EIB – full retreat from the UK?

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22/08/2017

Rarely does one see anything on LinkedIn that prompts a belly laugh, but today a cheeky bit of clickbait posted by a frequent and controversial market commentator on the future involvement of the EIB in UK projects prompted a click-through – and left this hack cackling.

The link led to a news story in *The Thunderer* and had been posted by the so-called Head-wind Jonez, an industry figure who is notoriously active on LinkedIn and whose true identity is a secret loosely-guarded by a select group of industry gossips.

It was highly entertaining to read in this piece by *The Times* that the UK infrastructure pipeline was doomed to extinction, starved of funding as the EIB turned off the cash tap in anticipation of Brexit.

We are told (breathlessly) that the UK is facing a "multibillion-pound shortage of funding" for schools, hospitals and social housing projects as the "world's biggest public lender" shuns the nation since Parliament triggered Article 50 in March (2017), followed in June by the referendum which will eventually result in our exiting the EU.

Let's not tarry over whether there is a pipeline of UK transactions in the social infra space (there isn't); whether there is real requirement for the EIB to support what few projects are in procurement (there isn't); whether the multilateral in reality competes with commercial lenders bringing minimal additionality to transactions, often slowing processes to their detriment (it does); whether the UK is a 16% shareholder in the EIB (it is) and it is one of the more hefty contributor states (it is); or whether the borrower enjoyed cheap EIB debt (it surely did) – let's stick to the hard facts.

But the hardest fact is that – we're really going to need the EIB before long!

EIB in the UK – the hard facts

Back in May, the IJ data team pulled together some rather interesting findings from our database identifying EIB full-year activity from the start of 2011 to the end of 2016, singling out its lending to the UK for the past six years.

This revealed that EIB lending to UK projects peaked in 2015 with $2.34bn lent across 13 deals, a rise of 187% on 2011's $813m lending volume. These 2015 stats far outstripped EIB lending to other EU countries that year, where only eight EIB-supported projects made it over the line.

In a torpid infrastructure market, the EIB – whether the lending community actually wants it or not – has actually been fairly active of late in the UK.

The EIB points to the three loans it has made to the UK since the start of the year (2017) – not one a project finance deal (due to lack of opportunity) – but all these were signed off before the end of February, more than one month before Article 50, but noticeably during the build up to it being triggered and the subsequent referendum.

The three loans are:

- £150m loan to Sovereign – the sixth largest housing association in the UK – to support its plans to build 4,500 new homes over the next three years
- £184m for Northern Powerhouse Investment Fund to boost the North of England's economy
- £122m to The Midlands Engine Investment Fund – £288m fund-of-funds that supports a wide range of firms from early-stage businesses seeking seed equity or small business loans, to SMEs wanting loans or equity funding to take advantage of growth opportunities

As to the year before (2016), the EIB was involved in handful of deals in the UK that are actually of interest to IJ readers. They included such delights as:

- Beatrice Offshore Wind Farm (588MW) – £300m EKF covered loan and a £225m uncovered loan
- Caithness-Moray Subsea Link – £500m
- Yorkshire Schools PSBP Batch 4 PPP – £56m
- Humber Gateway – £81.55m

Ach – and a bunch of other ones. Bottom line is that the EIB has been plenty active on the few deals that are in financing right now in the UK… but the bullet points are killing the pace of the story.

A source at the EIB says: "We are carrying out extensive due diligence. We need to make sure that contracts signed now will be covered both when the UK is an EU member – and afterwards. That is something that the lawyers have been working on in cooperation with HM Treasury.

"That process is ongoing and there is a certain period of uncertainty, but as the Chancellor highlighted in his slightly-delayed Mansion House speech before the summer, he is keen for the bank to continue to engage in the UK while the UK remains a member state."

However, he does add: "There is a slow-down in new signatures and the in the pipeline of projects to be looked at."

The EIB – the UK needs you… finally

The worrying thing about the EIB pulling back from the UK market – even though it is a 16% stakeholder in the bank and any number of other reasons why it should remain active (including that it will lend to Morocco et al at the drop of a hat) – is that, with Brexit, the UK is likely really going to need it.

Looking back at the start of the last financial crisis, the EIB's involvement in a transaction lent a great deal of confidence to commercial lenders who were able to pass up the line that it was lending alongside it proving a deciding factor for credit committees at a crucial moment in a deal.

There is every likelihood that – post Brexit – we will face the same issue and, if the UK is to close deals in that new reality, it will need the support of EIB to get them over the line.

And finally – a truism from the EIB

It is not so long ago that an EIB mandarin muttered in my shell-like that when he had nervously asked about the impact of Brexit on his role as a Britisher, he was told: "Don't worry old boy [or words to that effect], you've still got a job… you just don't have a career."