

European and External Affairs Committee

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Scrutiny Inquiry: The Role of European Investment Bank in Wales

1. Purpose

To consider practical issues, including draft terms of reference and programme, concerning a scrutiny inquiry into the role of the European Investment Bank in Wales.

2. Recommendations

It is recommended that the Committee:

Approves draft terms of reference set out in Section 5;

Approves the programme set out in Sections 7; and

Considers possible witnesses set out in Section 8.

3. Background

The European Investment Bank (EIB) was created by the Treaty of Rome in 1958 as the long-term lending bank of the European **Union**. Its shareholders are the Member States; and the Board of Governors is composed of the Finance Ministers of these States. It has subscribed capital of €250 billion and is a non-profit making institution. The task of the Bank is to contribute towards the integration, balanced development and economic and social cohesion of the EU Member States. As a policy-drive bank, the EIB raises substantial volumes of funds on the capital markets which it lends on favourable terms to projects furthering EU policy objectives. The EIB finances projects across most sectors, within the EU:

Cohesion and convergence - promotes developing regions within the EU, through, for example: transport and telecommunications infrastructure; investment in industry and the services sector; urban infrastructure; social housing (particularly stock transfers as part of a wider urban regeneration strategy).

The European Investment Bank (EIB) Small and medium sized enterprises (SMEs) - indirect support through credit arrangements with local intermediary bank and financing institutions and the European Investment Fund.

Environmental projects - it focuses its activities on the priorities of the European Union's 6th Environment Action Programme, for example: urban renewal and sustainable urban transport projects; provision of water and wastewater treatment; tackling climate change; and waste management, including recycling.

Implementation of the Innovation 2010 Initiative launched by the EIB Group in response to the Lisbon agenda. It focuses on three objectives: improving access to education and training; supporting research, development and innovation; promoting the diffusion of information and communications technology (ICT) networks.

Trans-European Networks (TENs) - large infrastructure networks of transport, energy and telecommunications.

Promoting sustainable, competitive and secure energy sources, in line with the "Action Plan for EU energy policy 2007-2009" (March 2007). The EIB has recently increased its lending targets for this type of project. It favours projects using less developed renewable energy sources such as biomass. The EIB's energy efficiency target areas include investment programmes in sectors such as social housing, schools, industry and district heating networks.

Support for health and education - the majority of financing here goes towards tangible investment e.g. building hospitals and schools, medical equipment, or ICT technologies such as e-health and e-learning, but a growing proportion goes to intangible investment such as student loans. It has a long track record of lending to public-private partnerships in the health and education sector in the UK.

The EIB does not provide grants. It has two main financing facilities:

[Individual Loans](#) for capital spending programs or projects costing more than EUR 25 million which can be up to 50% of the investment cost. The EIB's clients are public and private sector bodies and enterprises - however, it does not have to be a public private partnership project to qualify. The project promoted by the public or private client must be in line with the eligibility criteria of the EIB and be economically and financially sound. For examples of projects in Wales which have been granted loans by the EIB; see Annexes A and B. Global loans consisting of loan facilities to banks and financial institutions to help them to provide finance to customers, for example SMEs, with eligible spending programs or projects costing less than EUR 25 million. Lending decision under this scheme remains with the clearing bank or finance house with access to EIB funds.

The European Investment Fund (EIF) was established in 1994 as an agency providing financial assistance to small and medium-sized enterprises (SMEs). Since June 2000, the European Investment Fund has carried out all of the EIB's venture capital activity, as it became the EIB's specialist risk capital arm'. The EIF does not provide assistance directly to SMEs, but instead provides loan guarantees to private banks (intermediaries) which SMEs can access - venture capital and portfolio guarantees.

European Commission and EIB joint structural funds financing initiatives

Improving access to finance and risk capital for SMEs is a key element of the [Union's Growth and Jobs Agenda](#) and is highlighted in the EU guidelines for the structural funds programmes. The EIB is working with the European Commission's DG for Regional Policy and the

European Investment Fund to promote financing initiatives for the 2007-2013 programme which managing authorities can adopt, if they choose to do so:

JEREMIE: Joint European Resources for Micro to medium Enterprises - it aims to improve access to capital for small and medium enterprises (SMEs) which often have difficulty with this; in particular, the supply of micro credit, venture capital, loan or guarantees. It draws on resources from both the Structural Funds and the EIB.

JESSICA: Joint European Support for Sustainable Investment in City Areas - the aim is to allow managing authorities to make more effective use of EU structural funds allocations (in Convergence of Competitiveness programmes) by creating Urban Development Funds or Holding Funds at a local or regional level. It would allow funds to be recycled, and regional or local authorities to acquire an investment stake in urban development projects. The EIB can offer additional loans and the expertise of the Bank in support of the Funds.

Another initiative is under preparation - JASMINE - which would increase access to micro-credit.

4. Welsh Assembly Government and the European Investment Bank

The "One Wales" coalition agreement between the Labour Party and Plaid Cymru, setting out a vision for the new Welsh assembly Government, makes the following commitment: "We will explore options for a public sector investment agreement with the European Investment Bank." The previous Welsh Assembly Government considered that it was not eligible to borrow money directly from the EIB. It appears that Section 71 of the GoWA 2006 gives the new Welsh Assembly Government sufficient legal authority to borrow from the EIB. In practice, however, it is likely that approval would be required from HM Treasury, which controls overall government borrowing. The previous Welsh Assembly Government acknowledged the European Commission and EIB joint initiatives **JEREMIE** and **JESSICA** in both draft European Regional Development Fund (ERDF) operational programmes for West Wales and the Valleys (convergence programme) and East Wales (regional competitiveness programme). It made the following statement of its intent with regards the two initiatives: "The Welsh Assembly Government welcomes the European Commission's JESSICA and JEREMIE initiatives. Both of these initiatives are operated jointly between the European Commission (DG Regio), the European Investment Bank (EIB) and the European Investment Fund (EIF), and open up options for lending facilities to complement ERDF activities." It is a matter for the Welsh Assembly Government and the Welsh European Funding Office to decide whether to explore this route and incorporate these initiatives into the structural funds programmes in Wales. They would also have to decide how much of their overall EU funding allocation for the 2007-2013 programmes to channel in this way. **5. Terms of Reference** It is suggested that the Committee:

Explores the opportunities offered by the European Investment Bank (EIB) for funding infrastructure projects in Wales; and
Makes recommendations to the Welsh Assembly Government to facilitate EIB investment in Wales.

6. Pertinent Questions

The Committee may wish to consider the following questions during its inquiry:

- What type of investment opportunities and support are offered by the EIB for Wales?
- What are the benefits or otherwise of working with the EIB?
- To what extent can and is the Welsh Assembly Government working with the EIB?
- What is the Welsh Assembly Government's intention in relation to its One Wales commitment to explore co-operation with the EIB?
- To what extent are other organisations in Wales benefiting from EIB financing?
- What obstacles, if any, exist to the take up of these opportunities?
- How these opportunities are promoted and take up encouraged in Wales?
- Are these efforts effective or could more be done by the various institutions?
- What lessons can we learn from other UK and European regions?

The inquiry may decide to focus on particular areas of investment support from the European Investment Bank - for example, investment in environmental projects, social housing, education or health. The Committee may decide to focus on the particular cases of the JEREMIE and JESSICA joint initiatives of the European Commission and the EIB within the framework of the structural funds programmes.

7. Provisional programme for the inquiry

The Committee may wish to consider conducting a public consultation as well as taking evidence in Committee sessions. The following programme for the inquiry is proposed:

Date	Activity
25 September 2007	Agree Terms of Reference and Programme
October 2007 - December 2007	Written Consultation Exercise
October 2007 - December 2007	Receive evidence in Committee
January 2008	Consider key issues to be included in report
February 2008	Consider draft report

March 2008	Approve final report
April 2008	Publish report / plenary debate

8. Possible Witnesses

The following are potential witnesses who could be invited to give evidence to the Committee. The final list will depend on which aspects of the work of the European Investment Bank the Committee decides to focus.

Welsh Minister(s) - First Minister, Minister for Finance and Public Service Delivery, Minister for Economy and Transport;
European Investment Bank;
European Commission, DG Regional Policy;
Members of the European Parliament;
Welsh Local Government Association;
Representatives from the private sector - Confederation of British Industry, Federation of Small Businesses, Consultants / Contractors;
and
Organisations with experience of EIB funded projects in the United Kingdom.

9. Acknowledgement

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