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**Y Gwir Anrh/Rt Hon Rhodri Morgan AC/AM  
Prif Weinidog Cymru/First Minister for Wales**



Llywodraeth Cynulliad Cymru  
Welsh Assembly Government

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Michael German AM  
National Assembly for Wales  
Cardiff Bay  
CF99 1NA

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At First Minister's Questions on 11<sup>th</sup> December, you asked about the level of investment in Wales by the European Investment Bank (EIB) since 2002. I said I would write to you about this.

There are several factors which have contributed to the variation in the relative levels of investment by the EIB in different parts of the UK.

First, because the EIB raises money on capital markets, it is considered a private lender, despite its not-for-profit status. The EIB provides loans; it does not provide grants on behalf of the EU. Under Treasury rules, borrowing from the EIB funding would simply replace other sources of funds and not stretch them. The Assembly Government has been in discussion with the EIB on two new funds, JESSICA and JEREMIE. We hope that, by using them in combination with convergence funding and the private sector, it will enable us to lever-in EIB funds without their counting as Assembly Government borrowing. These funds are still in development and we are fully engaged in the process of buying the two new funds to fruition.

Because Wales has one of the two British convergence areas, and in the 2000-2007 record had contained Objective 1 and 2 areas, it has had access to EU structural funds that other areas of the UK have not. The EIB has therefore been a less attractive source of funding for Wales than for other regions.

Another factor is that the EIB gets involved with large scale projects in general. It provides direct finance to major investment schemes costing over €25m. Smaller-scale investments are generally supported indirectly through financing arrangements (credit lines) with local banks or other financial intermediaries (for example, providing support for SMEs). Additionally, the EIB will only lend up to 50% of a project, meaning that the remainder of the funding must be provided by a public and/or private body. There has been more scope for meeting the €25m threshold in England and Scotland due to a much greater use of PFI and other private/public joint funding arrangements. For example, the EIB has funded a large number of school and hospital PPP projects in England and Scotland recently. This does not mean that Wales is ignored: in the same period the EIB has financed an expansion in R&D at Ford in Bridgend, and invested heavily in the water and waste water sector, including Glas Cymru.

A fourth factor is the nature of projects in the UK that the EIB has been involved in historically. Some of the projects in which it has invested in other areas of the UK have been on a very large scale, such as €556m in the Channel Tunnel Rail Link and the €440m in the London Underground, distorting the picture of investment. Others have not been applicable to Wales to the same extent so far, with the EIB involved in housing stock transfer across the UK. This process is now beginning in Wales, but at time of writing there has only been one completed housing stock transfer (Bridgend, in which the EIB has invested). This process has been going on far longer in England and far more have been completed, meaning that there has been far more scope for the EIB to invest in this area in England. As more housing stock transfers take place in Wales, local authorities are investigating the EIB as a potential lender, in competition with other commercial lenders operating in Wales.

The EIB has invested around £12bn in the UK and £250m specifically in Wales. This does not mean that Wales has only seen the benefit of £250m of the £12bn invested. Some of that £12bn has been invested in projects that have a UK wide benefit, for example the EIB invested €445m in BT to improve communication networks, something which will be of direct benefit to Wales as well as the rest of the UK. There are large EIB sponsored projects that are cross border, meaning that the spending shows as UK rather than Wales, such as the €558m that has been invested in upgrading the national gas transmission network in Wales and the North East of England.

I hope this answers your questions regarding levels of EIB funding in Wales in the past. We are committed to maximising all funding streams available to Wales, including European funding and private finance in appropriate circumstances. Our record on utilising EU structural funds speaks for itself, as we take steps forward into new avenues of European based funding.

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