, which was approved once certain criteria had to be met, such as proving that the coverage for passenger rate was 40% of operating costs. Since then the EIB has been provided with monthly progress updates and have undertook technical visits.

We were told that the EU Commission checks the money is being spent appropriately, as there had been problems in other Member States. This project was more than meeting its conditions, which meant the EIB could provide additional funding.

This project is solely within Spain. It was emphasised that this line would fall into the TEN-T – European transport connector routes, which satisfied the Bank's criteria that it furthers the goals of the EU. We were told that the EU Commission would provide funding for the improvement of port or border crossings. The rail line would form the EU hub for the Basque Country, but in other parts of Spain the local authorities have not worked collaboratively, and have not been able to propose similar projects.

Kutxabank told us that they have provided guarantees to EIB funded projects in the Basque Country, for example this project and the LNG gas terminal. These projects were very important for transport and infrastructure, and provided assistance to the economy.

26. **In Bilbao we saw what can be achieved in a region when the different authorities in a region come together on a project. We urge the UK and Irish Governments to**

**reflect on this example of collaboration to see where joint working can bring forward similar projects. In addition, smaller entities could also benefit from accessing EIB funds. However, we do not believe that they are sufficiently aware of the opportunities available to them. We recommend that the EIB, national governments and devolved institutions do more to raise awareness of this additional source of funding, with a view to encouraging more localised projects to put themselves forward for consideration by the Bank.**

27. The Irish Government explained how it has recently sought to deepen its engagement with the EIB. A High Level Working Group (HLWG) has been established between senior EIB and Irish officials to seek ways in which EIB support could be enhanced further to contribute to Ireland's growth agenda.<sup>5</sup> The Irish Government argued that a barrier to EIB lending is the size of a project, as the Bank does not tend to lend amounts smaller than €40-50m. Therefore, projects of the value of €80-100m are usually required for approval to be considered. Furthermore, in order to obtain EIB funding, these projects must fall within certain policy areas and they must clearly demonstrate economic viability.<sup>6</sup> Despite this, officials of the Irish Permanent Representation to the EU told us that a pipeline of projects for 2015 to 2017 had been identified, with work being done to see how they could be accelerated.
28. The UK Permanent Representation to the EU confirmed to the Committee that there was also an internal Whitehall exercise ongoing which would draw up a project pipeline for the UK. In written evidence, the Welsh Government also explained that, through the launch of its Infrastructure Investment Plan (WIIP), they had set out a ten-year pipeline of investment across the Welsh public sector. They emphasised that this was an approach in which EIB funding could have a significant role to play.
29. **We recommend that the UK, Irish and devolved administrations that have not yet created infrastructure investment plans do so, so that they be shared with the EIB. Furthermore, where applicable, these should also be created by local administrations. The plans should set out a stream of forthcoming projects that require capital investment. By sharing these with the EIB, the Bank can provide its expertise, and highlight those projects that may potentially be applicable for, and benefit from funding. These plans should be reviewed and updated on an annual basis.**
30. **One area that could particularly benefit from infrastructure projects is on the Northern Ireland border. This is particularly the case for projects seeking to re-establish road, rail and communication networks. Such projects can help to strengthen and deepen cross-border cooperation, hopefully achieving a more prosperous region, and enhancing the quality of life for those living on the border. We recommend that the UK and Irish Governments and the Northern Ireland Executive work together to identify these type of projects that can be presented to the EIB for funding.**

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<sup>5</sup> Written evidence from the Irish Government

<sup>6</sup> Written evidence from the Irish Government



## Using the European Investment Bank to create jobs and long-term growth

31. We were informed by the Irish Government that its long-standing relationship with the EIB has been an important source of funding for traditional infrastructure projects such as roads and schools. More recently the funding has helped SMEs. In Ireland, SMEs comprised 99.6% of all employer firms in 2011 and employed approximately 69% of the labour force. However, this SME sector has been constrained since the onset of the financial crisis in 2008. Therefore the focus by the EIB on SMEs is very welcome, as this will be particularly important for job creation and long-term growth in Ireland.<sup>7</sup> Whilst in Bilbao we examined how EIB funds could be made available to SMEs through local banks.

### **2. Kutxabank – support for SMEs**

Kutxabank told us that, with funding from the EIB, they provided intermediated loans for small to medium scale projects, which must further at least one of the EIB's public policy goals. The loan procedure worked through the EIB lending to Kutxabank, who then 'on-lend'. Kutxabank set the terms and conditions of the loan, and passed on the financial advantage of EIB funding – typically a 30% cost reduction. Kutxabank have to match the EIB funding, but retain the full financial risk.

The conditions for being eligible include that the final beneficiary must be an SME or mid-cap, and the cost of the total project must not exceed €25m. However, there are some activities that are excluded, including producing weaponry, gambling activities, tobacco products, activities involving animal experiments and real estate development projects.

EIB intermediated loans provide an alternative source of funding, while due to the AAA rating, the cost can be cheaper compared to loans issued directly in the financial markets. This proved attractive during the financial crisis, because the difference between the EIB and the intermediary bank issuing spread was wide, so it enabled Kutxabank to pass on low cost loans. However, more recently the difference in costs had narrowed. We were informed that the EIB were slow to adjust its interest basis points, such that their rate of interest was now not too different from the market.

One area where the EIB has developed new ways to work with SMEs was through the Risk Sharing Finance Facility (RSFF). This allows investment in high-risk projects, particularly those focussed on research, development and innovation, and in SMEs and mid-caps. Kutxabank told us that this facility should help the Spanish economy. For a number of firms seeking loans, the risk was related more to the ongoing solvency of the firm, rather than whether the banks had capital reserves that they were able to invest. By mitigating these risks, this could be overcome.

32. In written evidence the Irish Government emphasised the benefits to SMEs of obtaining EIB intermediated loans. For Ireland, the AAA rating of the Bank provided loans that were far cheaper than those available on the market, which was “extremely important ... against the backdrop of restricted access to credit and constrained economic activity”. Officials of the Irish Permanent Representation to the EU told us that to improve economic activity “SMEs are seen as the prime part”. The Strategic Banking Corporation of Ireland (SBCI) would assist this, through channelling loans in a similar way to the

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<sup>7</sup> Written evidence from the Irish Government

Spanish bank model. The EU Commission suggested that encouraging more SME projects in Ireland would be useful. In particular it would increase awareness of this alternative source of funding.

- 33. As we saw in Bilbao, there are opportunities for national commercial banks to direct EIB funding to SMEs. However, as the risk is borne by the commercial banks who do the “on-lending” there is still the tendency for these banks to be risk averse. As a result banks still require significant collateral before they loan to SMEs. We recommend that, where SMEs are seeking to gain EIB intermediated loans, the governments explore how it might be possible to de-risk these projects. Furthermore, we recommend that the EIB inform the commercial banks of the type of activities these “on-loans” have been used for so that the commercial banks might have more confidence to allocate loans through an assessment of the project rather than on the basis of collateral.**
34. Another way in which the Irish Government would seek to use EIB funds for SME projects was through combining them with EU structural funds. Officials of the Irish Permanent Representation to the EU said that this was about de-risking the project for the EIB, commercial banks, and also to show there was initial funding to improve the viability of the project and attract further alternative sources. The Welsh Government also explained that they were considering using some of their EU Structural Funds for joint financial instruments.<sup>8</sup>
35. The EU Commission informed us that one of the major themes of the EU Budget was the shifting from grant funding to financial instruments. In the future there would be a greater emphasis on blending EU funds with EIB loans, with the aim that the EU Commission takes some of the risk burden from the EIB. The Commission would take a first loss guarantee, which was important as, despite there being few losses, the EIB is still very risk averse. We were told that this was their culture. Under the new proposal, the Commission would be prepared to take more risks, both with SMEs and with R+D projects. The Commission would also work on a portfolio basis, so that a loss on one project might be off-set by a profit in another.
36. Under the EU’s Multi-annual Financial Framework 2014-2020 (MFF) the EIB is expected to play an even greater role with respect to the management of financial instruments, blending and advisory services. In general, a substantial increase in money available for blending is expected, which the EIB state will increase the impact of its action on the real economy, while at the same time enhance the leverage effect of the Commission’s and Member States’ budgets.
- 37. We welcome the approach taken by the EU Commission to try and take some of the risk from the EIB. If the EU is going to generate growth, and create jobs, it needs to try new things, which involves a greater degree of risk. We do not criticise the EIB for being risk averse: we have heard about the procedures they have in place to assess the viability of projects which is necessary in order to protect public funds. This step by the EU Commission will enable Member States to do more with the funds they receive, such as Horizon 2020 and EU Structural Funds.**

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<sup>8</sup> Written evidence from the Irish Government and written evidence from the Welsh Government

38. **The arrangements set out in the EU’s Multi-annual Financial Framework 2014-2020 place a greater emphasis on the EIB’s blending of EU funds with EIB loans. We believe that blending has a lot of potential, particularly as a mechanism to maximise the use of EIB loans and EU grant assistance. Although we have heard that the Welsh and Irish Governments are seeking to benefit from this type of EIB product, we believe this is something that all governments in the UK and Ireland can benefit from. We therefore recommend that all governments examine what EU funds they receive might be appropriate to be used in a blending product, and identify what products might benefit from the blending type of financing.**
39. The Irish Government explained to us that because EIB lending is project-focused and reliant on the quality of the projects submitted for funding, it is sometimes an issue that projects may not be of sufficient scale to attract EIB support. However, they have tried to overcome this problem by ‘bundling’ projects together, for example with schools’ building. Their written submission indicated that Ireland needed to work with the Bank in a more pro-active way than in the past - to provide funding for those smaller enterprises that make up the majority of companies in Ireland. In addition Ireland needed to ensure that viable projects are not lost through failure to secure the minimum balancing funding from commercial banks, institutional investors or other sources of finance.<sup>9</sup>
40. **One of the barriers to receiving funding from the EIB is that the project is not big enough. We have heard of examples where an initial small project has been “bundled” so that if it might be replicated in several areas, the scale of the project can be multiplied so as to meet the minimum limit for funding. We recommend that where public authorities intend to bid for EIB funds, or are aware of others who are making a bid, they assess the scalability of that project so that, where possible, a bundled bid can be made. This will enable the benefits of the project to be achieved in more areas. Furthermore, small business associations and chambers of commerce should encourage SMEs to coordinate and work together to propose projects that they might mutually benefit from.**

## **The European Investment Bank’s processes**

41. During our evidence gathering we have heard a number of criticisms of the EIB’s processes, which the Bank should reflect on. Officials from UKREP told us that the EIB is risk averse, as has been mentioned above. The UK have called on the EIB to take on more risk. They explained to us that the EIB was in a position to take on more macro risk, because the bank is capital rich. Furthermore, it could take on more micro risk in respect of its areas of operation. For example, it was suggested to us that more could be done by the EIB to work directly in the SME space, rather than relying on a partner body.
42. Officials of the Irish Permanent Representation to the EU concurred that the EIB was risk averse. He also suggested that there were structural issues which stemmed from the statute and rules of the EIB. In particular there was the problem of the scale of projects, which could be resolved to some extent through bundling. In addition, because the EIB could only fund up to 50% of the project, creativity was required by the project proposers to source alternative funding.

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<sup>9</sup> Written evidence from the Irish Government

43. Officials from UKREP, the Irish Permanent Representation to the EU and the Welsh Government all agreed that the EIB had vast expertise that they could be putting to better use. Officials of the Irish Permanent Representation to the EU said that the EIB's expertise should be offered regardless of the attachment to projects. In addition, UKREP said that the EIB's expertise would help Member States to design instruments for growth. They argued that if the Bank was to pass on the expertise it should be possible to allow other organisations to do the lending and carry forward the project.
44. The Welsh Government thought that the exchange of best practice had to be encouraged among potential borrowers from the Bank. The EIB explained that its European PPP Expertise centre (EPEC) was a forum where Member States' could discuss their experiences of using private finance instruments. In addition a number of countries have benefited from establishing a single point of contact to engage with the Bank at a strategic level, which was a practice that others could benefit from.
- 45. We call on the European Investment Bank to review its processes to explore whether it is being as effective as it can be. We have heard praise for the EIB's expertise, but it has been made clear to us that this should be made more readily available, so that it is not only dispensed in relation to a particular project. Furthermore, we have heard of elements of good practice with respect to a particular country. Where this is happening, such as in establishing a single point of contact, the Bank should roll out these practices so that all countries can achieve the maximum benefit from working with the EIB. However, the most emphatic message we have received during this inquiry is that the Bank is risk averse. We call on the EIB to assess its levels of risk, the incidences of defaults on a loan, and explore how it might de-risk projects. The EIB is an institution with a key role to play in supporting the EU's economic recovery – it is our view that the Bank has to step into that role more confidently and assert more influence.**