



BRIEFING PAPER

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The European Investment Bank

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Contents:

1. The EIB's membership
2. How the EIB works
3. Brexit issues
4. The European Investment Fund
5. Further reading



Contents

Summary	3
1. The EIB's membership	4
2. How the EIB works	5
3. Brexit issues	7
3.1 The UK's capital contribution to the EIB	7
3.2 A continuing relationship with the EIB	7
3.3 Access to loans	8
3.4 A UK replacement for the EIB	8
4. The European Investment Fund	9
5. Further reading	10

Summary

The European Investment Bank (EIB) was set up in 1958 under the terms of the Treaty of Rome.¹ Based in Luxembourg, it is the European Union's bank, lending to projects that contribute to growth and employment within Europe.

The EIB is owned and controlled by the EU member states, and 91% of its lending has gone to countries within the EU. However, it does also back projects that are outside the EU, so long as they are economically sound and in line with the Bank's policy goals.

The Bank leverages capital paid in by its members to raise money on international bond markets at low rates, and lends out this money to projects. It chooses the projects to lend to based on the priorities of the EU, with decisions taken by a Board of Directors nominated by the EU member states.

The UK has paid in €3.5 billion in capital to the EIB (16% of the total). Since the Bank's founding, projects in the UK have received €117 billion in loans, 9% of the total lent.²

There is considerable debate about how the UK will work with the EIB after it leaves the EU. The main points of contention surround the capital that the UK has paid into the Bank, what any ongoing relationship with the Bank would look like, whether projects in the UK will continue to receive loans, and whether the UK could create its own replacement for the Bank.

The European Investment Fund, an offshoot of the EIB partly owned by private financial institutions, supports small and medium-sized enterprises throughout Europe by providing risk financing (for example, by backing venture capital firms). Its funding of UK venture capital has slowed since the UK's vote to leave the EU, although potential replacements have been mooted by the UK Government.

¹ [Some dates and figures](#), EIB.org, retrieved 6 November 2017

² [Projects financed](#), EIB.org, retrieved 16 November 2017

1. The EIB's membership

The Statute of the EIB, in line with Article 308 of the Treaty on the Functioning of the European Union, defines its members as the EU member states.³ These states jointly own and control the Bank: they provide the capital which the Bank leverages for its operations, and they nominate ministers to serve on the Bank's Board of Governors, which takes decisions on how the Bank operates.

Although countries which are not members of the EU do not have any ownership or control of the Bank, they can still receive loans from the Bank for projects that are in line with the Bank's public policy goals – indeed, as the below table shows, over its existence just over 9% of the total value of loans from the EIB has gone to countries outside the EU.

Total loans from the EIB, by region, 1959-2017

€ billions, not adjusted for inflation

	€ billions	% of total
European Union	1,182.0	90.7%
EFTA countries	4.6	0.4%
Enlargement Countries	39.1	3.0%
Eastern Europe, Southern Caucasus and Russia	9.5	0.7%
Mediterranean countries	31.2	2.4%
Africa, Caribbean, Pacific countries + OCT ^a	17.9	1.4%
South Africa	3.0	0.2%
Asia and Latin America	16.5	1.3%
Total Amount	1,303.8	

Note: (a) OCT = overseas countries and territories.

Source: EIB.org, retrieved 18 October 2017

³ [EIB statute](#), 1 July 2013, Article 3

2. How the EIB works

Although the EU member states have all provided capital for the EIB, it does not directly lend this money out to projects. Rather, it leverages its capital to borrow on international bond markets, using its very high credit rating⁴ to borrow at good rates and then lending this money.

The Bank lends to projects that it thinks will further its policy goals. At present, these are:

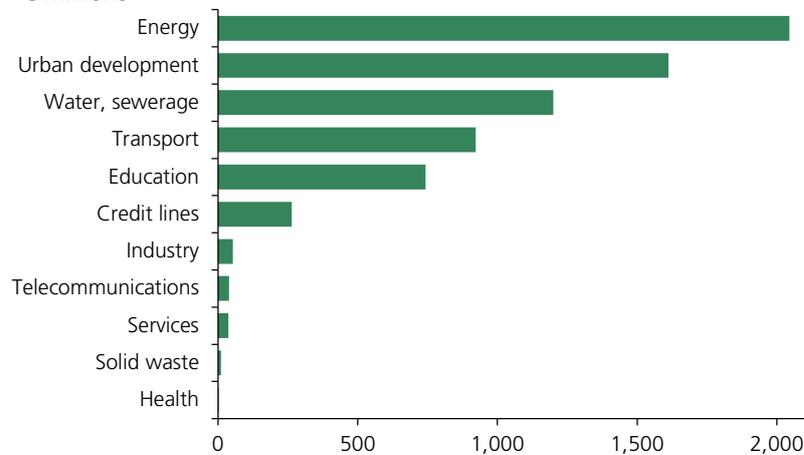
- [Innovation and skills](#)
- [Small and medium-sized enterprises](#)
- [Infrastructure](#)
- [Climate and environment](#)

These links go to further details on each of these policy areas on the EIB's website.

The EIB publishes details on every project that it has financed. A sectoral breakdown of all the projects that it financed in the UK in 2016 can be seen below.

EIB loans to the UK, by sector, 2016

€ millions



Source: EIB.org, retrieved 7 November 2017

An up-to-date list of all the projects financed by the EIB in the UK in 2017 can be found [here](#).

Day-to-day decisions in the running of the Bank, including decisions on which projects should be funded, are taken by the Board of Directors. This Board is nominated by the member states and the European Commission – each state nominates one director, the Commission nominates one, and nineteen alternate directors are also nominated by different groupings of member states, with greater weight given to larger and richer states.⁵ Greater weight is also given to wealthier

⁴ The EIB [has AAA-ratings](#) with all three major rating companies.

⁵ For example, Germany, France, Italy and the UK each nominate two alternate directors; at the other end of the scale, Bulgaria, the Czech Republic, Croatia, Cyprus, Hungary, Malta, Poland, Slovenia and Slovakia nominate four alternate directors between themselves.

countries by the voting mechanism, which states that normal decisions are made by “at least one third of the members entitled to vote representing at least 50% of the subscribed capital”.⁶

Box 1: Funding example: Thames Tideway Tunnel

The largest project funded by the EIB in the UK in 2016 was a £700 million loan towards the Thames Tideway Tunnel, the largest infrastructure project ever undertaken by the UK water industry.⁷ This project is intended to upgrade London’s Victorian sewer system, to cope with the fact that its existing sewers currently overflow into the Thames on a weekly basis – when they were first constructed, this would happen only once or twice a year, during heavy storms. By building a 25 kilometre tunnel under and alongside the Thames, the sewage can be transported safely to Beckton Sewage Treatment Works, which will reduce pollution in the Thames.⁸

The entire project is projected to cost £4.2 billion and will take seven years to build across 24 different sites, with tunnelling starting in 2018. The EIB loan goes some way towards offsetting this cost, and will be drawn down in ten tranches and paid back over 35 years, at a variable interest rate linked to RPI inflation.⁹

⁶ [EIB statute](#), Article 10.

⁷ [United Kingdom: GBP 700m EIB backing for Thames Tideway Tunnel](#), EIB.org, 12 May 2016

⁸ [Our solution](#), Tideway, 17 July 2017

⁹ [Debt summary – Q2 FY17/18](#), Tideway, 5 October 2017

3. Brexit issues

As with most details of the UK's future relationship with the EU, it is not yet clear how the UK will interact with the EIB after it leaves the EU. Some of the largest outstanding issues are listed below.

3.1 The UK's capital contribution to the EIB

The UK has agreed to provide €39 billion of the EIB's capital, as per Article 4 of the EIB's statute. However, the statute also provides that only around 9% of this money had to be paid in immediately, with some or all of the remainder to be called in if the Bank's Board of Directors deems it necessary. This means that as of December 2016, the UK had contributed just under €3.5 billion.¹⁰

When the UK leaves the EU, under the current rules it would cease to be eligible to be a member of the EIB. The EU has proposed that its capital contribution would therefore be returned, once all the EIB's outstanding loans at the time of the UK's withdrawal have concluded; this could take until 2054, according to Alexander Stubb, the EIB's vice president.¹¹

The issue is being discussed as part of the ongoing negotiations on the UK's withdrawal. Specifically it is part of negotiations over the so-called 'divorce bill', more technically referred to as the 'single financial settlement'. The UK Government has been non-committal in public on this issue, with a PQ by Matthew Offord MP resulting in the following response:¹²

The question concerns the future relationship between the UK and the EIB. This is something that will be determined as part of the negotiations on the UK's exit from the EU and the Government will not be giving a running commentary on these negotiations. However, the Prime Minister has made clear that as part of the negotiations on the UK exiting the EU, we will seek to determine a fair settlement of the UK's rights and obligations as a departing member state.

3.2 A continuing relationship with the EIB

Under EU law, the UK will cease to be a member of the EIB after Brexit. However, there have been suggestions that its relationship with the EIB could continue in some form. The Chancellor, Philip Hammond, suggested as much in his Mansion House speech on 20 June 2017:

In the long-term, it may be mutually beneficial to maintain a relationship between the UK and the EIB after we leave the EU.

And we will explore the options together.

But we cannot take chances. So we will be prepared, in case we do not maintain that relationship.¹³

¹⁰ [EIB 2016 Financial Report](#), table H.1.

¹¹ [Brexit: EU bank may not fully repay UK until 2054](#), *BBC News*, 27 October 2017

¹² [PQ 2507 \[European Investment Bank\]](#), 3 July 2017

¹³ [Mansion House 2017: Speech by the Chancellor of the Exchequer](#), HM Treasury, 20 June 2017

This position was echoed in the response to a question by Seema Malhotra MP on the UK's future relationship with the EIB on 5 September 2017, when David Davis said:

So far, the negotiations have only been about the departure arrangements—what would happen in the event of a rift—but when we get to the point of talking about the ongoing relationship, I think we will be looking to maintain that ongoing relationship.¹⁴

The Government has not yet made any statements on the exact form that such a relationship could take.

3.3 Access to loans

The EIB does provide loans to countries outside the EU, as shown in the table in section 1 of this response. This implies that the EIB could potentially continue to fund projects in the UK after Brexit.

However, EIB lending outside the EU is governed by a series of mandates from the European Union in support of EU development and cooperation policies in partner countries. As a result, any continued lending to the United Kingdom would have to be unanimously agreed by the EIB's board of governors (the finance ministers).

Because the vast majority of loans go to EU member states (and much of the remainder goes to the EFTA countries and countries that are seeking to join the EU), it seems likely that the UK would have access to significantly less funding than it does now, if it has access to any at all.

Indeed, there have been some news reports (see, for example, [The Times, European Investment Bank cuts off cash for British building projects due to Brexit](#), 22 August 2017) suggesting that the EIB has already decided not to make long-term loans to projects in the UK while the Brexit negotiations continue.

3.4 A UK replacement for the EIB

In the event that the UK does not secure an ongoing relationship with the EIB, one of the ideas that has been floated is that the UK could set up its own replacement. Werner Hoyer, president of the EIB, described this as an “enormous challenge”, saying that “it would take at least a decade” to get such a bank to the requisite size; another expert suggested that the UK would require between £15 billion and £20 billion of capital.¹⁵

The Government has steered clear of suggesting a UK replacement for the EIB so far. The Chancellor stopped short of suggesting it as a possibility in his Mansion House speech, stating only that he was “expanding the support available to capital funding in the UK”.¹⁶

¹⁴ HC Deb 5 September 2017 c63

¹⁵ [UK infrastructure bank would face hurdles, say experts](#), *Financial Times*, 22 October 2017

¹⁶ [Mansion House 2017: Speech by the Chancellor of the Exchequer](#), HM Treasury, 20 June 2017

4. The European Investment Fund

Founded in 1994, the European Investment Fund (EIF) provides investment and loans targeted specifically at small and medium enterprises (SMEs) in Europe. It is controlled by the EIB, the European Commission, and financial institutions from the EU member states.

In 2016, the EIF invested €3.2 billion in 117 funds, such as venture capitalists and angel investors. Its guarantees and securitisation are expected to support 174,500 enterprises, and its microfinance and social entrepreneurship instruments supported 19,600 small enterprises.¹⁷

Since the UK's vote to leave the European Union, EIF funding of UK venture capital firms has markedly slowed. The EIF said immediately after the vote that it would "not change its approach to operations in the UK," and indeed it states that lending to UK projects will continue. However, because of the potential impact of Brexit, it now also says that "due diligence on them now needs to be more thorough, and take into account a wider range of factors."¹⁸

The Chancellor announced measures to help the UK's venture capital industry in November 2016, by making an additional £400 million available to the British Business Bank, a government-owned development bank which backs venture capital firms.¹⁹ In August 2017, this was followed up by the launch of a consultation on setting up a National Investment Fund to replace the EIF.²⁰ The consultation, [Financing growth in innovative firms](#), closed in September 2017; as of the start of November, no response had been published.

¹⁷ [EIF Annual Report 2016](#), EIF.org, 25 April 2017

¹⁸ [UK tech investors face loss of significant funding after Brexit](#), *Financial Times*, 10 May 2017

¹⁹ [Chancellor announces additional £400m for British Business Bank to support innovative scale-up businesses](#), British Business Bank, 23 November 2016

²⁰ [New National Investment Fund to back innovative UK firms](#), gov.uk, 1 August 2017

5. Further reading

The Library has produced some other work on the EIB:

- [Brexit: future funding from the European Investment Bank?](#) (blog entry, November 2016)
- Library briefing paper [Brexit: UK Funding from the EU](#) (December 2016), sections 5 and 7.3

The EU has also produced some useful material:

- European Parliament: [EIB factsheet](#) (June 2017)
- European Parliamentary Research Service: [The €315 Billion Investment Plan For Europe](#) (December 2014)

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