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EUROPE

THE INVESTMENT GAP:

The UK's efforts to replace the
European Investment Bank

FOREWORD

As time passes following the departure of the United Kingdom from the European Union, more of the implications of that decision come to light. In this detailed and original report, Stephen Hunsaker and Peter Jurkovic outline one such implication – the impact of the UK losing access to funding from the European Investment Bank (EIB).

This forensic analysis outlines not only the role that development banks play in providing longer term financing for projects the private sector might be reluctant to support, but also the specific role the EIB played in infrastructure investments in the UK prior to 2020. It also teases out some of the potential and ongoing implications of a lack of access to that investment despite the existence of a number of UK based banks intended to fill that gap.

I am tremendously grateful to the two authors for putting together such a clear and comprehensive piece of work, and to the team at UKICE for their work in the editing and design processes.

As ever, I hope that you will find what follows interesting, and do please get in touch if it raises any issues you would like to discuss further.

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EXECUTIVE SUMMARY

- The European Investment Bank (EIB) financed some of the most critical infrastructure projects in the UK over the last half-century.
- The EIB invested £146 billion into the UK (an average of £6 billion per year), in real terms, over the course of the 46 years it operated in the UK.
- Following the Brexit referendum, the UK lost access to EIB finance.
- The UK created or expanded four development banks to try and replace the lost investment.
- However, they have only been able to replace a third of EIB investment. Within critical sectors like infrastructure, this is even lower, a little more than an eighth has been replaced.
- The UK development banks are yet to fill the gap left by the EIB.
- The main replacement for the EIB, the UK Infrastructure Bank (UKIB), has not been able to reach its investment targets.
- The UKIB has only been recently established, meaning it has been unable to develop the necessary staff, networks, and expertise in order to meet its investment targets.
- Because the UKIB has a smaller capital pool, it has been prevented from being able to finance projects as ambitious and high-risk as those supported by the EIB.
- The cap set by the Treasury on the amount that the UKIB can borrow per year will likely limit the bank from significantly increasing its lending capacity.
- The UK development banks have so far been unable to invest in infrastructure projects of the same size as those financed by the EIB.
- The UK received finance for climate projects from the Green Investment Bank and the EIB. Neither bank now operates in the UK and the UKIB has been unable to replace the climate finance which they provided.
- The UK's British Business Bank has been able to replace and even surpass the amount of investment in small and medium enterprises (SMEs) previously provided by the European Investment Fund.
- In per capita terms, Scotland and Wales received the highest proportion of finance from both the EIB and the UK's replacement development banks.

INTRODUCTION

The European Investment Bank (EIB) played a significant role in supporting infrastructure projects, innovation, and small and medium-sized enterprises (SMEs) during the UK's membership of the EC/EU. The UK joined the EIB in 1973. Since then, it has been the UK's primary domestically-focused development bank, providing finance for some of its biggest projects, including the Channel Tunnel, the second Severn crossing, the Thames Tideway Tunnel, the Manchester Metrolink extension, and London Underground upgrades.

From 2009 to the end of 2016, the EIB lent on average £6.4 billion annually in real terms within the UK – reaching a peak in 2016 at £7.5 billion. Since the Brexit referendum, the UK has tried to replace the EIB in its development finance landscape. Three development banks have been established and another expanded to meet the need for public investment.

To date, those efforts have replaced only a third of the investment that the EIB was putting into the UK. £2.4 billion was invested in 2022 – the highest figure since the UK lost access to EIB finance. For important sectors like infrastructure, the UK development banks have only replaced close to an eighth of EIB investment. Furthermore, they have not yet been able to channel finance into the kinds of higher-risk and innovative projects that the EIB supported. However, the British Business Bank (BBB) has been able to surpass EIB investment for SMEs.

While there has been a reduction in the level of investment, the replacement of the EIB may, however, also create opportunities. The ability of the UK to set its own mandates for its development banks could allow it to direct them to tackle challenges such as regional inequality more directly than the EIB did. However, to date, there is little to suggest that the UK banks are channelling a higher proportion of finance into the UK's less developed regions.

DEVELOPMENT BANKS AND THE EIB

Development banks have key features which differentiate them from private commercial banks:

- **Patient finance:** While privately-owned banks are primarily responsible to shareholders, expecting quick and high returns on their investments. Development banks tend to be majority state-owned, meaning they are under less pressure to deliver short-term returns. This allows them to provide what is called '[patient financing](#)', in which lenders commit to long-term financing of projects.
- **Cheaper lending:** Because they are state-owned, development banks tend to have much [higher credit ratings](#). This allows them to borrow cheaply on capital markets and, therefore, offer cheaper lending than most private lenders.
- **Longer-term perspective:** Although state-owned, these banks are usually [independent](#) from direct government control. As a result, they are insulated from political interference and short-term political preferences, allowing them to pursue longer-term objectives.

As a result, development banks can perform some particularly useful functions:

- **Additionality:** Many development banks have mandates to provide 'additionality' - support to projects which would not have been carried out by the private sector without their involvement.
- **Crowding-in:** Development banks also aim to '[crowd-in](#)' private finance, using their expertise to take on more financial risk to make projects more attractive to the private sector and, consequently, mobilise private investment into these projects.



The European Investment Bank (EIB) is the world's largest multilateral financial institution. It has invested over a trillion euros since its inception. The EIB is jointly owned by EU Member States, and it is these which provided its initial capital.

The key features of the EIB are:

- **EU alignment:** The EIB is designed to support projects promoting the objectives of the EU.
- **Credit rating:** The EIB has an [AAA credit rating](#), which is the highest possible credit rating, allowing it to fund itself very cheaply and on-lend finance at very low interest rates.
- **Infrastructure and SMEs:** The EIB focused on innovation, climate, energy, infrastructure, and small and medium-sized enterprises (SMEs) with the majority of EIB finance channelled into infrastructure projects and SMEs.
- **Climate:** The EIB has recently rebranded itself as the 'EU's climate bank'. To fulfil this ambition, it aims for 50% of its investments to EU Member States to be dedicated to climate action and environmental sustainability.
- **Regional inequality:** One of the EIB's stated aims is to raise the living standards of economically weaker regions within the EU.

WHAT ROLE DID THE EIB PLAY IN THE UK ECONOMY?

Since 1973, the EIB has invested £146 billion in real terms (£89 billion in nominal terms) in over [1,000 projects](#), many in infrastructure and energy, within the UK.

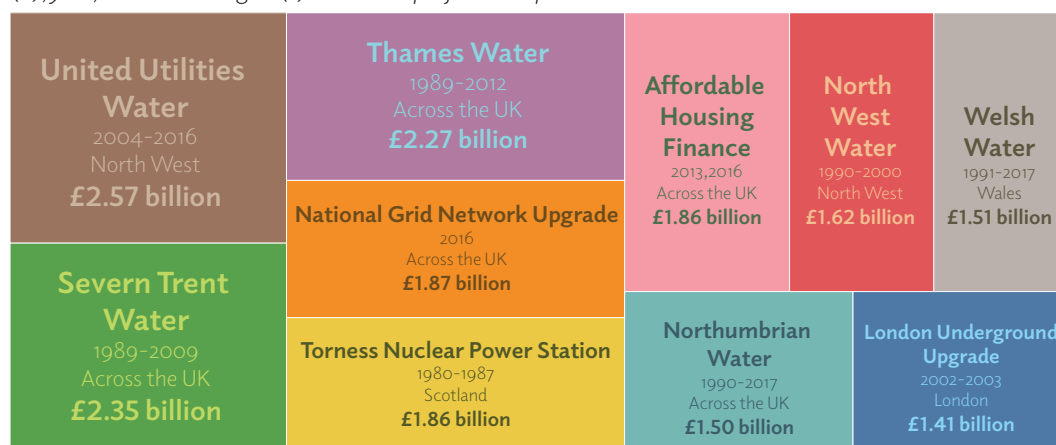
The EIB helped finance many [prominent projects](#) including the Channel Tunnel, the second Severn crossing, the Thames Tideway Tunnel, the Manchester Metrolink extension, and London Underground upgrades.

The largest projects supported by the EIB were related to the water and sewerage sector. These were financed over the course of many decades and across multiple regions, as water and sewerage projects tend to require a large amount of capital investment over decades.

Many of the largest EIB projects spanned decades and were related to water and sewerage infrastructure

Top 10 largest projects in the UK financed by the EIB with total project amount (£), year, and nation/region(s) where the project took place

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Source: European Investment Bank. Amounts in real terms using GDP deflator 2022 base year. Projects combined multiple funding instalments.

REGIONAL INVESTMENT

While the EIB has a stated aim to invest in less developed regions of the EU, it did not have quotas as to how much to spend in certain regions. This was a deliberate decision in order to avoid favouritism toward certain Member States. In the case of the UK, investment was largely focused in London, the North West and Scotland, with regions/nations such as the East Midlands and Northern Ireland receiving the least. This was in large part due to projects coming to the EIB for financing instead of the bank seeking out projects within specific regions. Therefore, regions with pre-existing infrastructure are more likely to seek EIB funding.

When investment is measured per capita, regions/nations such as the North East and Wales saw some of the highest levels of investment per capita, while the East Midlands was the least-supported region.

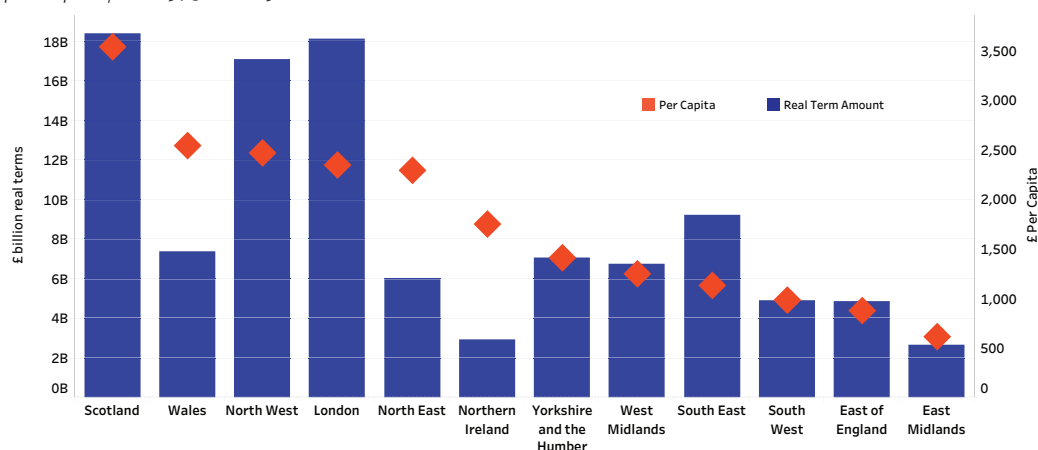
Scotland repeatedly received among the highest per capita share of EIB investment. It was not until the 1990s that investment started to shift towards London, which increased further in the 2000s when it received £648 per capita, in comparison the West Midlands, in second place, only received £380 per capita.

Finance was most equitably distributed across the whole UK during the 1990s, as the largest project was rail track renewal, which took place across nearly every region of the country.

The largest difference between per capita and real terms is among devolved nations

EIB investment by nation and region comparing in £ billion real terms and per capita from 1973 to 2019

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Source: European Investment Bank. Real terms during GDP deflator, 2022 base year

The 2010s saw the highest overall levels of investment from the EIB. 60% of the 20 largest EIB projects undertaken in the UK received financing during the 2010s.

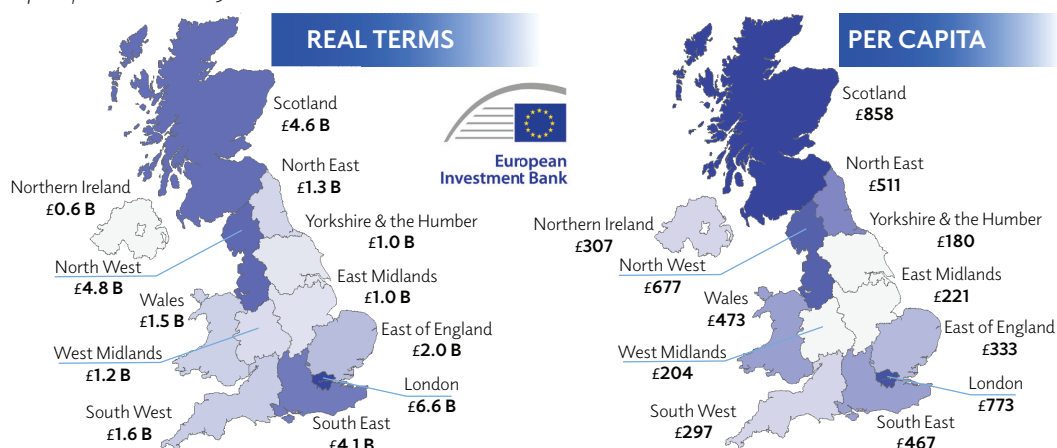
£44 billion was lent across the UK from 2010-2019, and 32% of that investment was not region-specific but covered either all of the UK or multiple regions. The EIB deliberately [boosted counter-cyclical financing](#) to mitigate against the sharp decrease in private investment following the 2008 financial crisis.

During the 2010s, EIB finance followed its historical trend with investment largely focused in Scotland, the North West, and London. Yorkshire and the Midlands received only 30% of what those regions received in per capita terms.

The 2010s show similar trends between real terms and per capita for EIB investment

Investment by the EIB by nation and region in real terms in £ billion and per capita from 2010–2019

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Source: European Investment Bank, Office for National Statistics. Real terms implies adjusted for inflation using GDP deflator with 2022 base year

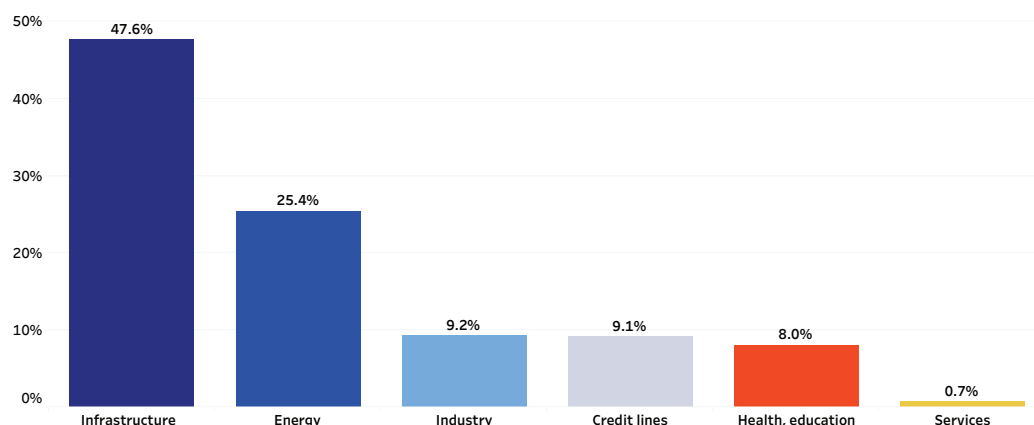
SECTORAL INVESTMENT

The EIB's primary aim was to support infrastructure projects. Nearly 48% of the EIB's project financing in the UK was classified as infrastructure. This can be further broken down into six different sub-categories: composite infrastructure, solid waste, telecommunication, transport, urban development, and water and sewerage. The two largest sub-categories were transport, which made up 40% of the infrastructure total, and water and sewerage, representing 33%.

Infrastructure projects constituted nearly half of EIB funding

Percentage of total funds from the EIB from 1973 to 2019 by sector

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Source: European Investment Bank. Percent of real terms.

In transport, investment was relatively equally divided between urban, rail, roads, and air transport. Some of the significant transport projects were the British Airways fleet modernisation, Heathrow Terminal 5, Stansted Airport, rail track renewals, and the M25 widening. Examples of larger projects include the London

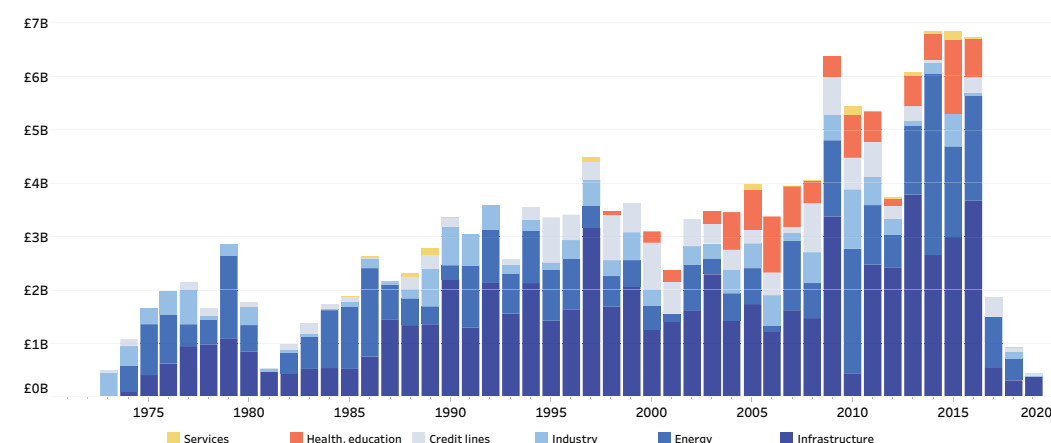
Underground, from upgrades and extensions of underground lines and new rolling stock to, largest of all, the Elizabeth Line.

In water and sewerage, while one-off projects like the Thames Tideway Tunnel were large, it was the decade-spanning investment into regional water companies that were the largest projects. Projects with companies like United Utilities Water, Severn Trent Water, and Thames Water were not only the largest water and sewerage projects but some of the largest EIB projects carried out in the UK.

The majority of EIB funding was invested in infrastructure projects

European Investment Bank annual investment by sector in real terms in £ billion

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Source: Data from European Investment Bank. Real terms using GDP deflator, 2022 base year

Energy made up 25% of all EIB project investment. 65% of this was power transmission, distribution, and electricity generation, of which the largest projects were focused on offshore wind farms and the national grid network upgrade.

Industry, of which a majority were manufacturing projects, made up 9% of all EIB investment, with half of that going to transport equipment manufacturing. The recipients were primarily automotive companies such as Ford, Jaguar, Rolls-Royce, and BMW.

When the EIB dramatically increased lending across the EU in the 2010s in response to the financial crisis, infrastructure and energy were the two sectors focused on. They made up over 75% of all EIB investment in the UK during the decade.

Examples include the renewal and upgrade of London Underground tracks; finance for United Utilities Water in the North West; and financing provided to offshore wind farm developments in the South East and Scotland. UK wide, the biggest projects during this decade were the national grid network upgrade and affordable housing financing.

The EIB also supported multiple climate projects in the UK such as the development and expansion of the UK's [onshore](#) and [offshore wind farms](#), and [local government](#) energy efficiency measures in infrastructure and housing. In 2016, of the £5.5 billion that the EIB committed to the UK, [£1.2 billion was dedicated to renewable energy investment](#) and energy efficiency measures in infrastructure and housing.

HOW HAS THE UK REPLACED EIB LENDING?

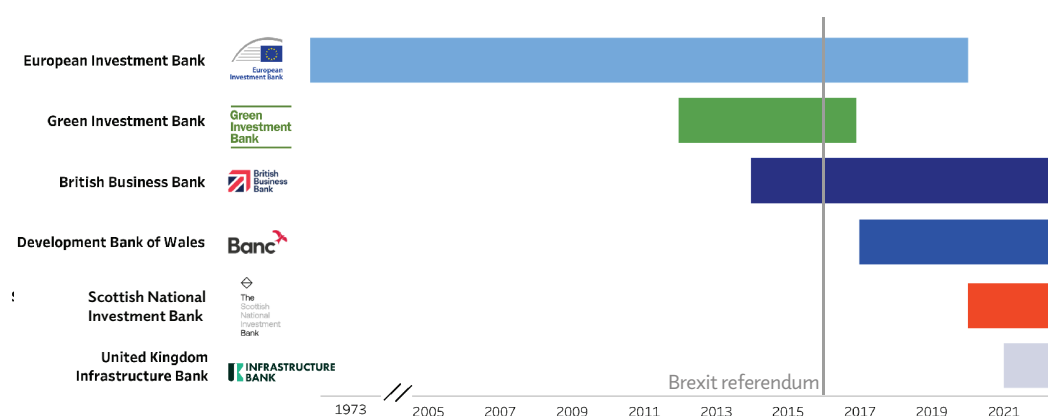
NEW UK DEVELOPMENT BANKS

Following the UK's withdrawal from the European Union in 2020, the UK lost access to EIB finance. This was a particular [problem for the UK](#), because it had fewer sources of this kind of finance than some other advanced economies.

The UK responded to leaving the EIB by selling, expanding, and creating multiple development banks

Dates of developments banks operating in the UK

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Source: Data from corresponding bank websites.

While the Green Investment Bank (GIB) and the British Business Bank (BBB) were already operating in the UK, these were providing significantly less investment than the EIB. In 2017, the GIB was sold to a consortium led by the Macquarie Group Ltd.

After the referendum, the UK government expanded the reach of the BBB and created three new development banks. The Development Bank of Wales (Banc) was established in 2017, followed by the Scottish National Investment Bank (SNIB) in 2020, and lastly the UK Infrastructure Bank (UKIB) in 2021.

The UKIB was to act as the main replacement for the EIB, with investment in all nations and regions of the UK and with a focus on infrastructure and green economy projects. The UKIB is also the only one of the newly created development banks which can borrow on capital markets, allowing it to raise larger sums of capital for investment. The other banks are restricted to investing or lending the annual amount they receive from the government.

The UK's development banks range in size and objectives

Development banks compared by a variety of indicators

	Regional focus	Years in operation	Total assets (million £)	Key sector targets
EIB	EU	1958-	709,824	General development
BBB	UK	2014-	3,557	SMEs
Banc	Wales	2017-	1,819	SMEs
SNIB	Scotland	2020-	167	General development
UKIB	UK	2021-	592	Infrastructure
GIB	UK	2012-2017	1,621	Green economy

Source: Corresponding development bank website and annual reports. Total assets from 2022 annual reports for all but GIB which was from 2016, its last year in operation.

FINANCING

Purely in terms of the amount of finance delivered, the UK development banks have not matched the EIB.

From 2009 to the end of 2016, the EIB was annually lending on average £6.4 billion in real terms within the UK, with £7.5 billion lent in 2016. However, following the referendum, EIB investment in the UK fell by 72% between 2016 and 2017. By 2019, this had fallen by 94% from 2016, with less than half a billion pounds invested by the EIB in new infrastructure projects. In 2020, the EIB stopped all investment into the UK.

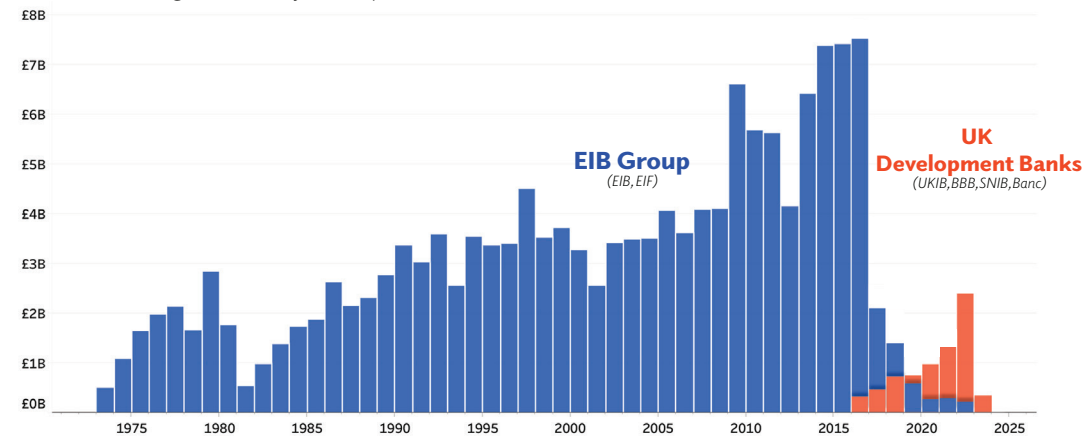
The European Investment Fund (EIF), the SME arm of the EIB, continues to fulfil commitments made prior to withdrawal.

When all four UK development banks are taken into account, £2.4 billion was invested in 2022 - the highest figure since losing access to EIB investment. This represents less than half of the EIB annual average from 2009 to 2016 and 32% of the 2016 peak.

Since leaving the EIB, the UK has only been able to replace a third of public investment

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Annual investment into the UK including private and public loans, equity investments and guarantees by development banks in real terms in £ billion



Source: Data from each respective bank's website and annual reports. Amounts are overlaid, not stacked. In real terms using GDP deflator, 2022 base year.

The UK government intended that by 2022 the UKIB would lend and invest £1.5 billion a year. However, it lent only £0.8 billion in 2022. The OBR has warned it is unlikely to reach its annual lending goal of £1.5 billion until 2024 and even then, it is likely to fall more than 40% short of targets, possibly until 2026.

The Welsh Banc, in contrast, has outperformed its £80 million investment target for 2021-22 with £110 million over the period, while the SNIB committed a further £248 million in 2022. As they are much smaller, however, they cannot replace the substantial sums invested by the EIB.

EIF financing, targeted at SMEs peaked in 2016 at £788 million. The BBB was able to match this by 2020, surpassing it each following year. 2022 witnessed an annual investment of nearly £1.2 billion.

REGIONAL INVESTMENT

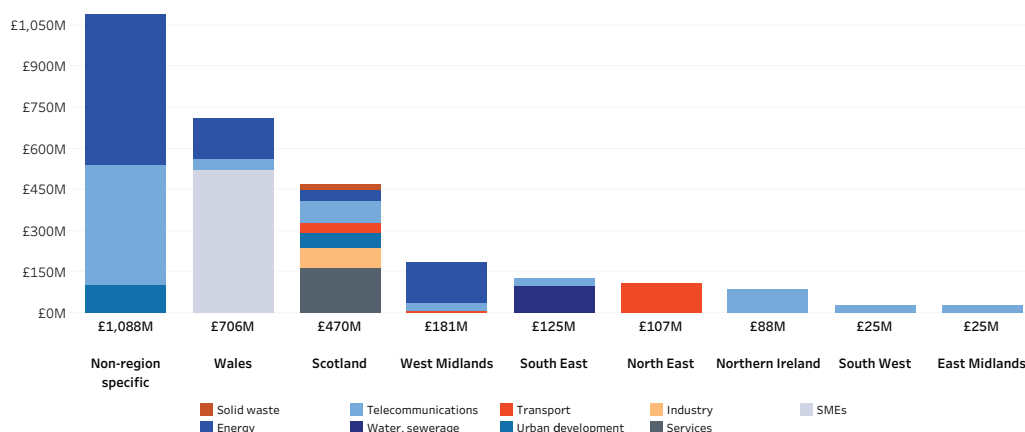
Tackling regional inequality is a more central mandate of the UKIB and the UK's development banks than it had been for the EIB. Regional development is one of their key strategic objectives, and the UKIB [explicitly states](#) that it aims to support the government's 'levelling up' mission.

However, the range of projects supported by the UKIB is still limited. As of June 2023, it has invested in 15 projects, of which most were either UK-wide or covered multiple regions.

Devolved nations benefit from having their own development banks

Loan amounts of the UKIB, SNIB, and BANC for sectors by nation and region from 2017 to 2023 in real terms

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Source: UK Infrastructure Bank, Scottish National Investment Bank, Development Bank of Wales. Real terms using GDP deflator, 2022 base year.

As under the EIB, Scotland and Wales have continued to receive among the highest shares of investment from the UK development banks. Of investments made by the UKIB, similar patterns to those of the EIB persist, with the East Midlands and South West remaining the least-supported regions.

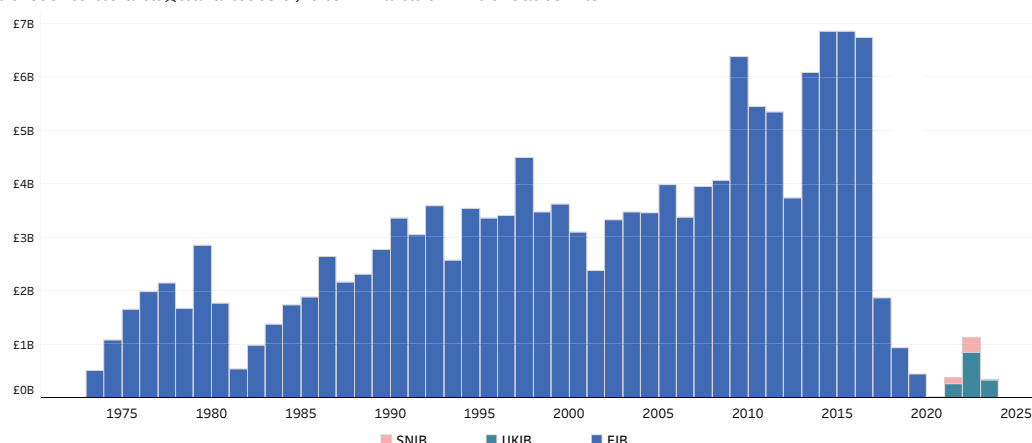
SECTORAL INVESTMENT

When it comes to infrastructure investment, the UK development banks provided only 17% of the infrastructure investment that the UK had received from the EIB in 2022.

Since leaving the EIB, the UK has only been able to replace a little more than an eighth of infrastructure investment

Annual investment into the UK including private and public loans, equity investments and guarantees by the EIB and UKIB in real terms

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Source: Data from each respective bank's website and annual reports. Real terms using GDP deflator, 2022 base year. 1/8 using highest year for each bank. Exact amount is 17%.

But, as with the EIB, both the UKIB and SNIB have focused on infrastructure and energy for the majority of their investments. Together they allocated 56% of their finance to infrastructure projects and 32% to energy, similar to the EIB's 48% and

25% respectively. In the energy sector, UK banks have helped to finance significant energy projects such as the undersea energy link between the UK and Germany, as well as energy storage and solar farm projects. These types of energy projects are similar to the projects the EIB would support.

However, with regard to infrastructure, the EIB was mainly focused on water and sewerage, and transport, while the UK banks have so far concentrated on telecommunication (55%) and urban development (24%) (the equivalent EIB figures were 10% and 12% respectively). Within the UKIB's telecommunications investments, the majority have been broadband projects. Urban development refers to projects targeted at making cities more sustainable and inclusive through affordable housing and urban regeneration.

The priority that the UKIB has given to telecommunication projects over water and transport projects (which can require decades-long investment) gives a sense of how these smaller development banks have limited capacity to provide the large and long-term financing required for bigger projects instead of low-risk projects with quicker results.

The capability and willingness of development banks to finance high-risk projects is a distinguishing feature of these institutions. As a result, their failure to make substantial investments into higher-risk projects has been criticised in the [UK Parliament](#). Chair of the Public Accounts Committee, Dame Meg Hillier MP, recently remarked that “it’s really not clear what the UKIB is doing that the market wasn’t already, or would be doing with better-functioning tax incentives.”

CLIMATE INVESTMENT

Development banks have taken on a key role in supporting states in their ambition to reach net zero. Investment in many low-carbon technologies and efficiency measures important for the transition are unappealing to the private sector for a variety of reasons such as policy uncertainty, and high upfront costs. Due to their ability to provide patient financing and take on greater risk, development banks are often better placed to offer the kind of finance which green infrastructure projects need.

Previously, both the EIB and the Green Investment Bank (GIB) helped deliver green finance in the UK. However, by 2020 neither bank was operating in the UK. The GIB [was sold](#) by the government to a consortium led by the Macquarie Group Ltd in 2017 and the UK lost access to EIB finance from 2020.

From its inception in 2012 until its sale in 2017, the GIB [invested £3.4 billion](#) into green projects, which was able to mobilise [a further £8.6 billion of private capital](#). During the same period, the EIB is reported to have invested £13.4 billion

in climate projects in the UK. In 2016 alone, the EIB committed [£1.2 billion into renewable energy investment](#) in the UK.

The UK also lost access to EIB finance just as the EIB began to step up its climate ambitions. In 2019, the EIB became the first multilateral development bank to commit to [ending all fossil fuel investments](#). In 2022, [it met its target](#) of dedicating 50% of financing to climate action and environmental sustainability, three years earlier than initially planned.

In the same year, the UKIB published its [first strategic report](#) announcing its intention to tackle industry challenges related to low-carbon energy. It has also committed not to lend or invest in projects involving the extraction, production, or transportation of fossil fuels.

Despite these commitments, the UKIB has failed to replace the finance that the GIB and EIB committed to green projects. In 2022, the UKIB made £800 million of investment, yet this is well below the [nearly £2 billion received for climate projects from the GIB and the EIB in 2016](#).

This shortfall becomes significantly larger when we consider that, in 2022, the EIB provided €5.9 billion (£5.1 billion) of investment into climate projects in [France](#) and around €4.5 billion (£3.9 billion) in [Germany](#). As these countries held the same share capital as the UK when it was a shareholder of the EIB, the UK could likely have expected to receive a similar sum.

When we consider the [Climate Change Committee's calculation](#) that additional net zero investment needs to grow five-fold from £10 billion per year in 2020 to £50 billion per year from 2030, this investment could have gone some way to helping the UK to meet these targets.

SMEs

The European Investment Fund (EIF), which supports small and medium enterprises (SMEs), played an important role in the UK venture capital market. Since its establishment, the UK was its [largest recipient](#), receiving over a third of EIF venture capital before Brexit. Between 2011 and 2015, [37% of the venture capital raised](#) in the UK came from the EIF.

The UK has been more successful in replacing EIB SME investment (which was provided by the EIF) than infrastructure investment. Partly, this was because the UK's SME-focused bank, the British Business Bank (BBB), having been formed in 2014, has had greater time to establish itself.

Furthermore, with its mission expanded by Prime Minister Theresa May in 2017,

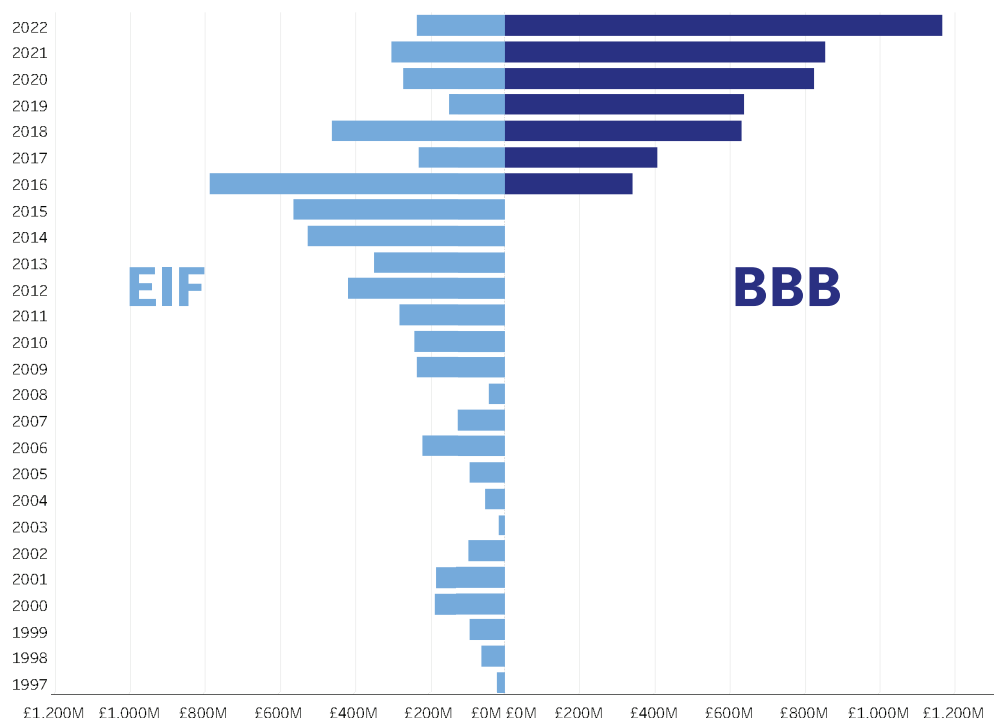
the BBB was able to match the European Investment Fund's highest investment year (2016) in 2019 and surpass it each following year.

The BBB was able to surpass the billion-pound mark in investment for the first time in 2022.

The UK has been able to quickly surpass EU investment into SMEs through its state investment banks

The British Business Bank (BBB) annual investment levels compared to the European Investment Fund (EIF).

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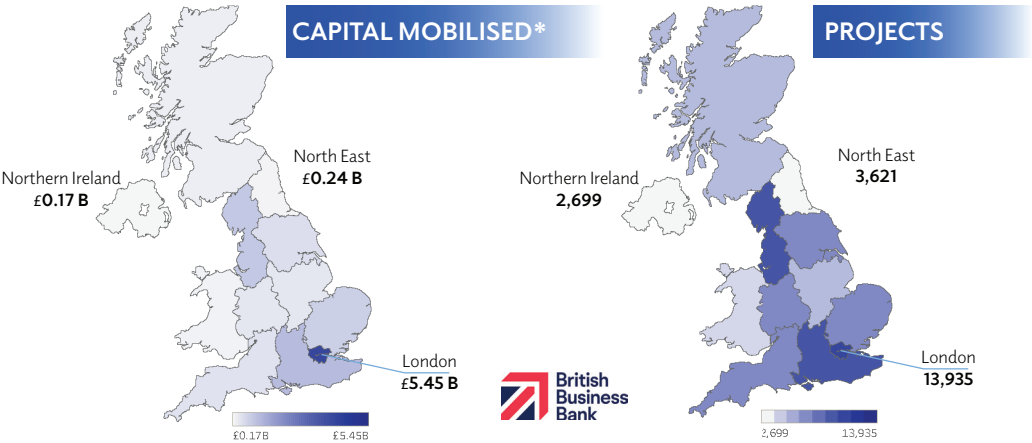
While BBB projects are widely spread across the UK, the amount of capital mobilised largely skews towards London (capital mobilised includes both BBB capital and private capital that was put into projects due to BBB investment). While the BBB has been successful in mobilising capital for SMEs, it has not overcome disparities in investment in regions outside London.

While the number of projects per region is relatively evenly spread, the value is largely tilted towards big projects in London. Even when capital investment mobilised is broken down per capita, London still receives by far the most investment per capita at £619 with the next closest region at £159 and the lowest being Scotland at £65 per capita.

While the number of BBB projects are more evenly spread across regions, capital is largely centred in London

British Business Bank projects by capital mobilised and number of businesses by region through 2022

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Source: British Business Bank Annual Report and Accounts 2022. *Capital mobilised is the finance that becomes available to the client as a result of the involvement of the investor, ie BBB.

WHAT ARE THE MAIN BARRIERS TO REPLACING EIB INVESTMENT?

UK development banks have invested in fewer, smaller and lower-risk projects than the EIB. This is mainly due to the fact that they have only been recently established, meaning they have been unable to develop the necessary staff, networks, and expertise to carry out the usual functions of development banks. In the long-term, caps on the annual amount that the UKIB can borrow and uncertainty around the amount of investment earnings that it can retain could prevent the UKIB from replacing EIB lending.

The President of the EIB, Werner Hoyer, [warned](#) it would take around 10 years for the UK banks to develop the size and the same level of expertise as the EIB. The EIB can make higher-risk investments into projects which require a large amount of finance, due to its size and expertise across a range of sectors as well as in financial services that the EIB has developed over the decades since it was established.

The UKIB's staffing has come under particular scrutiny in this respect. The bank has fallen significantly short of its target of 320 staff members. In addition, as of May 2023, only 90 of its [207 employees](#) are permanent. By comparison, the EIB has over 4,000 members of staff.

According to the [National Audit Office](#), the current size and level of in-house expertise have meant that the UKIB has been unable to form an effective audit and risk committee. This has meant that the bank has, so far, failed to fill market gaps by investing in those projects which are unappealing to the private sector. Instead, it has opted to lend to relatively common projects, such as broadband infrastructure, which can usually find funding from private investors anyway.

This has also led the UKIB to outsource the responsibility for making direct investments by channelling finance into third-party funds such as Octopus Investments and NextEnergy Capital. This gives the UKIB less control over the projects into which its finance is directed.

The UK's development banks all also have significantly less capital behind them than the EIB. The shareholders of the EIB provide the bank with £249 billion of capital (16% of which came from the UK while it was a shareholder). In comparison, the Welsh development bank and the SNIB are backed with £780 million and £2 billion of financial capital respectively.

While the UKIB is backed with £22 billion, this is not all readily available, as much funding will only become accessible to the bank [over the next few years](#).

This means that these banks have struggled to make the same large, higher-risk investments made by the EIB while it was operating in the UK. For example, while the EIB was able to invest £1.16 billion into water infrastructure in 2016 alone, this made up only 17% of its overall annual investment into the UK, and only around 1% of the overall investment made by the EIB that year.

In contrast, this sum alone is greater than the amount of capital available to the Welsh development bank; over 50% of the SNIB's available capital; and more than the amount of finance that the UKIB has so far committed in the last two years.

The current limits placed on the UKIB by the Treasury could also limit the ability of the bank to replace EIB infrastructure investment in the future.

First, the Treasury has limited the UKIB to borrowing £1.5bn a year. [Some have argued](#) that this will impede the bank's ability to leverage its balance sheet, and, consequently, to increase its overall capital pool, which would allow the bank to gradually increase its overall lending capacity.

Second, the initial plan for the UKIB to reinvest its returns in order to scale up its balance sheet over time appears to have been [reversed](#). It is now unclear [how much of its earnings](#) that the Treasury will allow the bank to retain. This will also potentially [prevent the UKIB](#) from quickly scaling up its financial capacity.

CONCLUSION

The European Investment Bank played a significant role in supporting infrastructure projects, innovation, and small and medium-sized enterprises (SMEs) in the UK. However, since Brexit, the UK has had to reassess and replace the role of development banks in its finance landscape. Three development banks have been established in the UK. To date, only a third of EIB investment has been replaced. In terms of infrastructure, UK banks have only been able to replace an eighth of EIB investment.

The creation of UK development banks offered the possibility of greater alignment between development bank finance and UK government policy. However, despite setting out objectives to support the government's 'levelling-up' policy and net-zero ambitions, to date, this has not been realised. There is little to suggest that the UK banks are channelling a higher proportion of finance into the UK's less developed regions. And UK banks have not replaced the finance that was previously provided to climate projects.

Certain UK development banks, such as the BBB, have been able to make headway into replacing EIB financing. However, the UK's main replacement for the EIB, the UKIB has faced two substantial barriers, which have prevented it from replacing the amount and type of finance provided by the EIB. First, its lack of staff and expertise, and second, its smaller pool of capital. This has limited the ability to channel investment into the higher-risk and more innovative projects that the EIB financed.

The EIB left a large gap in public investment, not only in the amount of finance but the quality of investment as well. UK development banks, and the UKIB in particular, have struggled to fill those gaps. The coming years will be essential for them to not only fill the gaps left by the EIB but to tailor their efforts to the needs of a changing UK.

The UK in a Changing Europe promotes rigorous, high-quality and independent research into the complex and ever changing relationship between the UK and the EU. It is funded by the Economic and Social Research Council and based at King's College London.

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