

The European Investment Bank

The European Investment Bank (EIB) was set up in 1957 to provide long-term financing for projects which would further the policy objectives set by the European Community. The Bank provides funding to projects which contribute towards EU integration, economic development and social cohesion of the EU member states, but also to projects in other countries linked to the EU through various agreements (such as potential member states and the Western Balkans).

The EIB is the world's biggest international public lending institution, raising over €79 billion in a range of currencies (principally Euros, Pounds Sterling and US Dollars) and having signed loans of €79.1 billion in 2009. The Bank raises money through issuing *bonds*, and enjoys the highest possible *credit rating* as its borrowing is effectively guaranteed by the member states. In this way it can borrow at the lowest possible rates and pass these low rates on to its customers.

How does the EIB work?

The European Investment Bank operates like a *development bank*, such as the World Bank, providing long-term loans to projects that contribute to economic policy goals set by the European Union. It does not make grants, which are instead provided by the European Commission.

The EIB is a not-for-profit institution; however, it annually makes a profit and uses this profit as a funding reserve. The EIB does not charge fees and can offer very low rates to its customers. Its loans are for a period of four to twenty years, although loans can be offered over a longer period. The bank only contributes up to 50% of the cost of a project; the rest has to be raised through other sources.

The investment priorities of the EIB

The EIB structures its lending priorities around six main areas:

- Improving economic and social cohesion in the European Union by financing projects in poorer regions to help bring them to the same standards of living as richer regions.
- Financing projects that contribute to the EU meeting the objectives set out in the *Europe 2020 strategy*, which aims to create jobs, encourage 'green' economic growth and create an inclusive society by 2020.
- Supporting the development of Trans-European networks, which are large networks in the transport, telecommunications and energy sectors across the whole of the European Union.
- Support of EU development and cooperation policies in partner countries.
- Support for projects which contribute to environmental protection and improvement, including climate change and renewable energy.
- Support for small and medium-sized businesses.

Facts and Figures

- In 2006-10, the EIB made loans worth almost €302 billion. Nearly 90% of this was spent on projects within the EU (€266 billion).
- Between 2006 and 2010 the UK received over €21 billion from the EIB.
- Projects in the UK that have received loans from the EIB include the redevelopment of the East London tube line in time for the 2012 Olympic Games, which received a £450 million loan from the EIB in 2005.
- In 2010, EIB signed loans amounting to €72 billion (€5 billion of which was loaned to projects in the UK).
- EIB net profit in 2009 was €1.9 billion.

Arguments

For

- Projects can borrow money from the EIB at far lower rates than would be possible commercially, which can substantially lower the cost of a project.
- The EIB contributes to closer European integration by focusing its lending on EU policy objectives such as research and design, and greater cohesion among the different regions of the EU.

Against

- The EIB has often been criticised for its lack of transparency, accountability and the way it addresses environmental issues in its work.
- EU member states have a very advanced banking and lending sector. If the EIB were wound up, then the private banking sector could easily replace its activities.

Quotes

'As the European Union's long-term financing institution, the EIB supports the Union's policies by financing projects deemed economically and financially viable.'
Philippe Maystadt, President, EIB, 2005.

'The EIB has drawn up various codes of conduct but fails to comply with good corporate governance rules which it is required to observe in its capacity as a public bank and the largest supranational lending institution in the world.' Mónica Ridruejo MEP, 2004.

Technical Terms

Bonds: A loan typically given to banks by investors over a fixed term, in return for a fixed rate of interest upon repayment

Credit rating: An assessment designed to tell if an individual, business or even a country will be able to pay back any loans it takes out

Development bank: An institution that provides financing and advice for development purposes.

Europe 2020 strategy: Underpins all EU policy regarding the Single Market. It particularly aims to create jobs and an inclusive society.

Links

- <http://www.eib.org/>
- http://europa.eu/institutions/financial/eib/index_en.htm