Financing Investment in Sustainable Cities and Communities in Europe - the Role of the EIB

Final Research Report

To be tabled at the Leipzig meeting of EU Urban Policy Ministers - 24/25 May 2007

Produced by the Expert Working Group on EIB Loan Finance for Building Sustainable Cities and Communities
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1.0  PREFACE
2.0 INVESTMENT IN URBAN DEVELOPMENT

2.1 About Investment needs in cities

Cities in Europe are nowadays facing a range of important demographic, economic, social and environmental challenges that each result in significant investment needs. Demographic trends are shaped by an ageing population and new patterns of immigration, which together result in 1/3 of European cities dealing with population growth and 1/3 with population decline.\(^2\) Cities are also facing major economic challenges: they fulfil a key role in achieving the Lisbon Agenda and in developing knowledge-based and competitive economies. Cities are therefore indisputable engines of economic growth and employment. But they are also places where social exclusion is frequent and severe. Cities also face important environmental challenges, including degradation and urban sprawl. They also need to contribute to the reduction of CO\(_2\) emissions, for instance through building and upgrading sustainable public transport systems and by improving energy efficiency in the housing stock.

Across Europe, cities are the indisputable engines of economic growth. In virtually all European countries, urban areas are the foremost producers of knowledge and innovation – the hubs of a globalising world economy. Larger cities tend to be particularly strong economic engines, with GDP per capita on average almost 60% higher than in the EU as a whole, and in some cases more than 80% higher than the respective national average. Across the continent cities with between 500000 and 1 million inhabitants are performing well as are a great number of smaller and medium-sized cities. On average city dwellers are better educated than non city dwellers in Europe. In almost every country a higher proportion of the population in cities has completed higher education. Indeed, cities in Europe as well as elsewhere act as magnets for talent\(^3\).


\(^3\) Based on Urban Audit data and published in the EC DG Regio’s First State of the European Cities Report (2007), prepared by ECOTEC/Nordregio/Eurofutures.
But they are also places where social exclusion is frequent and severe. Environmental degradation and urban sprawl are common problems confronting many cities⁴. Building and maintaining sustainable cities and communities can be a costly affair. Creating the conditions for economic dynamism, addressing social exclusion, and improving environmental quality require substantial investments. Improving accessibility and mobility at the local, regional, national and international levels in various modalities and in an integrated manner is costly. Upgrading the quality of the housing stock, both historic pre-war buildings and low quality post-war additions, is a phenomenal task. Providing education, healthcare, social services, a vibrant cultural scene, running an efficient public administration and adapting all these services to future demographic changes such as an ageing population and increasing levels of immigration is expensive. The rehabilitation of derelict brownfield sites and the renovation of public spaces – both urban and natural – demands substantial levels of investment. Building and maintaining vibrant and appealing cities also requires the development and implementation of integrated strategies based on an assessment of strengths, weaknesses, opportunities and threats taking full account of cities unique selling points that need to be preserved and strengthened.

Box: In what Areas do Cities need to Invest?

The European Commission has recently taken stock on the areas in which European cities need to invest. Based on current challenges for cities, investments are required in at least 7 areas:

1. **Mobility**
   Environment, Social, Safety, Economic Development

2. **Access to service facilities**
   Adapt Public Services, Economic Development, Social Aspects

3. **Natural and physical environment**
   Conversion, Urban sprawl, City Centres, Environment, Decouple economic growth and energy use

4. **Culture**
   Identities, Immigration

5. **Attract new businesses**
   Improve Economic infrastructure, Provide Consulting Services, Establish Networks, Invest in Disadvantaged Groups, Improve Attractiveness, Coordinated strategy, Target Education, Democratize the information society, Environment as Driver of the Economy

6. **Tackle disparities**

Promoting social inclusion and equal opportunities, Education

7. **Increase security**
Better planning, Youth Work, Invest in safety

See Annex 3 for a full list of investment areas and examples.


The question can also be reversed: what would be the costs of not investing in urban development? What are the costs of unsustainable cities and communities? If cities are the indisputable engines of economic growth and employment, and magnets for talent and hope, what are the costs of economic decline and widespread unemployment, followed by a flight of talent, increasing social tensions, crime and a decline in overall attractiveness? What would the price of environmental degradation then be? What costs would be associated with congestion and pollution and poorly functioning institutions? If Member States are serious about sustainable urban development – and about implementing the Urban Acquis and the Bristol Accord – then the fundamental decision to invest in sustainable urban development has already been made.

Despite these obvious needs, measuring and prioritising them proves to be exceedingly difficult – at local, regional, national and European levels. Various methods may thereto be used, such as:

- **Assessment on the basis of depreciation of existing investment stock**: this assumes that all public investments are being depreciated over time and that they need to be renewed at some stage; however, the pace of depreciation, the relation with maintenance and future needs are difficult to establish.
- **Assessment on the basis of strategic planning**: virtually all major European cities make their integrated urban development plans, based on future developments and/or scenarios. The discrepancy between current and future situation can then be considered investment need. A consequence of this method, however, is that more ambitious plans result in higher investment needs – that are unlikely to be ever met.

Other methods for assessing investment needs are likely to exist as well. A common problem of such methods is that they are often normative, and outcomes are often source of political debate between those demanding the investment and the actual investors.
2.2 About Demand for Urban Investment

If the measurement of investment needs is so difficult, what are then the actual investments? One indication is actual public investment levels. Within the EU, considerable variation exists across individual countries. In the EU15, there has been a gradual decline of public investment, from about 5% of GDP in the 1970s to about 2% now. This decline has been due to privatisation as well as the emergence of alternative ways to finance infrastructure (such as PPPs). In Cohesion countries, there has been a tendency for public investment to go up, to levels of about 4-5% of GDP in recent years.

Whether from the public or the private sector, actors need to be willing to initiate urban development projects and overcome the strategic and operational challenges involved. Building on the European Evidence Review on Sustainable Communities\(^5\), the challenges faced when creating and maintaining Sustainable Communities can be placed within a conceptual framework labelled the ‘Chain Approach’ which is presented in figure 2.1 below.

**Figure 2.1: A Framework for Sustainable Community Policies – the Chain Approach**

The key components of the ‘Chain Approach’ are (from left to right) as follows:

- **Key drivers** behind urban dynamics can be economic, demographic, environmental or a combination of these. These key drivers are the underlying forces at work within cities, causing change and sometimes leading to problems. Prior to preparing policies and actions, it is essential to have a thorough understanding of these drivers.

Key issues emerge from the interplay between key drivers. They can be categorised as growth-related issues, integration, segregation and stagnation issues. All of them generate investment needs.

Strategic policy responses to these issues vary widely across Europe. Integral approaches tend to combine economic, social, environmental, housing and connectivity aspects, as well as governance issues.

Implementation issues: in implementing these strategic responses it is important to learn about delivery hurdles of an economic, financial, technical, political or social nature.

Key delivery responses vary, but the Sustainable Communities Agenda highlights in particular responses in the areas of leadership, professional skills, partnership and citizens’ involvement.

Translating investment needs into demand therefore requires both a strategic policy response as well as a key delivery response. It is at the strategic level that a significant proportion of needs may fail to be translated into concrete demand. Especially in areas plagued by social exclusion or stagnation, a lack of demand is common. Many projects in such areas considered important by citizens and politicians alike do not get implemented because market forces tend to discriminate against them. It is in these deprived areas that need and demand are strongly diverging.

Other investment needs may remain unfulfilled due to issues at the delivery level. Although every city and each case is unique, common barriers to delivery tend to be economic, technical, political, social, as well as financial in nature. Often these barriers are interlinked. For example, financing an urban regeneration project can be problematic if the market demand for housing, office or retail space fails to materialise. In another example, soil contamination, whilst primarily an environmental or technical problem, becomes a financial problem as well if costs for soil remediation cannot be easily recouped.

The key to overcoming the multiple challenges in urban development lies in the response capacity of urban development practitioners. This response capacity consists of organisations (including firms) and individuals that are well-managed (‘good governance’) and possess the professional skills required to attract finance. Response capacity, therefore, is a multi-dimensional concept and its dimensions are closely interlinked. Who then are these actors on the demand side?

Public authorities are the traditional initiators. The largest and most prestigious projects tend to be taken forward by national governments, often in co-operation with regional and local actors. Urban development projects carried out by public authorities are nearly always initiated by the authorities themselves. The balance between the national, regional and local levels of government differs from country to
country, depending on competence, and based on history and experience. In some countries, such as France, urban projects are often taken forward by several government levels at the same time – as agreed within the context of ‘Contrats de Plan’.

*Quasi-public bodies* are fulfilling an increasingly important role as project initiators. Here we are referring to bodies such as regional development agencies, urban regeneration companies, urban transport companies, asset management companies and municipal housing companies. From the 1980s onwards, governments across Europe have set up these quasi-public bodies at arm’s length in order to achieve a more professional and stable implementation of policies. Quasi-public bodies are often founded to represent the combined interests of a group of smaller municipalities and achieve economies of scale that would not otherwise be available. In many European cities and regions, quasi-public bodies are very important initiators of urban development, especially in the absence of other actors.

*Cooperatives* are also major players on the demand side of the urban development market and are frequently encountered in the housing domain. Cooperatives own and manage large numbers of houses and often play an important role when it comes to investing in regeneration.

*Private bodies* can be individual landowners, property developers, property or utility companies (e.g. national railway companies, airport management companies, etcetera). Their role can be significant and innovative in all areas of urban development, provided that market conditions are favourable to them.

Taken together, the strength and variety of the various players on the demand side are critical in determining the overall levels of urban investment. The essential role of these players is to translate investment needs into actual demand for urban finance.

### 2.3 Sources of finance

A number of sources of finance for urban development can be identified.

*Public investors* are a logical starting point for this overview. At all levels, public authorities invest in the urban environment. Local governments have their own investment programmes, which are sometimes bundled together in forms of intercommunal co-operation, co-financed by regional or national authorities. Public authorities also provide grants to individual project promoters on a case-by-case basis, for example grant schemes for investing in energy-efficiency. At the European level, Structural Funds are a primary example of public investment programmes, also co-financed by national, regional, local or private bodies. URBAN
and URBAN II are dedicated programmes encouraging investment in the built environment.

In addition to investing directly, public authorities have many more tools at their disposal, such as tax incentives. Targeted reductions in income tax, sales tax, corporate tax and/or local tax is common across Europe. They play an essential role in the housing market for example, with tax breaks being offered in conjunction with mortgage repayments in some countries. But they can also be used for promoting entrepreneurship. For instance in France, extensive experience has been gained with tax exemptions in Free Zones that are selected according to objective criteria. Private investors are then encouraged to enter these areas, upgrade the environment, create jobs, etcetera. Such initiatives can have secondary beneficial spin-offs such as encouraging further investment, economic growth and reducing crime.

Public authorities can also provide guarantees to citizens, enterprises, NGO’s or lower tiers of government allowing them to access loans that would otherwise not be available. Similarly, public authorities can provide interest subsidies to individuals, enterprises, NGO’s or lower tiers of government. In this way, low-income households gain increased access to mortgages for example, stimulating private home ownership.

Public authorities can also issue bonds. Municipalities or regions can issue bonds to finance specific public works projects – government projects created for the goods of its citizens. A bond is subsequently paid for by the revenues of that project. Generally, a bond is a promise to pay the initial loan (the principal) along with interest on a specified date – when the bond matures.

Commercial banks are another key source of finance. Their involvement in urban development varies widely across Europe. In the Anglo Saxon countries, commercial banks are more active in the area of urban finance. Despite the liberalisation of capital markets within the EU, commercial banks elsewhere still tend to be strongly aligned to national and regional markets when investing in the urban environment. Even in the New Member States, where international banks have been relatively active, commercial banks have been less involved in urban investment than in some other areas. Clearly, urban development is not the easiest area for commercial banks to become engaged in, particularly at a level higher than stand-alone commercial property projects such as retail and office buildings. Local knowledge and access to local networks is important for commercial banks when assessing risks.

Equity providers can be institutional investors as well as private companies. They are also an important source of finance for urban development. Institutional
investors (such as large pension funds) are often attracted by the opportunity to diversify their investment portfolio; they usually have a longer-term perspective which lends itself well to urban development projects. Private companies can also be interested in urban development finance, but they usually seek activities that tie in with their core business. For example retail chains invest in cities as part of their core business, airlines invest in terminals, railway companies build and renew train stations, public spaces are upgraded by operators of car parks, etc. On a smaller scale, high-street businesses unite their interests and upgrade the appearance of their localities. In urban areas, investments can also be made by energy companies, telecommunication companies, etc. In all these cases, investments are financed and undertaken by commercially run enterprises which therefore constitutes private investment.

Among these sources of finance, public banks fulfil a special role. They are an important player with regard to investment in urban development, although this is not uniformly the case across Europe. They can be seen as the lending arms of national, regional or European layers of government. At the European level, the EIB is the most important. The EBRD (highly active in Eastern Europe) and the Council of Europe Development Bank also belong in this category.

For the purpose of this report it is important to have some basic understanding of the capital markets for urban finance, of the respective roles of public and private sources of finance.

2.4 Towards a model for urban finance

If there are so many needs for urban investment, but at the same time such different sources of finance, what then are the allocation mechanisms for matching demand and supply? When are public loans preferred over and above public grants? And when are commercial loans or private equity being favoured? And when does urban investment fail to take place at all?

A model for financing urban development is now proposed below.
In general, the capital market for urban finance consists of a demand-side and a supply-side, of which the actors have been described above. In this model, which will be further explored and related to specific national contexts in Chapter 4, investment in urban development is influenced by:

1. The overall investment need – arising from the key drivers of urban development
2. The number and strength of actors on the demand side – and their willingness to initiate urban development projects
3. The number and strength of actors on the supply side – and their willingness to provide funds for urban development projects, depending on the extent to which their investment criteria are met.
4. The extent to which demand and supply are effectively matched. This match is facilitated when urban finance markets are transparent, when specialised intermediaries are active and/or when urban development funds are functioning properly.
2.5 Where do public and private capital start and stop?

Investment criteria are very different between public and private sources of finance. Before addressing the particular role of the EIB, it is important to have a good understand of these various investment criteria. The table below addresses this issue by listing the main criteria for accessing various sources of public and private finance.

Table 2.1: Main criteria for accessing sources of finance for urban development

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<th>Source of finance/</th>
<th>Public investments</th>
<th>Public loans</th>
<th>Commercial loans/private equity</th>
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<td>1. Investment need</td>
<td>♦♦</td>
<td>♦♦</td>
<td>♦♦</td>
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<td>2. Technical criteria</td>
<td>♦</td>
<td>♦♦♦</td>
<td>♦♦♦</td>
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<td>3. Institutional strength &amp; creditworthiness</td>
<td>♦</td>
<td>♦</td>
<td>♦♦</td>
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<td>4. Financial return</td>
<td>♦</td>
<td>♦♦</td>
<td>♦♦♦</td>
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<td>5. Economic return</td>
<td>♦♦♦</td>
<td>♦♦♦</td>
<td>♦</td>
<td></td>
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<tr>
<td>6. Environmental aspects</td>
<td>♦♦</td>
<td>♦</td>
<td>♦</td>
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<td>7. Other policy aims</td>
<td>♦♦♦</td>
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♦ = some importance  ♦♦ = important  ♦♦♦ = very important

As a starting point, the *investment need* and therefore the size of the investment matters. As a rule, public investments (such as grants and subsidies) tend to be smaller in size, allowing as many beneficiaries as possible to take advantage of a scheme or programme. Sometimes, public grants are scattered over many projects and actors. Because the assessment of investment plans always incurs transaction costs, many financers have a preference for larger-scale projects. Local actors are more inclined to address smaller investment requests, as they are often well-placed to assess the local context and they tend to know the project promoters and their reputation. International players tend to have an appetite for larger projects. For instance, the EU’s major projects – that are centrally assessed by the European Commission in the framework of Structural and Cohesion Policy – have a minimum size of € 25 million (for environment) or € 50 million (for other projects). A similar threshold applies to EIB loans, with a minimum project size of € 25 million for individual projects. As a rule, the Bank lends up to 50% of the capital required for a project.

*Technical criteria (robustness)* are important to all funders, as they need to have the necessary confidence in the investment proposal under consideration. Technical requirements for loans tend to be considerably higher than for grants, as these projects need to have sufficient revenue earning potential to pay the loan back. If a
project is not solid from a technical point of view, then its life span may be threatened and so too its revenue potential in the longer term.

Institutional strength is also important for all funders of urban development, but is particularly relevant to lenders because it is translated into creditworthiness. Evaluating creditworthiness is part of any risk assessment as it is fundamental to a borrower’s pay-back ability. Creditworthiness is the ability of an individual or organisation to meet debt obligations from the creditor’s point of view, and is usually ranked on a scale from AAA (highest) to D. The creditworthiness of borrowers varies widely within Europe and within countries. For instance Finnish municipalities are considered very solid, in terms of their stability, financial history and the extent to which they can provide for their own incomes (e.g. not only through local property taxes, but also through levying income taxes) – hence they receive AAA-ratings. As a general practice in the credit market, borrowers with a lower credit rating and/or weaker reputation pay higher interest rates than those with the supreme AAA-status. Borrowers deemed to be less creditworthy often need to obtain a guarantee elsewhere (e.g. from a national or regional government, or from a commercial bank), which can add to the borrowing costs.

Financial (or internal) return (IRR) is a fundamental element in every project assessment. It is basically the extent to which income is generated throughout the duration of a project, in relation to costs and phasing. Financial return is one of the primary criteria for loan arrangements especially when private equity is involved. The required internal rate of return differs from project to project, depending on the monetary situation (including interest rates), the characteristics of the sector, the stability and reputation of the borrower, and the alternative investment opportunities. As a general rule, financial rates of return need to be higher for commercial than for public loans.

Various broader considerations play a key role when it comes to public involvement in urban development. We are referring here to a plethora of policy aims and political considerations with economic, social, environmental and broader strategic dimensions.

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6 Definitions in this Report are based on http://www.investorwords.com
7 A more formal definition of internal rate of return (IRR): the discount rate at which a stream of costs and benefits has a net present value of zero. Source: EC DG Regio Guide to Cost-benefit analysis of investment projects.
Economic return is a measure of broader project benefits. Economic returns refer to all costs and benefits flowing from a project and not just those impacting directly on the operator or investor\(^8\). It therefore includes economic externalities, both positive and negative, such as an increase in property prices in surrounding areas, a decline in crime rates, or downstream effects on employment. These broader economic considerations are important to public financiers, but may be considered less relevant by private funders.

Environmental aspects are usually also very important to public investors. They are often regarded as externalities. Examples are the contribution of a project to (reductions in) CO2 emissions, noise pollution, water quality etc. Environmental aspects are increasingly important, also for investors, and are intrinsic to sustainable development objectives as well. Environmental aspects are commonly included in the calculation of the economic return.

The above considerations of financial and economic return and alignment with wider policy objectives shape the borders between public in addition to the aspect of private finance.

\(^8\) A more formal definition of economic rate of return (ERR): an index of the socio-economic profitability of a project. It makes project benefits equal to present costs, ie. Makes economic net present value equal to zero. Source: EC DG Regio Guide to Cost Benefit Analysis.
Figure 2.3 indicates – in a somewhat simplified way – under which conditions the various funders of urban finance can be expected to step in. Projects can be positioned on the Y-axis according to financial return (of importance to the investor and/or operator) and on the X-axis according to externalities, including the broader economic, social and environmental costs and benefits that are of importance to society as a whole (excluding the financial return itself).

Sustainable cities and communities are above all places which are attractive to live and work in, now and in the future. First and foremost they are built for the citizens that live in them – as well as for those working and visiting them. It is the role of public investors (local, regional, national and European governments) to fund projects that are in the general public interest, such as civic projects, sports facilities, urban transport projects etcetera. However, many of these projects have a poor revenue-earning potential, and are therefore difficult to finance. A municipal swimming pool, for instance, may provide citizen satisfaction, yet the running costs are commonly higher than the revenues particularly when ticket prices are kept low in order to ensure affordability to people with a lower income. Public swimming pools are therefore usually subsidised, both during construction and during operation.

Most cities offer interesting investment opportunities to private capital. By default, such projects have relatively high internal rates of return, either through a limited investment need, or through rewarding revenue potentials. Private capital tends to be rather impatient and payback periods are often short – usually between 5 and 10 years. As running costs and interest rates can be high, private investors have all reason to limit upfront investments and maximise revenues. The level of investment required on greenfield locations tends to be lower than within existing built-up areas due to the lower price of land and lower developments costs (associated with demolition and soil remediation for example).
However, many large-scale greenfield developments tend to have less positive side-effects. The downstream or indirect economic benefits are often relatively limited. Although these projects undoubtedly create jobs, their focus on cost control often leads to the creation of low-paid and part-time jobs, with irregular and flexible working hours. As many greenfield developments are car orientated, they can be difficult to access for low-income households and other less mobile groups, and therefore contribute to social segmentation. Car-orientation can also bring about additional environmental burdens; large-scale retail formulae’s tend to attract consumers from far afield, contributing to road congestion, parking problems and pollution. Furthermore businesses in the inner city can be negatively impacted as they suffer from diminished client visits and sales volumes. Large-scale greenfield developments can be profitable from an investors perspective, yet they tend to be less beneficial for society as a whole – also when loss of valuable nature is included into the equation. In other words, high internal rates of return and low externalities can go hand in hand, but this relation is by no means evident.

Public banks can be positioned between commercial investors and public investments. Projects funded by public banks are derived from a policy mandate, they are tools of local, regional, national or EU policies that aim for economic and social development, as well as environmental protection – they intend to contribute to the wellbeing of their citizens. Yet, these projects also need to have a solid
financial return, allowing the payback of the loan. As mentioned above, financial rates of return can be somewhat lower than for private investors, as public banks do not aim to make a profit, and they can often access capital at lower rates. Under some circumstances, public banks have additional advantages, such as interest rate subsidies, guarantees and securities.

Public banks are particularly well-placed to invest in urban renewal and urban transport projects which have significant and positive external effects but whose financial returns are not always sufficiently solid and strong to please private sector investors. Investment in social housing, science park development, or railway station renewal are examples of such projects.

In reality, the borderlines between public investments, public loans and private funding have a fluid and dynamic nature, depending on a large number of factors including the macro-economic situation, the urban economy, the cycle in the property market, the legal and institutional context, the alternative investment opportunities, and the appetite and competence of investors. Therefore, particular types of projects that are financed through commercial loans or private equity in one city, may be fully dependent on the public sector in another city. Therefore, the role and value of public banks varies from place to place and can never be precisely pinpointed or fixed. It is clear however, that projects supported by public banks will always need to bring benefits both to investors and to the wider public.

### 2.6 Area-based development

Despite the existence of various sources of finance, an immeasurable number of urban projects are not taken forward because both private and public investors are unable to face these challenges on their own. Many cities are not able to meet these investment challenges because of a shortage of public money. Often, the risks involved in taking forward individual projects are too high for private money. In reality, many urban renewal tasks are very costly, revenue prospects are uncertain and the development capacity required exceeds the resources of individual players.

Area-based development can be a solution to such urban renewal challenges. This implies that projects are taken forward by a combination of partners working together, in the public sector, in the private sector, or both.
The assumption behind area-based development (and public-private partnership) is that individual components or elements of a project are assigned to those actors best placed to take matters forward. In the above example - an inner city development (offices, retail and social housing) around a railway station - the combined project may be halted because of the need to invest firstly in railway station renewal. This component of the project may be a costly affair and may not generate a strong financial return. However by inviting the railway company to be a partner in the area-based development, a wider potential may be unlocked whereby the benefits can be shared by all. In the remainder of this report, especially in the case studies in chapter 4, several examples of area-based partnerships across Europe will be presented, showing how barriers to urban development can be overcome.

2.7 Conclusions

Cities in Europe are facing significant population change, which simultaneously results in growth pressures and decline. Cities are also indisputable engines of economic growth and employment, and act as magnets for talent. But they are also places where social exclusion is frequent and severe. Environmental degradation
and urban sprawl are also common problems confronting many cities, that will also need to address CO2 emissions.

Promoting investment in urban development requires a good understanding of capital markets for urban finance, including an appreciation of the roles fulfilled by the main actors on both the demand and the supply side.

The overall investment need stems from the key drivers of urban development such as economic, social, demographic and environmental trends; the number and strength of actors on the demand side – and their willingness and ability to initiate urban development projects; and the number and strength of actors on the supply side – and their willingness to invest in urban development projects (depending on the extent to which their investment criteria are fulfilled). A good match between demand and supply is best facilitated when urban finance markets are transparent, when specialised intermediaries are active and/or when advanced financial tools (e.g. urban development funds) are available and functioning.

Based on this initial assessment, it can be concluded that investment needs may not be realised in practice due to:

- demand restrictions – as there may be not enough actors on the demand side prepared or able to take forward urban development projects;
- supply restrictions – as funders may not be prepared to honour these investment demands because they do not meet investment criteria, and/or alternative investment opportunities are considered to be more rewarding.

These conceptual notions point to the importance of exploring all possible sources for urban finance, including European, national, regional, local as well as private sources. The European Investment Bank can play an important role in this area, both in addressing demand and supply side restrictions, and in promoting transparent urban finance markets in Europe.
3.0 WHAT IS THE ROLE OF THE EIB?

In this chapter a general overview is presented on the role of the European Investment Bank and how this has evolved with time since its creation. A summary of products and services is presented, which we consider alongside the Bank’s lending patterns in the area of urban development.

3.1 History

The creation of the European Investment Bank can be traced back to the Treaty of Rome in 1957. The Bank was then set up as the financing institution of the European Union. The members of the EIB are the Member States of the European Union themselves, who all subscribe to the Bank’s capital. It is in this sense that the EIB was born with a dual purpose:

- As an institution of the Union, continuously adapting its activities to developments in Community policies.
- As a Bank, working in close collaboration with the banking community both when borrowing on the capital markets and when financing capital projects.

As an institution it enjoys its own legal personality and financial autonomy within the Community system. The EIB’s ‘mission statement’ is to further the objectives of the European Union by providing long-term finance for specific capital projects in keeping with strict banking practice. In reality, this means the EIB contributes towards building a closer-knit Europe, particularly in terms of economic integration and greater economic and social cohesion.

The Bank was designed to grant loans primarily by using repayments from previous borrowings, which, together with its “own funds” (paid-in capital and reserves), constitute its "own resources". The EIB’s lending activity was established around 7 operational priorities:

1. Economic and social cohesion in the enlarged EU.
4. Support of EU development and cooperation policies in partner countries.
5. Environmental protection and improvement, including climate change and renewable energy.
6. Support for small and medium-sized enterprises as well as mid-cap companies of intermediate size.
7. Support for human capital, notably health.
It is under the fifth priority above on environmental protection and improvement that the Bank is committed to promoting the environmental policy of the European Union, in particular the EU’s Sixth Environment Action Programme. In relation to this, the EIB has a history of financing projects that protect and improve the environment and promote social well-being in line with the principles of sustainable development. When financing other kinds of activities, the Bank ensures that adverse environmental impacts are minimised.

In line with this environmental commitment, all of the Bank’s projects seek to:

- Promote EU environmental policy.
- Comply with EU environmental law in the EU, Acceding and Candidate Countries.
- Comply with EU environmental law, subject to local conditions, in all other countries of operations.
- Fulfil the requirements of the EU Directive on Environmental Impact Assessment, where applicable.
- Apply ‘best available techniques’, as appropriate.
- Apply good environmental management practices, including disclosure of environmental information.

In pursuing sustainable development, the EIB has traditionally applied a broad definition of the term “environment”. Provided the projects were economically, technically and financially viable, the EIB supported environmental investments that focused on:

- tackling climate change, including energy efficiency and renewable energy;
- protecting and enhancing biodiversity; safeguarding environment and health (e.g. reduction of industrial pollution, provision of water and wastewater treatment);
- promoting the sustainable use of natural resources & waste management, including minimisation, recycling, re-use and disposal of domestic, commercial and industrial waste;
- improving the quality of life in the urban environment, particularly through urban renewal and sustainable urban transport projects.

Under the last bullet point above, the EIB has financed urban development projects for many years, through both individual loans and global loans. However, the eligibility criterion used for the early loans was tied to regional development and therefore the Bank only financed projects located in specified regional development areas. Outside these areas, urban development was seldom financed, although other arguments, such as environmental considerations or rational use of energy were applied to finance building rehabilitation. The Bank’s participation was primarily focused on the infrastructure component of urban development programmes and in some cases to the restoration of buildings and sites of special
value (under the heading of “cultural heritage”) or remedial investment in areas affected by natural disasters.

As a response to various urban development trends over time, the EU has been steadily incorporating the urban dimension into its regional policy in many ways. It has designated urban projects as eligible for Structural Funds and devised programmes specifically aimed at cities. With it, the EIB role has evolved as well. Indeed, the Bank’s activity in the field of sustainable communities has developed from these premises; moving into the financing of urban renewal, housing, education and health, as well as technological innovation, often in an urban setting. In all the role of the EIB has evolved to enable it to support sustainable urban development strategies and investment programmes.

### 3.2 Recent evolution of the role

In 1988, the Bank’s eligibility criteria for projects that focused on improving the quality of life in the urban environment (namely sustainable urban transport projects) were extended. They began to cover “investment related to urban renewal where important imbalances exist, and in the context of urban economic adjustment and revitalisation programmes” throughout the whole EU. The basic objectives of this policy were improvement of the urban quality of life and promotion of greater economic and social cohesion within the Community through the reduction of social disparity within large conurbations. These objectives had to conform to the overall goal of making efficient use of scarce resources. It was thus considered that the usual requirements of technical, economic and financial soundness could only be achieved if the projects were part of a comprehensive urban renewal plan, with a well-defined economic and social framework. Since 1997, the EIB has lent money for housing investments provided they were part of such wider urban renewal and development schemes.

It was also around that time that decaying urban areas became a main concern for member states’ governments, in terms of both environment and social cohesion. Also in 1997, the European Council of Amsterdam invited the EIB to step up its intervention in the urban environment. The Community recognised the important role of the European Investment Bank and the European Investment Fund in creating employment through investment opportunities in Europe. It urged the EIB to step up its activities in this respect, promoting investment projects consistent with sound banking principles and practices, and more in particular to examine its scope.

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of intervention in the areas of education, health, urban environment and environmental protection.

Over time, the meaning of the concept urban environment has evolved as well. The focus of the projects supported has generally been twofold. On the one hand projects concerned with urban renewal (regeneration) and on the other hand projects concerning urban transport. Therefore, greenfield urban development has not been supported by the Bank. Furthermore, in order to be supported by the EIB, projects were required to be included in an overarching “Urban Development Plan”. Today, large investment projects tend to be shaped by a complex integrated planning and bargaining process, resulting in an Urban Development Plan. This means that development plans tend to be less rigid and more likely to change over time. In line with this the Bank was given discretion to lend “when deemed prudent” to projects in the field of housing when they formed an integral part of a wider well-defined urban renewal and development scheme.

Nevertheless, one of the findings from the evaluation report on EIB financing of urban development projects in the EU covering the 1998-2001 period was that, in those years, most of the Bank’s financing happened through individual loans. And indeed, 67% of those went to urban transport, totalling EUR 15 billion. In the period that was reviewed, 82 programmes went to ‘urban use’, including large urban restructuring projects (EUR 3.1 billion), renovation of historical city centres and cultural and historical buildings and other forms of urban use (EUR 3 billion). Up until then, social housing projects represented only a small portion of lending.

This pattern is now gradually evolving. The EIB’s current lending strategy for urban renewal reflects EU policy, in particular the Communication “Towards a Thematic Strategy on the Urban Environment”, which seeks to promote concentrated urban form, curtail sub-urbanisation pressures, prevent sprawl and reduce demand for the development of scarce land resources in outlying rural areas. Consolidation of cities, and the general rationalisation of settlement patterns, is also more energy-efficient, reducing demand for car travel and facilitating public transport usage.

As part of the negotiations about the new Structural Fund regulations for the period 2007-2013, the EIB was frequently mentioned in the context of housing investment – especially by New Member States. These negotiations led to an agreement that New Member States may invest limited amounts of ERDF funds in housing. However, they have not led to an expansion of the mandate for the EIB itself to lend money in the area of housing.

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10 EC Regulation on the European Regional Development Fund, CE 1080 (2006), Article 7.2
In December 2005, during the Ministerial Informal on Sustainable Cities and Communities in Bristol, the role of the EIB was further discussed and a specific JESSICA initiative was introduced (see Section 2.3 below).

3.3 Products and services offered by the EIB

The EIB offers various financial services to support projects in the area of sustainable urban development, subject to eligibility criteria. The Bank is essentially a public agency acting as a commercial entity. In the past, the Bank maintained a competitive advantage by offering below-market interest rates and commission-free loans when lending in different currencies. This privileged position eroded following the introduction of the Euro and, even more so, when interest rates fell across the board.

The current difference in interest rate between commercial banks and the EIB is about 10 basis points (i.e. 0.01%). The EIB imposes stricter conditions to borrowers in terms of European Community procurement and environmental regulation in comparison to commercial banks.

In addition to offering low interest rates, the Bank typically provides loans with long maturity periods, grace periods and furthermore does not apply penalties for late payment. From a political perspective, sometimes, having the EIB ‘badge’ on a project can be advantageous.

Three types of loans currently used in the field of sustainable urban development can be distinguished: Individual (investment) loans, Framework loans and Global loans. The decision as to which loan type is more appropriate is driven by a number of preliminary considerations, the main one being the information available about the proposed project or sub-projects at the initial appraisal stage. In addition, project(s) size and the possible involvement of intermediaries are important in informing the choice of loan type.

*Individual (investment) loans*: Borrowers can be both in the public and private sectors, including other banks. The loan amount is to be agreed directly with the EIB if the capital investment project exceeds € 25 million. The EIB covers up to 50% of the total investment costs. Interest rates can be fixed or variable. Repayments are normally semi-annual or annual. Grace periods for capital repayment may be agreed upon covering the construction phase of the project. Bullet loans are also possible. Generally, processing fees, commitment fees or fees of any other kind are not charged. A rigorous procedure of appraisal with full disclosure of all relevant information is required prior to the approval of individual loans by EIB Board of Directors. Individual loans may cover all types of eligible projects (i.e. single or multi scheme, single or multi promoters). A programme loan, covering a multi annual
programme of the borrower's/promoter's capital expenditures, for example, can also be considered as a form of Investment loan.

**Framework loans**: These are lines of credit earmarked for use by a number of future projects, including in some cases projects that are yet to be designed. They mesh with 3-year municipal programmes and ensure that money is readily available to the borrower when necessary by taking into account the city’s urban development plan. In order to qualify for this type of loan, the local authority needs to be in possession of a credit guarantee in advance. Framework loans can also be multi-borrower, although this is not common. As the ex ante evaluation of subprojects can be resource-intensive, the EIB also assesses overall the skills and competence of the intermediary or promoter in identifying and allocating the facility to underlying sub-projects. The size of the underlying sub-projects is a key consideration when determining the level of EIB involvement in this post approval process. In certain specific cases with respect to Framework loans involving larger sub-projects, the EIB may be required to return to its Board of Directors for approval of these specific sub-projects.

**Global loans**: These are credit lines made available to banks, leasing companies or financial institutions, which lend-on the proceeds to small or medium-scale investment projects that meet the Bank's criteria. Local authorities or SMEs can qualify for such loans. To qualify as an SME, a company must have fewer than 250 employees; an annual turnover not exceeding € 50 million; and an annual balance sheet total of up to € 43 million. Various types of projects funded, including new capital investment projects worth up to € 25 million, undertaken by SMEs or, in the case of small infrastructure projects, by local authorities. The nature of investment may also vary and includes corporate investment (especially by small and medium-sized industrial and service companies), investment in advanced technologies and R&D projects, projects protecting the environment and promoting energy efficiency, water supply and sanitation projects and other infrastructure projects particularly concerned with regional development. Loans are granted for a maximum of € 12.5 million and up to 50% of the investment costs. The respective EIB partner bank determines the loan period, interest rates, repayment, currencies, guarantees, provisions/fees. Maturities typically range between 5 and 12 years. Under these schemes decisions concerning lending conditions are made by the financial intermediaries. Borrowers can apply directly to one of the intermediary banks and financing institutions, which operate at the national, regional or local level.

In urban development related projects, most loans tend to be either individual loans or framework loans. Global loans are mainly used by small ad-hoc projects. In

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11 This distinction is not reflected in the Overview of lending patterns (Annex 2), where both individual and framework loans are listed.
practice, framework loans are becoming increasingly popular when it comes to financing sustainable urban development, particularly because they can be effectively linked to the investment programmes of local authorities or municipalities. The implementation of integral multifaceted investment schemes tends to promote sustainable development more effectively than stand alone initiatives. Because component (sub)projects are sometimes not fully crystallised at the time that the framework loan is agreed upon local authorities are given more leeway to invest money as they see fit, respond to changing circumstances and ultimately target their urban development needs more effectively.

In addition to the above products, the EIB also provides a **Structured Finance Facility**, which includes guarantees for covering project risk, mezzanine finance, subordinated debt), and venture capital. From the year 2000, these facilities are managed by the European Investment Fund. **Risk Sharing Finance Facility (RSF)** is another product currently being launched, and explored for instance in the context of the EC’s Research Framework Programme (FP7). Although these financial products can be potentially promising for urban development as well, it is too early to tell whether and at which speed they will be applied in this area. Above all, the development of these products demonstrates the Bank’s interest and commitment to innovation in loan finance overall.

All above-mentioned products concern the EIB’s role on the supply-side of the urban capital market. An important new initiative in the area of urban development finance is JESSICA (Joint European Support for Sustainable Investment in City Areas). JESSICA is a framework for enhanced cooperation between the Commission and the EIB, the Council of Europe Bank (CEB) and other International Financial Institutions (IFIs) and concerns financial engineering for sustainable urban development in the context of cohesion policy. It will offer help to the managing authorities responsible for the next generation of programmes. This initiative will therefore position the EIB more strongly on the demand-side of the capital market as well.

JESSICA aims to:

- Leverage in additional loan resources for public private partnerships and other projects for urban development in the regions of the EU that are capable of repaying in the long-term the resources invested in it, in total or in part;
- contribute flexibility, financial and managerial expertise from specialist institutions such as the EIB, the CEB and other International Financial Institutions,
- create stronger incentives for successful implementation on the part of beneficiaries and achieve greater leverage from grant resources for urban development, by attracting contributions from international financial institutions, banks, the private sector, etc
• ensure long-term sustainability through the revolving character of the ERDF contribution to funds specialised in investing in urban development.

The JESSICA initiative is currently being developed and is expected to be taken forward in relation to new Structural Funds Operational Programmes - that thereto need to specifically set urban development priorities. In its working, JESSICA will be comparable and supplementary to the JEREMIE programme: JEREMIE supports improved access to finance for micro to medium sized enterprises in urban areas, while JESSICA is designed to support urban infrastructure projects and networks, energy efficiency or ICT projects, or any other project or group of projects not falling within the scope of JEREMIE, including support of integrated urban development plans.

3.4 Lending volumes in urban development

The extent to which the EIB has been successful in meeting its goals and fulfilling its role can be measured by looking at EIB lending volumes and lending patterns. The Expert Working Group has therefore mapped out the lending behaviour of the Bank in the period 2000-2006, based on official EIB data made public in EIB Annual Reports and on the EIB website.

### Table 2.1

<table>
<thead>
<tr>
<th>EU-27</th>
<th>Average per year (00-06)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Urban Renewal</td>
<td>2.124</td>
</tr>
<tr>
<td>Urban Transport</td>
<td>2.110</td>
</tr>
<tr>
<td>Urban Infrastructure (Global Loans)</td>
<td>5.985</td>
</tr>
<tr>
<td>Overall EIB lending</td>
<td>33,269</td>
</tr>
<tr>
<td>Inhabitants</td>
<td>483,085</td>
</tr>
</tbody>
</table>

| Ratio Urban Renewal / Total Urban Development | 29.50% | 18.45% | 24.27% | 30.68% | 33.93% | 16.36% | 22.86% | 25.15% |
| Ratio Urban Transport / Total Urban Development | 29.31% | 33.45% | 35.11% | 43.57% | 32.90% | 49.74% | 34.74% | 36.97% |
| Ratio Global Loans / Total Urban Development | 41.19% | 48.10% | 40.62% | 25.75% | 33.17% | 33.91% | 44.17% | 38.13% |
| Total Urban Development / Overall EIB lending | 21.64% | 17.81% | 24.27% | 21.32% | 23.33% | 26.69% | 11.66% | 20.10% |
| € lend per capita from EIB (Overall EIB lending / Inhabitants) | 69 | 70 | 76 | 79 | 81 | 88 | 83 | 78 |
| € lend per capita from EIB for Urban Development (Total Urban Development / Inhabitants) | 15 | 12 | 18 | 17 | 19 | 18 | 10 | 16 |
| € lend per capita from EIB for Urban Renewal (Urban Renewal / Inhabitants) | 4 | 2 | 4 | 5 | 6 | 3 | 2 | 4 |
| € lend per capita from EIB for Urban Transport (Urban Transport / Inhabitants) | 4 | 4 | 6 | 7 | 6 | 9 | 3 | 6 |
| € lend per capita from EIB for Urban Infrastructure (Global Loans / Inhabitants) | 6 | 6 | 7 | 6 | 6 | 6 | 6 | 6 |

Source: EIB website: http://www.eib.eu.int/projects/loans/regions/
Source for population and GDP data from EUROSTAT; GDP data for 2006 is a forecast; Inhabitants for 2006 as of the 1st of January

See Annex 1 for a methodological note on this analysis.
The numbers provided in this section are based on approved projects. The EIB uses for internal purposes some other indicators as well, notably signed contracts and disbursements. Disbursed amounts tend to follow the other two indicators over time.
Figure 2.1

Trends in EIB lending over the period 2000-2006

Figure 2.2
Figure 2.3

Investment in Urban Development in EU 27

EIB annual urban development lending in relation to overall EIB annual lending (average 2000-2006)
With an overall lending volume of about € 50 billion per year, an average of € 38 billion per year has been issued to EU Member States. Overall lending volumes differ significantly between Member States. Absolute amounts are high in Germany, Spain and Italy (around € 6 billion per year for each country), followed by France (almost € 4 billion) and the United Kingdom (over € 3 billion per year). In relative terms, apart from small countries such as Luxembourg and Cyprus where averages are strongly influenced by individual transactions, Portugal, Finland, Spain and Denmark are borrowing heavily from the EIB loans – close to € 150 per resident per year, double the overall EU average of € 75 per resident per year.

Lending in the area of urban development (urban renewal, urban transport and global loans for urban infrastructure combined) make up about € 7.6 billion per year, or about 20% of all lending. The average loan volume issued for urban development per capital amounts to about € 16 per EU resident per year.

The annual fluctuations in lending for urban development appear to be limited, with the exception of 2006 when lending in this sector appears to be dropping – to a volume of almost € 4.78 billion. This decline appears to be in contrast to EIB lending in general, which means that urban development loans made up a smaller proportion (12%) of all EIB loans in 2006.

Within more specific categories, fluctuations tend to be larger – due to the impact of sizable individual transactions. Loans for urban renewal increased from € 2 billion in 2000 to € 3 billion in 2004, but slid back in 2005 (€ 1.5 billion) and 2006 (€ 1.1 billion). Loans for urban transport – where project size tends to be bigger – have seen greater fluctuations, with a peak of € 4.5 billion in 2005 followed by a decline to € 1.6 billion in 2006. Global loans in urban infrastructure averaged about € 3 billion per year up to and including 2005 but the amount was 2/3 in 2006.

More detailed analysis of urban development loans at the national level (2000-2006) shows more fluctuation. Apart from Luxembourg – where the influence of one individual project is disproportional in relation to the limited number of inhabitants – EIB lending in urban development is relatively important in Greece, Spain, Denmark and Finland, at levels above € 30 per resident per year – or twice the EU average. In the period under investigation, EIB lending in urban development has not taken place in Latvia, Lithuania, Malta and Slovenia (Figure 2.2).
3.5 Conclusions

Following its establishment in 1957 based on the Treaty of Rome, the role of the EIB in financing urban development has gradually evolved. In 1988, the Bank’s eligibility criteria for projects that focused on improving the quality of life in the urban environment (namely sustainable urban transport projects) were extended. In 1997, following a period in which urban development policy had been gaining significant levels of attention, the European Council of Amsterdam invited the EIB to further step up its intervention in the urban environment. It urged the EIB to expand its activities in this respect, promoting investment projects consistent with sound banking principles and practices, and in particular to examine its scope of intervention in the areas of education, health, urban environment and environmental protection.
The variety of financial products available to support urban development – and indeed more generally – has been evolving over time. Particularly important are the framework loans and global loans, which allow the EIB to fund packages of urban development projects that are in themselves not large enough to meet the Bank’s minimum required investment size. Recently, some more innovative financial products are being introduced, such as the Structured Finance Facility, venture capital and a Risk Sharing Finance Facility (RSF). It is too early to see whether these products will be applied to urban development as well. The introduction of the JESSICA initiative helps to position the EIB not only as a lending institution, but also as an actor on the demand side of the capital market – by supporting local, regional and national actors to establish revolving funds for investment in urban areas – helping them to leverage Structural Funds.

A global analysis of lending patterns points to significant EIB lending volumes across various sectors and the EU as a whole – at an annual average of €35 billion per year within Member States. Loans for urban development accounts for 20% of this volume in recent years, although sizable fluctuations have occurred. Lending volumes for urban development fell away in 2006 but it is too early to tell whether this recent development is a structural or a cyclical phenomenon.

Significant differences in EIB lending volumes have been observed between individual Member States, which is evidence for a differentiated role of the Bank across the EU owing much to the characteristics of national capital markets in the various Member States. Because of this differentiation, the Expert Working Group has examined EIB lending for urban development in greater detail for a selected number of countries: the United Kingdom, Germany, Italy, Finland and Hungary. The findings of this research into these national frameworks are presented in chapter 4.
4.0 NATIONAL FRAMEWORKS

4.1 Introduction

Rather than a European wide capital market for urban finance, investments in sustainable urban development take place within clearly defined and delineated national capital markets. Preliminary research points to the importance of the national level, and hence an important focus of the Expert Working Group’s attention has been on gaining a better understanding of such national frameworks, and in particular the actors involved. From such national frameworks, the roles and value added by the EIB can then be better evaluated.

Rather than a global overview of urban finance in all EU Member States, the Expert Working Group has chosen to focus the in-depth research on five countries, namely the UK, Germany, Italy, Finland and Hungary. Criteria for selecting these countries were:

- Research findings from earlier research;
- Co-operation received by Member States and/or other relevant stakeholders;
- Support provided by the Member States to the Expert Working Group;
- Balance in terms of geography and size;
- Availability of national and linguistic expertise within the research team;
- Variance in the institutional patterns and the types of actors involved.

Key questions to be addressed by this national-level research include:

1. What are the key aspects of urban development that require funding?
2. What is the state-of-play regarding the use of grants versus loans?
3. What are the key national players in the lending market and what are their relative advantages and disadvantages?
4. Is the relationship between the EIB, national public and private banks typified by cooperation or competition?
5. What is the balance in terms of public and private lenders?
6. Who are the borrowing authorities, who are the investors and what types of loans are being given (e.g. framework loans or individual loans)?
7. Does the lending follow a pattern? If so, how can this be explained?
8. Under what circumstances are authorities seeking EIB funding for urban development projects (what are the main motivating / determining factors)?
9. What experiences have been gained in working with the EIB in the area of sustainable urban development?
10. What is the added value of EIB lending for cities and sustainable communities in the specific national context?
11. In which areas of urban development is there scope for expanding the role of the EIB?
12. Does the legal framework (e.g. rent-, condominium-, tax law, regulations on energy efficiency of buildings etc.) enhance urban investments in the building stock?
13. To what extent are low income households given public assistance and what effect does this have on investment burdens (e.g. in the field of housing)?
14. Is there a need for greater knowledge transfer between Member States, European Commission, EIB and Council of Europe Bank (CEB)?

This Chapter will present the main conclusions from the national-level research carried out in the UK, Germany, Italy, Finland and Hungary. More in-depth research information has been included in an Appendix to this Report. A full overview of EIB-funded projects in the area of urban development in Member States (2000-2006) is presented in Annex 2 of this report.

4.2 The United Kingdom

4.2.1 Investment needs

Despite considerable commitment from the UK government to sustainable communities, and a promise to direct some € 60 billion of public funds towards this area, there is widespread recognition that more finance will be required for real and meaningful change to occur. Without additional financial resources from sources other than the public purse, the Government’s long term ambitions in terms of sustainable communities will not come to fruition.

The demand for finance for sustainable communities and urban renewal is significant, mainly because the agenda is a wide ranging and multifaceted one. Because the sustainable communities agenda relates to issues as broad as regeneration, housing, transport, education, employment and crime, the price tag is considerable. Estimates show that over the next 15-20 years the South East region alone will need € 80 billion to deal with housing demand while another € 30 billion will be required to meet the Government’s Decent Homes Standard. Set these figures against a commitment of € 60 billion from the government for sustainable communities across the whole country, and the need to identify additional finance to bridge this funding gap is apparent.
4.2.2 Demand side

Local authorities play an important role in the United Kingdom. In total local Government spent approximately € 150 billion in the UK in 2005-2006\(^\text{14}\), a rise of € 45 billion from 2002-03. Spending on housing reached a level of € 20 billion. The UK has a strong central state and Treasury compared to most other EU countries.

The Treasury keeps tight controls and uses comparatively strict regulations which constrict Local Authorities (as well as other regional bodies) from being able to generate income locally to fund urban renewal projects. The current regulatory and financial environment in the UK ensures 95% of all taxation is set by central government and all capital expenditure by English regional and local government is subject to Treasury control. Local Government and regional organisations are therefore fairly limited in the UK in terms of raising additional finance to fund large-scale urban renewal activity because they do not have an independent tax base. However, there is a perception that Local Government borrowing is set to increase fairly rapidly within the next five years as they continue to exercise their new found borrowing powers. In 2005, Local Authorities borrowed in the region of € 14 billion, mainly from the Public Works Loan Board – which acts as a public bank.

Regional Development Agencies are key to the urban regeneration agenda in the UK. However, their borrowing powers are limited and they are fairly tightly constrained by central government. The Secretary of State’s consent is required for an RDA to temporarily borrow, via overdraft facilities, up to a maximum of € 7 million for just 30 days. Funding available for RDAs is therefore almost entirely through direct grants aid from Central Government amounting to € 3 billion in 2006-07.

English Partnerships is the Government’s regeneration agency and is tasked with encouraging sustainable regeneration activity throughout the country. Its role often involves working as a catalyst to encourage public and private funding into key strategic sites, pump priming developments where necessary. English Partnerships’ expenditure on urban regeneration in the UK amounted to approximately € 1.2 billion in 2006 and its funding is a mix of grant aid from Central Government (approximately € 600 million) together with returns on its property portfolio. Like the RDAs, English Partnerships does not borrow any funding from the market and would require permission from the Secretary of State if they felt the need to do so.

\(^\text{14}\) Local Government Finance: Key Facts (2006)- DCLG
FIGURE 4.1 NATIONAL MODEL FOR FINANCING URBAN DEVELOPMENT: STAKEHOLDERS IN UK

**Demand side**

**LOCAL GOVERNMENT**
Local Government spent in the region of £100 billion in the UK in 2005-2006, a rise of £30 billion from 2002-03. Until 2003, Local Government were not allowed to borrow funding. Local Government borrowed in the region of £3 billion, mainly from the Public Works Loan Board.

**KEY REGENERATION STAKEHOLDERS**
- **Regional Development Agencies:** Spent in the region of £2.5 billion in 2006/07 on priorities relevant to their region. RDAs have no borrowing powers.
- **English Partnerships:** Spent in the region of £8 million on encouraging sustainable regeneration in UK cities. English Partnerships have no borrowing powers.
- **Urban Regeneration Companies:** Responsible for leading and co-ordinating the redevelopment of and investment in declining urban areas. URCs have no borrowing powers.

**HOUSING ASSOCIATIONS**
Provide affordable housing and responsible for housing regeneration activity, spending in the region of £1.2 billion between 1990-2000. Because Housing Associations are independent from Government they are allowed to borrow finance and owe approximately £30 billion.

**PRIVATE BODIES**
Large numbers of private property developers, acting at local, regional, national and international levels
Landlords - active in regeneration and upgrading of individual housing

**Supply side**

**PUBLIC GRANTS**
- **EU Grants:** Grants of £10.6 billion from EU Structural Funds between 2000-2006. UK grant allocation will decrease to £6.4 billion between 2007-2013.
  - **Single Programme:** £6.5 billion between 2004-2008 delegated to Regional Development Agencies to spend on regional priorities.
  - **Neighbourhood Renewal Fund:** Governments main regeneration funding grant, worth £1.8 billion between 2004-2006 to spend on deprivation issues.
  - **Transport Innovation Fund:** Estimated to grow to £2 billion between 2014/15 to be spent on congestion and innovation.
  - **Housing Market Renewal Fund:** 2007/08 over £450 million per annum; Governments main funding regime to restore sustainable communities in North and Midlands where demand for housing is relatively weak.

**EUROPEAN PUBLIC BANKS**
- **European Investment Bank:** Lent £2.7 billion between 2001-2005 to 21 projects. Widespread on-laning of EIB loans where bank or other body (e.g. The Housing Finance Corporation) borrow from the EIB and then on-loan to other organisations. 6 out of 10 types of organisations borrowing from the EIB since 2001 then loaned the finance onto other organisations.

**OTHER PUBLIC INSTITUTIONS**
- **Public Works Loan Board:** Lent £30 billion between 2001-2005 to Local Authorities throughout UK for Capital projects.

**COMMERCIAL BANKS**
- Abbey National, HBOS, Nationwide Building Society and Barclays Bank

**PRIVATE INVESTMENT**
Tools used to stimulate private sector investments in regeneration in UK include: English Cities Fund, Real Estate Investment Trusts, Limited Partnerships. All tools aim to encourage more investor interest in the UK property market.

Private Finance Initiative: Over 700 PFI projects in UK delivering infrastructure investment of over £49 billion since 1992. Private consortia are contracted to design, build and sometimes manage new projects, leasing the building back to the public organisations.

Section 106 agreements: worth £1.5 billion per year in UK. Developers contribute to the cost of infrastructure improvements as part of the formal planning process.

**INVESTMENT NEEDS OF UK CITIES**
- **Urban Housing:** £2.8 billion per annum required for more social and affordable housing in UK cities. £20 billion required to bring social rented homes up to Governments Decent Homes Standard.
- **Urban Growth:** Radical action on housing supply to keep pace with rising population in UK cities. 200,000 additional homes needed above previously planned levels at a cost of £55 billion in South East.
- **Urban Transport:** Congestion on urban roads and public transport requires urgent action. £75 billion needed for key urban transport projects including Crossrail and M25 widening.
- **Urban Decline:** £30 billion productivity gap between north and south regions. Projects needed to narrow the gap and make the north more competitive estimated to cost £25 billion.

**LOCAL GOVERNMENT**
Local Government spent in the region of £100 billion in the UK in 2005-2006, a rise of £30 billion from 2002-03. Until 2003, Local Government were not allowed to borrow funding. Local Government borrowed in the region of £3 billion, mainly from the Public Works Loan Board.
Urban Regeneration Companies (URCs) are responsible for leading and coordinating the redevelopment of, and new investment in, declining urban areas. They are independent organisations uniting national, regional and local public and private stakeholders in key towns and cities through a company or partnership structure. Their principle focus is to engage the private sector and come to an agreed physical and economic regeneration strategy, develop a comprehensive approach to tackling problems, and identify opportunities in their areas. Again, URCs have no powers in terms of borrowing and are reliant on direct grants from their RDA, Local Authorities as well as English Partnerships.

Housing Associations are tasked with providing affordable housing and are responsible for much of the UK’s housing related regeneration activity, spending in the region of €1.7 billion between 1990 and 2000. Unlike its counterparts detailed above, Housing Associations are independent of Central or Local Government and are therefore free to borrow on the open market. Most Housing Associations borrow from private banks although, as noted earlier, they have also started to borrow from the EIB. Housing Associations are forecast to acquire loans of €4.5 billion in 2004/2005 which would take the total borrowing of Housing Associations to €45 billion. Much of this borrowing is for improvement in existing housing stock and to fund new builds.

Furthermore, the UK market is characterised by a large number of private bodies, including many private property developers, acting at local, regional, national and international levels, and landlords - active in regeneration and upgrading of individual housing as well.

Taking the above into consideration, it seems that most of the major players in the UK regeneration arena are relatively restricted in terms of the amount of borrowing they are allowed to undertake. Most rely on direct grant aid from Central Government for their funding with no or very little income being accessed via borrowing. Housing Associations, who are independent of the Government, are the only key regeneration related organisations that presently borrow on the open market. Local Authorities are starting to exercise their borrowing freedom, but most of these are focussing on loans from the Public Works Loan Board.

4.2.3 Supply side

Although there is a recognised shift away from urban renewal projects relying on public sector grants in recent years, the Government still funds, directly or indirectly, a considerable amount of renewal activity across the UK. For instance through the ‘Single Programme’, funding is delegated to each of the English Regional Development Agencies to spend as they see fit to achieve the regional priorities.
identified in their regional economic strategies. The Single Programme amounted to a total budget of €13 billion between 2004 and 2008. Neighbourhood Renewal Funding (NRF) is another instrument. The NRF helps the 88 most deprived parts of the UK narrow the gap between themselves and the rest of the country in terms of issues such as employment, health and crime. The NRF is the Government’s main regeneration funding regime and amounted to €2.6 billion of grants between 2001 and 2006 and a further €1.5 billion between 2006 and 2008. The Housing Market Renewal Fund is a programme to help make communities more sustainable in those parts of the North and Midlands where demand for housing is relatively weak and which have seen significant decline in population, dereliction, poor services and poor social conditions as a result. Its objective is to renew failing or weak housing markets and reconnect them to regional markets. By 2008 the Government will have invested around €1.7 billion in the Housing Market Renewal Fund. Other financial sources for urban renewal in the UK include EC funding. Between 2000 and 2006, €15 billion worth of grants were received by the UK from the Structural Funds although this will be greatly reduced in the new funding cycle of 2007-13. Business Improvement Districts (BIDS) are yet another tool. They are locally controlled partnerships for improving the environment and economic performance of a defined area. They are created by groups of businesses to oversee and fund environmental improvements and small renewal projects. BIDS are funded by local businesses through a levy on their rates bill and although funding generated from BIDs is small scale at present they do represent a move toward raising local taxes to fund renewal activity in the UK.

Most prominent amongst the public lenders is the Public Works Loan Board (PWLB), an independent and unpaid statutory body which lends money to Local Authorities to help finance their capital projects. Because the PWLB is Government backed it can raise and lend finance at cheap interest rates (typically 4 - 4.5%). The PWLB is often seen as the key player on the supply side in the UK in terms of financing local regeneration activity and it is estimated that 85% of all borrowing undertaken by Local Authorities is through the PWLB. Between 2001 and 2005, the PWLB lent in excess of €45 billion of with €13 billion being lent out in 2005 alone. Local Authorities can borrow upwards of £1 million and, because the PWLB lends to organisations with good credit ratings who they are already familiar with, they are able to provide the funds quickly and simply (a simple phone call will do rather than any complex application process). Furthermore the PWLB does not require any details about what the funding is for (as long as it is spent on capital projects) and funds are often put into a funding pot for the Local Authority to use on an as-and-when basis. This simple and un-bureaucratic procedure coupled with the very cheap interest rates on offer means the PWLB is a major lender of large capital projects in the UK.
Commercial banks are also important players in the capital market for urban finance. Abbey National, HBOS, Nationwide Building Society and Barclays Bank all lend to urban renewal projects in the UK. Banks are becoming increasingly interested in lending towards urban renewal activity in the UK because public bodies such as Local Authorities have good credit ratings and are safe in terms of their repayments. Over the last four years, the banks have been increasingly competitive with the PWLB, and indeed the EIB, in terms of their lending rates. Since June 2002, lender's option/borrower's option loans (LOBOs) have been of particular interest as an additional form of finance for regeneration activity in the UK. A standard LOBO means taking out a loan for a primary period at a relatively beneficial interest rate fixed for the whole period, followed by a higher rate for the remaining period which can be changed by the lender every six months.

Private capital (equity) is another important source of urban finance in the UK. A significant proportion of UK commercial property is owned by institutional investors and large property companies. Because of the scale of their UK commercial property holdings, the investment decisions of the institutions have important implications for urban regeneration. In the past there have been a number of challenges which deterred private institutions from investing in regeneration related projects including:

- Perception of risk and poor returns
- High transaction costs
- Perceived long term timeframes of the public sector.

However, over recent years financial institutions have become increasingly interested in investing in the regeneration agenda, mainly because the return on the investment is greater than it has been in the past. An example of an investment vehicle set up by the private sector to promote urban regeneration within the UK is Igloo. Igloo is a partnership of pension and life funds managed by Morley Fund Management which invests in and develops urban regeneration sites across the UK. Igloo currently has 23 projects in its direct development and partnership portfolios with a completed development value of € 4 billion creating 8,500 homes on around 250 acres of brownfield land. Building on initiatives of this type, the Government has looked to establish a number of innovative methods to stimulate private sector involvement including:

- English Cities Fund: The English Cities Fund was developed by English Partnerships and its two joint venture partners, AMEC and Legal & General, to invest in mixed-use projects in town and city centres and their fringes in assisted areas in England, where local economies fall below the EU average. Primarily, the ECf aims to show that high-quality, mixed-use area-based regeneration schemes provide viable, attractive and worthwhile opportunities for institutional investors in the medium to long term, alongside lasting community benefits and environmental improvements.
• Real Estate Investment Trust (REIT): A REIT is a company that owns and manages income-producing property, either commercial or residential. Investors in UK REITs are likely to be pension funds, endowment funds and foundations, insurance companies and bank trust. REITs will come into play in the UK in January 2007.

• Limited Partnerships: One avenue that the private sector has used to become involved in urban renewal activity is through Limited Partnerships, which have now grown to be a €14 billion market. Limited partnerships offer an attractive route into indirect property investment, enabling a pool of private investors to co-invest in one or more assets. The number of partners is limited to 20, and while at least one, the general partner, must have unlimited liability, the liability of other partners may be limited.

In addition to the above sources of supply, some alternative, often innovative, sources can be mentioned. One of them is the Private Finance Initiative (PFI), which provides a way of funding major capital investments without immediate recourse to the public purse. Private consortia, usually involving large construction firms, are contracted to design, build, and in some cases manage new projects. Contracts typically last for 30 years, during which time the building is leased (or rented) back by a public authority. Over 700 PFI projects delivering infrastructure investment of over €70 billion have been signed since 1992. PFI has shifted risks from the public sector to the private sector and has also increased the level of finance for enhancing public services.

Another alternative funding source are Section 106 agreements between local authorities and developers. A Section 106 agreement is where developers contribute to the cost of infrastructure improvements as part of a formal planning process. It ensures that work that has a general community benefit, such as affordable housing or infrastructure, takes place as part of a wider development. The local benefits or safeguards are usually provided at the developer’s expense and form part of the planning approval. In total these agreements are worth more than €2.5 billion a year in the UK. Housing Associations and local authorities are especially keen to use Section 106 arrangements in areas where development land is scarce.

4.2.4 The role of the EIB

Within Europe, the UK market for urban finance can be considered advanced and quite well developed. Although grants play an important part in funding urban development, demand for loans for urban renewal is on the increase. This trend is largely driven by the fact that overall levels of grants are set to decline, mainly because the EU Structural Funds allocation in the UK will fall with about 40% in the next programming period. Furthermore, Local Authorities have been given new
prudential borrowing power by Central Government. This power, which came into effect at the beginning of 2003, allows councils to borrow without the consent of central government, as long as they remain within their own affordable borrowing limits.

However, as indicated above, there is already a strong and varied supply of urban finance. As an outcome of these forces, the EIB has been able to become a medium-sized player in the urban lending market. Since 2001, the Bank has lent €4 billion to 21 projects in the UK. In 2002 a €230 million deal was signed between the EIB and HBOS (the newly merged Bank of Scotland and Halifax) to support upgrades and development of social housing across the UK, notably in Glasgow (see also the case study presented in Chapter 4). Prior to this bank in the UK had not been involved in acquiring EIB loans to fund regeneration activity. The EIB has often fulfilled the role of wholesale bank. Of the ten organisation types receiving EIB funding between 2000 and 2006, six subsequently on-loaned to other organisations. Furthermore, Transport for London (TfL) has borrowed significantly from the EIB in order to upgrade transport infrastructure across the capital. This is worth noting because TfL is a Local Authority and could have alternatively chosen to borrow from the Public Works Loan Board. This is the first time that a Local Authority has chosen to borrow from the EIB as opposed to the PWLB.

Within the UK market of urban finance, the EIB is seen to have a number of advantages. A clear advantage of borrowing from the EIB is that the interest rates attached to their loan agreements are very competitive. Because the EIB is AAA rated it has the ability to raise money cheaply, an advantage which is then passed on to the borrower. The cost of borrowing is further reduced because the EIB is not a profit maximising lender, meaning it only looks to add minimal administration costs onto its loan agreements. The EIB has also been one of the few banks willing to take risks on the urban development projects, a good example of this being the Docklands Light Railway. The EIB is also committed to supporting projects that have a social element attached to them and are of benefit to the wider community and/or environment. One key added value of borrowing from the EIB is the technical assistance element attached to an EIB loan, providing support to the borrower in terms of project delivery and financial management - something which no other lender can offer within the UK. Finally, there is a perception that the EIB is more willing to be patient in relation to waiting for projects to develop and establish themselves. Because large capital projects are often complex in nature, there is a likelihood that delays will occur on issues such as planning, site remediation or construction. Unlike other lenders, who would prefer short inception periods when establishing the loan, the EIB is perceived to be more tolerant towards delays.

Against these advantages, a number of constraints can be mentioned. Firstly, there is a perception that borrowing from the EIB requires a lengthy process of initial
negotiation. Although this bureaucratic process is perceived by some as being a good discipline for borrowers to follow, the level of effort required prior to receiving a loan from the EIB could be seen as a disadvantage. This point is particularly true when the EIB process is compared to drawing a loan from the PWLB which requires little more than a simple telephone. Furthermore, there is a perception amongst borrowers that the EIB is overly risk sensitive. This constraint is of particular importance to the urban regeneration sector because large scale projects will always have risks attached to them (e.g. construction delays, rising costs) and the feeling is that the EIB should be more ready to accept these risks than they are at present. An increasingly important factor is the level of the interest rates that are becoming uncompetitive in the UK in recent times. The PWLB has interest rates that are often lower than 4% while UK banks (through the LOBO deals) are starting to offer rates that are increasingly comparable to those of the EIB. Finally, there is a perception that the EIB is rather distant from the UK and it lacks exposure in the market. Furthermore the Bank’s knowledge of its customers may be somewhat limited. It is for this reason that on-lending within the UK is becoming a more popular route. Here, domestic banks borrow from the EIB and then on-loan to their customers base with whom they often have close relationships.

4.3 Germany

4.3.1 Investment needs

Several important developments take place in German spatial and urban development: the revitalisation of city centres, the reconstruction of urban areas in line with needs of demographic developments, the increase in the number of deprived districts in the West and the revitalisation of urban quarters with high vacancy rates in the East. Furthermore, protection of historical buildings and environmental concerns remain long-standing focal points in German urban development.

The increase in the number of deprived districts in Western Germany can be related to the ageing and decreasing population as a result of a very low birth rate, and high levels of migration from East to West.

A different picture can be observed in East Germany. Net migration losses in the East had fallen following unification, but began to rise again from 1997 onwards, owing to inadequate economic development. Furthermore, a decrease in population was caused due to deaths exceeding births. Nevertheless the vacancy rates in the East of Germany are falling as demolition programmes prove to be successful and as the number of newly built housing units has dropped drastically.\textsuperscript{15}

\textsuperscript{15} BBR (2006), pp. 165-173.
Environmental concerns have led to initiatives aimed at the modernisation of the existing building stock. Energy efficiency programmes such as the CO2 building renovation programme entails the comprehensive renovation of the existing housing stock with regards to energy utilisation and emissions and therefore forms an important part of urban development in Germany\textsuperscript{16}.

Taken together, the investment needs in Germany’s cities are impressive. A recent, although necessarily normative study,\textsuperscript{17} found that local authority investment requirement for the 2000-2009 period could amount to an average of € 69 billion per year. Roads and public transport would account for 26%, social infrastructure 19% and housing construction 7%. Above all, this study points once more to the methodological problems and complexity inherent to the measurement of investment needs.

4.3.2 Demand side

The public authority structure in Germany consists of the Federal Republic, the Federal States (Länder), the more than 300 Districts (Kreise), the 116 cities and the nearly 14,000 municipalities. Local governments, when preparing their budgets, require approval from the Ministry of Interior of the respective Federal State. Municipal borrowing requires approval from the municipal supervisory body of the district or regional authority. Consecutively, the borrowing must be approved through a resolution taken by the district assembly, by the supervisory authority at the Ministry of Interior of the relevant federal state. Although urban investment needs are considerable in Germany, the ability of cities to take out loans is limited because of the unfavourable position which municipalities find themselves in – with high cost level, negative developments effecting income and general indebtedness at the present time.

Regional development agencies (Landesentwicklungsgesellschaften) can play an important role in initiating urban development as well. They are agencies set up and commonly owned by Federal States in regions where considerable regeneration challenges exist, particularly in the Eastern part of the country, but also for instance in Northrhine Westphalia.

Furthermore, there are 3,200 Real estate and Housing companies in Germany, united under a single branch organisation. These housing companies include municipal companies, cooperatives, housing companies funded by the church, the federal state or the federal government. Together they own 6.5 million flats offering

\textsuperscript{16} These programmes are managed by the promotional bank KfW. On the impact of their programmes also see: KfW Geschäftszahlen 3. Quartal 2006.

\textsuperscript{17} German Institute for Urbanistik
housing to 15 million people which constitute 17% of all flats available in Germany. These companies are active in the construction of housing, renewal of buildings and facility management and frequently work together with the public authorities. Furthermore there are so-called “Freie Wohnungsunternehmen” owned by private investors which are responsible for the administration of 3.2 million flats.

Private or quasi-private institutions that invest or participate in urban renewal projects include the Deutsche Bahn, which tends to be involved in broader urban renewal strategies. The Deutsche Bahn AG is the largest real estate company in Germany with 1.35 billion m² within their portfolio. They have 5,400 railway stations of which 2,400 have an entrance hall. Hence, these locations lend themselves to the establishment of shopping centres. Many stations were run down but have been carefully renovated as they form part of the countries architectural heritage. These expensive urban renewal operations have been typically accompanied by the exploitation of the location for business and housing. Current projects include the Potsdam Centre, Berlin-Wriezener Bahnhof, Stuttgart 21 and Neu Ulm 21. Common to these projects is that the main stations are crucial elements of larger urban renewal measures covering whole districts. In Neu-Ulm 21 for example, as part of the reorganisation of rail traffic, superfluous railway lines were made available for the development of business real estate and houses. Clearly the Deutsche Bahn is highly involved in the development, renting, selling, and management of urban property.

Almost all German cities have local building development companies. These companies are typically local players and consist of public and private partners, usually local authorities, local savings banks and real estate companies. The idea behind building development companies is to involve the private sector in urban development ventures, particularly large scale ones, in order to promote efficiency and benefit from the know-how of the private sector. In this way, local private sector companies may influence decisions made by urban planning departments through their participation in building development agencies.

### 4.3.3 Supply side

A wide range of public grants are available in Germany. An assessment of actual investment in urban areas is difficult in Germany, as the States have important investment budgets in addition to the Federal level. A few indications can thereto be provided. An important mechanism is the urban development support (Städtebauförderung), through which the Federal government invested around € 4 billion in urban renewal in the period 1995-2004, mostly (77%) in East Germany.\(^\text{18}\)

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FIGURE 3.2: NATIONAL MODEL FOR FINANCING URBAN DEVELOPMENT: STAKEHOLDERS IN GERMANY

Demand side

INVESTMENT NEED
Local authority investment need 68.6 billion per year (2000-2009).
Actual investment in urban development added up to 15 billion per year (2003).

PUBLIC AUTHORITIES
Federal Government
16 States
14,400 municipalities including 116 cities

QUASI-PUBLIC BODIES
9 Development agencies (Landsentwicklungsgesellschaft)
Public local real estate and housing companies: There are 3,200 public and private real estate and housing companies representing 8.5 million flats

COOPERATIVES
2,000 housing cooperatives with 2.2 million flats.

PRIVATE BODIES
Deutsche Bahn
7 Private Building development Agencies
Private Local real estate & housing companies: With private participation

Supply side

PUBLIC GRANTS
EU: Structural funds, Objective 1 for Urban Transport and Objective 2 for Urban Renewal; URBAN II
National/Regional and Local Urban Renewal Programmes: Annual public spending in urban renewal and directly to it related urban infrastructure amounted in 2003 to 4.7 billion EUR, 5 programmes in the urban development field including:
  a. Renewal and development programme
  b. Support of historic city centres in new Länder
  c. Urban restructuring in the new Länder
  d. Urban restructuring in the old Länder
  e. “Soziale Stadt” programme

OTHER PUBLIC BANKS / INSTITUTIONS
European Public Banks
European Investment Bank (1060 million EUR average in 2001-2006)
Council of Europe Development Bank (104 million EUR in 2005)

KfW promotional bank (National): Lent 12 billion EUR until Nov. 2006 for investment in housing. 2.3 billion EUR for municipal infrastructure.
20 regional promotional banks: At the state level out of which 17 have investment in urban renewal and urban infrastructure as a policy objective, e.g. NRW Bank and Landesbanken Baden Württemberg. 11% market share of the total credit lending market to public authorities (municipalities 16% market share).
Landesbanks and Saving Banks: 477 public sector savings banks (Sparkassen) with approximately 17,000 branches, 12 regional banks (Landesbanken) and 11 regional home savings banks (Landesbausparkassen) hold approximately 58% of the credit lending market to public authorities.

CO-OPERATIVE BANKS
Deutsche Kreditbank AG

COMMERCIAL BANKS
Commerzbank, Deutsche Bank, Hypovereinsbank and Eurohypo cooperate with EIB through Global Loans facility to finance infrastructure schemes.
Private banks including foreign banks have a market share of less than 20% of the public authority lending market.

EQUITY PROVIDORS
Institutional investors / Pension funds
There are substantial other public funding sources for investment in urban development following the general financing system between Federal state, Länder and cities in Germany. In addition to that, there are some special Programmes fostering infrastructure investment in the urban context. Depending on the programme, the proportion financed by each government level differs accordingly. In light of this complexity, it is impossible in the framework of this study to give a complete overview of actual investments in monetary terms.

The “Soziale Stadt” programme constitutes a significant integrated response to urban problems, with the objective of stabilizing and improving the quality of life in problematic districts. Eligible projects include those aimed at improving living conditions, supporting local businesses and entrepreneurship, promoting local employment, improving social infrastructure, establishing vocational training centres, implementing security measures, protecting the environment, providing public transport, and recreational activities and stimulating the development of local culture. For each measure, 1/3 is financed by the federal government and 2/3 by the states and the municipalities. In 2005, the federal government alone disbursed € 72.447 million and supported 363 measures in 252 municipalities.

With 2,363 credit institutions (situation at end 2002), Germany outnumbers any EU country in terms of credit institutions. Nearly one in three of the total 7,756 banks in the EU have their registered office in Germany. These institutions operate under the unique German banking system based on a three pillar structure. The commercial banks are categorised under the first pillar, banks operating under public law including Savings Banks and Landesbanks constitute the second pillar and co-operative banks and mutual banks represent the third pillar.

Germany has an important network of public – so-called promotional - banks, including the Kreditanstalt für Wiederaufbau (KfW). The KfW is owned for 80 % by the federal government and for 20% by the federal states, and has an overall portfolio that is close to the size of that of the EIB. The current operation of the 20 promotional banks was agreed upon by the European Commission and the Federal State in March 2002, allowing the Federal States keep acting as guarantor to these otherwise independent promotional banks. Therefore, promotional banks at the state level (Länder) carry out activities in accordance with the State Aid rules as defined by the European Union. Activities in the public interest include investment in infrastructure, SME and environmental protection. However, activities that could distort competition were forbidden. The frequency and amount of activity of these banks differs according to the federal state. While Rheinland-Pfalz and Baden-Württemberg have made extensive use of these institutions while other states such as Nordrhein-Westphalia, Hessen, Mecklenburg-Vorpommern, Berlin and Sachsen

19 Deutscher Sparkassen- und Giroverband, p. 6.
issued 3 to 4 times less loans per capita through promotional banks. Every promotional bank specifies in their statutes the objectives for which loans are issued. Most of them have very similar objectives and nearly all of them (17) have the financing of urban renewal and urban transport measures explicitly mentioned as a policy objective.

Another important player is the savings bank network, representing the biggest share in the overall lending market with 37.2%. Saving banks were founded some 200 years ago by municipalities and cities and are run by them. They are numerous and include 477 public sector savings banks (Sparkassen) with approximately 17,000 branches, 12 regional banks (Landesbanken) and 11 regional home savings banks (Landesbausparkassen). Their activities are typified by a strong regional focus. They are organised at municipal level and consequently know their local markets extremely well. They identify with their region and the aspects of decentralisation and subsidiarity are the considered to be important. In a European Court of Justice ruling in 2002, the state guarantee of the savings banks were said to be distorting competition because the public banks could offer more favourable financial conditions on the back of their state guarantee. As a result these state banks have since become universal banks that compete on the same footing as the private sector.

Although insignificant in terms of credit lending at the macro-level, cooperative banks act as house banks for a few municipalities. The Deutsche Kreditbank AG has taken over the portfolio of the State Bank of the GDR and is thus active in municipalities in the east of the country. Deutsche Kreditbank has used this position to great effect, especially with regard to its involvement with eastern German housing associations.

With a market share of 28.8%, commercial banks play a relatively minor role in Germany. Deutsche Bank AG, Dresdner Bank AG, Hypovereinsbank and Commerzbank AG are the four large national commercial banks known to issue loans to public authorities. In addition, there are around 200 commercial banks operating at the regional level. Nevertheless, both types of bank play an insignificant role in the public authority lending market, with a market share of approximately 4% to 5%.

Equity investors are another source of finance for housing and real estate in Germany. German institutional investors, including pension funds, are important players and tend to invest internationally in prime property (such as major office and retail complexes) in well-developed property markets in Europe’s major cities and beyond.
4.3.4 The role of the EIB

What can be expected of the EIB in an otherwise densely-banked country such as Germany, where public grants traditionally play and important role as well?

The German public authority lending market is dominated by the saving banks, the Landesbanks and the promotional banks including the KfW. The fact that the saving banks have a strong position at the regional level and consequently know their market very well is the main reason why municipalities and cities often prefer to work with these banks.

Nevertheless, the EIB is an important player in Germany. In the area of urban development, it has lent € 7.89 billion in the period 2000-2006. The KfW as well as the promotional banks at the federal state level frequently act as intermediaries for the EIB. Especially the smaller promotional banks prefer to work with the EIB and receive credits through its Global Loans facility rather than issue bonds on their own.

In all these working relationships the EIB acts as a competitor but also as a complementary source of finance. The principal reasons to make use of the EIB are quite straightforward: The lower interest rates on offer (currently >10 basis points), the long duration of loans (e.g. 25 years), long grace periods with flexible pay-back depending on the cash flow situation of the project and the catalytic role that the EIB can play to bring in additional funds. Furthermore, the EIB does not charge appraisal fees prior to commitment nor penalties for non-disbursement. Finally the technical assistance the EIB can offer including support to financial engineering is an additional reason for borrowers to choose for the EIB.

However, several of these competitive advantages have been somewhat reduced by the introduction of the Euro, namely the competitive advantage of being able to loan in different currencies, and the general low level of interest rates in the market. Further disadvantages relate to the statutes of the EIB. The bank only operates in clearly defined areas which restricts the number of eligible projects. Furthermore it has strict procedural requirements including compliance with EU procurement rules and thorough lending procedures which are tighter than those required by promotional banks and are seen by some to be too ‘bureaucratic’.

Especially the larger promotional banks in Germany including KfW, NRW Bank and Landeskreditbank Baden-Württemberg can offer similar lending rates to the EIB and they also have the resources to offer technical advice to the lenders. However, smaller banks might prefer use the EIB Global Loans facility and concentrate their limited resources to build upon their close relationship with regional and local authorities. In most cases of on-lending, local borrowers are not aware of any EIB involvement.
Overall, intermediaries appreciate the value of complementarity. Often, the fact that loans are very different in character (in term of risks and duration) adds to the stability of financial arrangements. Furthermore, the EIB as well as the promotional banks in Germany finance only up to 50% of the project costs, which makes it a necessity to approach different lenders.

In summary, the role of the EIB can be seen to be complimentary to the activities of other banks, especially with the smaller promotional banks. These smaller banks are limited in their administrative capacity to issue own bonds. Larger promotional banks including the KfW, NRW Bank and Landescreditbank Baden-Württemberg on the other hand may sometimes act as competitor but frequently also as business partner.

Complementarities also exist with the commercial banks, such as the Commerzbank and Deutsche Bank and smaller but specialized private banks in the real estate market including Eurohypo AG. They all cooperate with the EIB through the Global Loans facility. Especially Commerzbank, as the second biggest lender under the EIB Global Loans facility, and is very active in channelling funds to finance small and medium scale infrastructure schemes at the municipal level.

Given the size of the German financial market, one would expect to see more innovative financial products in the area of urban finance, such as urban revolving funds and public private partnerships. The latter form of cooperation is only slowly starting to be used as an alternative way of financing urban development projects since 2004.

4.4 Italy

4.4.1 Investment needs

_No information available to date_

4.4.2 Demand side

_Public project promoters_ can be found at Central, Regional (20), Provincial (109) and Municipal level (8.102). It is estimated that public promoters initiate more than one third of all urban developments.

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20 Information from Italy is based on national research provided by the Italian Ministry of Infrastructure, and prepared by Ernst & Young Financial Business Advisors S. p. A. Italy and Sercam Srl, and guided by Cinzia Zinonce – Italian Ministry of Infrastructure.

FIGURE 4.3: NATIONAL MODEL FOR FINANCING URBAN DEVELOPMENT: STAKEHOLDERS IN ITALY

Demand side

INVESTMENT NEEDS

Direct investment outlays of Public Authorities in 2005: €33.5 billion (+ 0.7% compared with 2004)

Public Authorities
- Central Government
- 20 Regions
- 109 Provinces
- 8,102 Municipalities

Quasi-public bodies
- Housing companies (ex Istituti Autonomi Case Popolari, Fondazione Housing Sociale)
- Regional Development Agencies
- Italian Railways

Private bodies
- Property developers and/or Asset managers (Pirelli Real Estate, SAI Investimenti, Investire Immobiliare, Aedes)
- Individual landlords
- Aziende municipalizzate (Municipal concerns)

Supply side

Italian Capital market for Urban Finance

- EU:
  - EU Structural Funds, Objective 1 - Axis 5 "Cities" €1,041 billion
  - URBAN II: €116 million

National Urban Renewal Programmes:
- Urban Italia: €104 million
- Porta e Stazioni: €46 million
- Piani Strategici - Piani della mobilita: €207 million
- S.I.S.Te.M.A.: €10 million

EUROPEAN PUBLIC BANKS
- European Investment Bank - Individual loans per year (2001-2006) €549 million

OTHER PUBLIC Banks
- Cassa Depositi e Prestiti: €4,683 billion lending to Public Authorities for public works (2005)
- Istituto Credito Sportivo: 172 million

BONDS - Debt securities: BOR, BOP, BOC (€2.5 billion municipal bond issued in 2005)

COMMERCIAL BANKS
Banca O.P.I., Dexia Crediop S.p.A., Monte dei Paschi di Siena, Banca Nazionale del Lavoro, Unicredit Banca d’impresa, Cassa di risparmio di Bolzano, Banca Intesa, other intermediaries: €1.133 billion lending to Public Authorities for public works in 2005

EQUITY PROVIDERS
Private companies: Pirelli Real Estate SGR, SAI Investimenti SGR, Investire Immobiliare SGR, Aedes
The activities of private promoters in the area of urban regeneration have been expanding in recent years. Pirelli RE SGR, Beni Stabili SGR, Investire immobiliare SGR, SAI Investmenti SGR, and Aedes are important players.

Housing companies in Italy have their origins in the Istituti Autonomi Case Popolari (IACP). They have different legal structures (S.p.A, public and non profit governments). Usually they manage their own asset as well as some local government resources. Traditional functions of these organisations include the funding of housing and asset management. They also provide consultancy and planning services, technical assistance and design of residential development projects in both the public and private sectors.

Furthermore, the Fondazione Housing Sociale deserves a mention in this context. This Foundation was established in 2004 to promote the construction of new affordable dwellings to be let by Social Managers to elderly people, students, immigrants or single-income families. The Fondazione Housing Sociale achieves this by obtaining land under favourable conditions and passing on this benefit to non profit organisations.

4.4.3 Supply side

Competences and responsibilities in the field of urban policies are found at three different levels: the level of the central state, the regional level and the local level, which includes provincial government and municipalities. All initiatives in this field are aimed at improving urban living conditions for the public good.

A significant share of European Structural Funds has been used to support projects in the urban sector in Italy in the period 2000-2006. Within the overall budget, Italy received a total of € 29 billion, for both Objective 1 and Objective 2 areas. Within the Regional Operational Programmes for Objective 1 regions, a strategic priority is to promote the role of urban centres in regional and local economic development. Between 2001 and 2006, Structural Funds allocation for this Axis V was about € 1 billion and the total amount of funding amounted to € 2 billion.

The URBAN II Community Initiative has been utilised by ten cities, namely Carrara, Caserta, Crotone, Genova, Milano, Misterbianco, Mola di Bari, Pescarea, Taranto and Torino. Under this initiative innovative development models for economic and social regeneration of target areas with the aim of improving living conditions have been financed.
The National funding system for urban policies currently includes four main Programmes, each with their own specific characteristics:

- “Piani strategici – Piani della mobilita”. The scheme aims to promote the adoption of strategic land use and transportation planning and to integrate the metropolitan areas with international networks (€ 207 million).
- URBAN Italia: the programme was set up in the year 2000 and was inspired by the Community Initiative Urban II. It supports innovative strategies to regenerate cities and declining urban areas. It is particularly focused on old centres, declining industrial areas, public housing, and working-class suburbs (€ 104 million).
- “Porti e Stazioni”: an innovative programme for urban areas established in 2002. It aims to fund innovative regeneration programmes in urban areas adjacent to railway stations and/or large ports characterised by economic and environmental decline, social exclusion and degraded residential buildings. Porti e Stazioni is currently being applied in 22 municipalities (€ 46 million).
- “S.I.S.Te.M.A.”: a programme established in 2003 to promote innovative programmes aimed at providing a new impulse to the polycentric system for networked urban developments by reinforcing the connections between major infrastructural networks and regional and local systems (€ 10 million).

In addition, the Italian national funding system for urban development includes a series of financial instruments supported by the Ministry of Infrastructure, addressing inner cities and depressed areas promoting urban renewal based on Public-Private partnership (e.g. Intese Istituzionali di Programma; Accordi di Programma Quadro; Società).

Within the public loans market, a dominant role is being played by the Cassa Depositi e Prestiti, contributing 78% of the total public lending volume. The Cassa Depositi e Prestiti SpA was formed in 2003, having been transformed from a general government agency into a joint-stock company. It is 78% owned by the Ministry of Economy and 22% by a Banking Foundation. Another public – but much smaller – player is the Instituto Credito Sportivo.

A particular phenomenon of the Italian public credit market is the increasing proliferation of bonds. These debt securities have been issued by regions, provinces and cities alike, guaranteed by the referring local body and assessed for risk and rated accordingly. Their use is limited to financing public works and utilities. Either fixed or variable rates of interest may apply. The number of issued bonds has

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22 In addition, the Depressed Areas Fund (FAS) should be mentioned. With an amount of € 4.1 billion it aims to fund improvements of regional infrastructures and public services, as well as national programmes on research, innovation and of broad band connections from 2006-2009.
grown strongly and now exceeds the volume of public lending. In 2005, 51 municipalities issued bonds with a total volume of € 2.3 billion.

There are also a number of important commercial banks operating in the Italian capital market for urban finance, such as the Dexia Crediop, Monte dei Paschi di Siena, Banca O.P.I. and Banca Nazionale del Lavoro. These banks commonly lend to public authorities to finance public works as well as for other activities. Commercial banks also supply authorities with bonds, mortgage loans and securitisation services.

Finally, equity is provided by players such as Pirelli Real Estate SGR, SAI Investimenti SGR, Investire Immobiliare SGR, and Aedes.

4.4.4 The Role of the EIB

When positioning the EIB, a range of actors need to be taken into account. Italy appears to be highly committed to urban development initiatives, as witnessed by the innovative public programmes propounded by the national government. But there are a range of actors operating on the supply side. First and foremost there is the dominant public bank Cassa Depositi e Prestiti, contributing 78% of the total public lending volume. In addition, there are a range of commercial banks working closely with municipalities. Finally, bonds have become a very important source of finance for financing urban development.

Within this context, in the period 2000-2006, the EIB has lent € 7.6 billion for urban development projects, including urban renewal, urban transport and global loans for small and medium scale infrastructure. Many of these loans have been individual loans to municipalities, while intermediates have often been used for global loans.

A range of valuable observations pertaining to the EIB were collected in a survey carried out amongst municipalities within the context of the Expert Working Group’s research. The results point to various strengths of the EIB, such as the solid financial structure of the Bank, the non-profit ethos enabling the EIB to lend relatively cheaply, flexible loan payments and easier control procedures.

Challenges for the EIB that were frequently mentioned are the lack of knowledge of the EIB activities amongst Italian stakeholders, criticism of amounts of red tape involved when dealing with the Bank, and the lack of connection between project planners and the financing department of the Local Authorities involved.

An important finding is the lack of knowledge amongst municipal actors about the EIB’s role as a funding bank. It is seen as both a Bank and as an Institution for European public policy. Although it is known as such, municipalities tend to make
use of the Italian lending opportunities, in particular the Cassa DD. PP that are close by. The financial advantages (competitive rates) offered by the EIB generally do not compensate for the greater distance between the EIB and target borrowers. This despite the presence of an EIB office in Rome. Moreover, when the EIB lends through other banks, the intermediary bank applies a mark-up which raises the price of the loan. In this situation, the borrower does fully benefit from the easy term rates offered by the EIB. Finally, local authorities can face some constraints in terms of EIB disbursement related to the Stability and Growth Pact parameters.

4.5 Finland

4.5.1 Investment Needs

Compared to most other European countries, Finland is still heavily agrarian; around 60% of the population and 70% of jobs are in cities in 2002. Late urbanisation has meant that Finnish cities have been spared many of the types of problems that other European cities face. Because of this urban housing challenges in Finland are also relatively new.

Urban areas account for about four-fifths of the GDP in Finland, and the competitiveness and expertise characteristic of urban areas is considered the backbone of the entire economy. The Helsinki Metropolitan region is of great importance here. Rapid development in recent years have spurred on the one hand the movement of people into growth centres and increased the demand for housing. Outside growth centres, part of the housing stock is vacant as the population is declining. This dynamic creates problems both in regions where people are moving from and the regions where they are moving to. A current issue is how to maintain a unified community structure, especially in cities such as Helsinki where high house prices make it difficult to attract people working in the service sectors. An ageing population also presents challenges concerning the accessibility of buildings and the provision of services that enable people to live independently for as long as possible.

Urban investment needs can be recorded in the following areas:

- *Regenerating urban harbour areas in Helsinki;* plans for old harbour areas including residential development during the next ten years are a priority. Site preparation including the cleaning the contaminated land is expensive, around €1.5 billion, and funding for especially the housing development is yet to be decided upon (see also the case study on Helsinki in Chapter 4)

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24 [www.eukn.org](http://www.eukn.org)
• **Transport:** transport infrastructure in the metropolitan region needs around €1.7 billion public investment over the next 10 years, to be provided by both municipalities and the central government\(^\text{25}\)

• **Housing development:** the development of the harbour of Vuosaari in Helsinki, will also include housing development for between 40,000 and 50,000 people. A possible extension of the Eastern link of the metro to serve this new residential area is being discussed\(^\text{26}\)

• **Housing repairs:** the housing stock built in the 1960s and 1970s is showing signs of age and is now in need of basic repairs which will cost billions. How this will be financed is not yet clear. The population is also getting older, which raises problems concerned with mobility, as blocks of flats with less than four stories were not required to have lifts. Financing renovations in properties owned by housing companies presents a specific problem as repairs such as pipes and lifts are expensive and unanimity is needed in many cases to agree to the work being carried out. In municipally owned social housing, this obstacle does not exist as municipalities can control when and how renovations are carried out. Currently repairs constitute around half of all investment in housing. The estimate for housing development repairs for the period 2006 – 2015 is €1.8 billion annually, and around €1.9 billion during the years 2016 – 2025\(^\text{27}\). The repair needs have doubled this decade, compared to the last and are expected to double again the next decade\(^\text{28}\)

The combined levels of investment required for urban development in Helsinki alone in the coming years is estimated to total about €3.5 – 4.5 billion per year. This compares to a total investment by all Finnish municipalities of €3.29 billion in 2004\(^\text{29}\)

4.5.2 Demand Side

*Finnish municipalities* levy around two thirds of public sector taxes some of these taxes are compulsory and the majority are based on law. The money raised is used for the provision of basic services, social and health care, education, cultural activities and environmental and infrastructure such as roading. The Central Government is only responsible for national transport infrastructure, such as highways between municipalities. Municipalities in Finland also take responsibility for housing. Municipal housing companies ensure adequate social housing production and over 60% of social rented housing is owned by municipal

\(^{25}\) www.ytv.fi

\(^{26}\) Interview with Interior Ministry

\(^{27}\) Asuntojen perusparantamiseen panostettava, Note from the Ministry of Environment, 5. 10. 2006

\(^{28}\) Asuntojen perusparantamiseen panostettava, Note from the Ministry of Environment, 5. 10. 2006

companies. To cover expenditure, local authorities have the right to levy tax on personal income and real estate as well as the right to receive a share of the corporate tax. Revenues are also received from fees and charges.

30 Housing Fund of Finland The Finnish Housing Finance Model
FIGURE 4.4: NATIONAL MODEL FOR FINANCING URBAN DEVELOPMENT: STAKEHOLDERS IN FINLAND

Demand side

INVESTMENT NEEDS

Total investment needs in urban development, housing and urban transport in Helsinki area are estimated to be € 3.5 - 4.5 billion per year

PUBLIC AUTHORITIES
- National: Housing Fund of Finland (ARA)
- Regional
  Regional Councils, (Maakuntien liitto) (statutory joint municipal authorities operating as regional development and regional planning authorities.)
- Local authorities: overall investment € 3.3 billion (2004)

QUASI-PUBLIC BODIES
- Housing associations: Municipal Housing Companies, for instance Kunta-asunnot Oy Helsingin Kaupungin Asuntotuotantotoimisto Espoo, Kuopion Mikkeli
- Lahden laitos
- Viron Kulma Oy
- Oulun Sivakka
- Kuopion Sisäasunto
- Oy Piskeli-so-asunnot Oy
- Varsinais-Suomen Asunnoiteosikeus Oy
- Municipal companies (energy, water, waste, etc)

PRIVATE BODIES
- Property developers and facility operators and managers: Rakli (the association for builders and developers)
- Asuntosäätiö SATO
- Yh-Rakennusyhtymä
- Y-asunnot
- Lemmikiaho
- Paibh Unioni Oy
- Landlords: Finnish Real Estate Management Federation (Isanoinstituutti)

Supply side

PUBLUC GRANTS
- EU:
  - EU Structural Funds 2000-2006 € 2.3 billion.
- National:
  - State grants to municipalities make up 15% of their total income, none of this is ring-fenced for urban investments.
  - The Housing Fund of Finland (ARA)
  - National 'lahiohanke' for suburban neighbourhoods to start in 2007
- Regional: Municipalities own income is used for fund investments.
- Local: local grants from municipalities are mainly available for small projects, such as enhancing the living environment in suburbs.

EUROPEAN PUBLIC BANKS
- EIB: Total value of EIB loans in Finland in urban development € 1.1 billion (2000-2006)
- Council of Europe Development Bank: total value of loans to Housing Fund of Finland €200 million

OTHER PUBLIC BANKS/INSTITUTIONS
- Municipality Finance Plc
- Depfa Bank - an Irish public bank which gives loans to urban development projects.
- Swedish Export Credit - majority owned by the Swedish State also assists with financial services for both local and regional authorities in Finland.

BONDS
2.5% of municipal finance

COMMERCIAL BANKS
Foreign: Danske Bank, Skandinaviska Enskilda Banken, Handelsbanken, DNB NDR Bank
Carnegie AB, Citibank, Deutsche Bank, Calyon, HSH Nordbank, Norddeutsche Landesbank, EFG Investment Bank, Forex Bank, FöreningsSparbanken (Swedbank)

EQUITY PROVIDERS/INVESTORS
- Insurance companies
On average, 15% of total municipal income stems from central government grants and subsidies, 52% come from municipalities’ tax revenues, 25% from the sale of goods and services, 4% from borrowing and 4% from other revenue sources. The funding capacity of the municipal sector was weakened during the 1990s and the tax base of larger cities was further weakened in the beginning of the 2000s. It is argued that the funding for city policy is very small and is inadequate to solve the problems of cities. In 2009, the overhaul of the municipal financing system is planned following complaints from municipalities about the complexity of the current system. Funds from the central government will then come from one single pot. Nevertheless this may entail a further decrease in central government grants to municipalities.

Finland's Regional Councils are statutory joint municipal authorities operating according to the principles of local self-government. The Councils operate as regional development and planning authorities and are thus the institutions in charge of regional planning and looking after regional interests. They also act as centres of development for the regions. The Regional Councils are involved in developing EU regional policy and drawing up the programmes required for the granting of support from EU structural funds. They also have a role in implementing these programmes.

Housing associations play an important role on the demand side as well. They build, run and maintain a large part of the housing stock. Housing associations are in some cases owned by municipalities. Examples of housing associations in Finland are Sato-Yhtiot, Asuntosaatio and VVO. Housing associations also provide services for specific target groups, such as Finland's Student Housing Ltd. Housing Fund of Finland (ARA) loans are granted to non-profit housing associations or those owned by local authorities. Private companies on the other hand mainly borrow from other sources.

Municipalities can set up two types of entities to operate as municipal business units: municipal corporations or wholly or partly owned joint-stock companies. A municipal corporation operates as part of the municipal organisation in accordance with the Local Government Act. A municipally owned joint-stock company on the other hand is a legally independent economic unit operating under company law. The operations of a municipal corporation or a municipal company must be clearly aligned to local government functions; these bodies must provide local government services or otherwise promote local government goals. Services are typically

33 Interview with Interior Ministry
energy supply, water and sewerage, port facilities and public transport. However, municipal business units can operate in all sectors that come under the scope of municipal functions and responsibilities. The loans taken out by these companies total €10.5 billion, 28% of the loans of all municipal agencies. The loans taken by municipal concerns totalled €18.2 billion, 50% of all loans taken out by municipal agencies.

*Private bodies* include private developers. There is a long history of private developers being active in the urban development market in Finland. Municipalities generally enter into two types of agreements with private companies: firstly the buying and selling of land, which includes exchanging land and leasing it out through contracts; and secondly the transfer of legal responsibilities to private partners using land development contracts on different levels for the construction of the infrastructure, realisation, land use planning, area building, and co-operative contracts. In Helsinki, where property prices have become high even by international standards, international property developers are becoming more interested in urban renewal as well.

In urban development, only limited use is made of *public-private partnerships*. The PPPs commissioned in municipalities to date have been pilots. PPPs are a growing sector, but the smaller the municipality the smaller the chance that a PPP construction will be adopted. The City of Espoo has gone the furthest in the use of PPPs, and cities like Vantaa are also thinking about developing them. In general, PPPs are seen as expensive, and often loans are cheaper options as municipalities can easily apply for loans due to their good credit ratings.

### 4.5.3 Supply Side

*EU Structural Funds* are of significance also in Finland, with an overall investment of €2.3 billion in the period 2000-2006. Yet, most of these Funds are meant to support regional development in the North and are only of marginal benefit to urban developments in the South of the country.

Municipalities receive *government grants* to cover the costs of their statutory responsibilities which primarily concerns providing health, social and educational services. Government grants cover about one fourth of the expenditure in these areas. A contribution is paid toward operating costs and establishment costs.

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34 The credit worthiness of Finnish Municipalities
Although municipalities fund most investments themselves, central government will in some cases get involved in financing investments that are considered of special national importance. This has been the case with the extension of the metro in Helsinki, which was 30% funded by the central government. The metro was seen as an important part of the transport system of the capital city. There is much public discussion concerning the appropriate ratios between central and local government funding.

Municipalities also finance the central government to the tune of €50 million per year for activities concerned with road works and maintenance on main motorways. This is necessitated by the fact that central government does not have its own means to finance these investments. Municipalities in a strong financial position are also able to pre-finance investments.

In the housing sector, the Government provides a number of types of support: government loans, guarantees and interest rate subsidy, housing allowances, incentives for first-time buyers, tax incentives and various grants, including renovation grants. This is managed by the Housing Fund of Finland (ARA), the agency responsible for the implementation of Finland's social housing policy. It is an off-budget fund administered by the Ministry of the Environment. It finances central government-subsidised rental housing production. A Government guarantee scheme for mortgages is also available for those buying a home or building a house.

The Housing Fund also grants ARAVA loans to non-profit corporations and local authorities and the property and housing companies owned by these parties. The ARAVA loan covers a maximum of 90 - 95% of building costs (including the price of the plot). The Housing Fund has to approve project plans. Interest subsidy loans are granted by a bank or other financial institution. While a mortgage is usually limited to 70% of the purchase price of a home, lenders will agree to raise their loan-to-value ratio to 85% if the Housing Fund pledges to protect the financial institution from a portion of possible mortgage default losses. The Housing Fund also makes repair and energy grants within an approved authorization in the Central Government Budget, to individual apartments and apartment buildings. Grants can cover up to 40% of the approved repair costs and can be made on social grounds for repairs to housing used by elderly or people with disabilities.

Recently, demand for ARAVA loans has been declining as the mortgage market has changed considerably and since the introduction of the Euro particularly due to the lowering of interest rates. Because general interest rates are currently low, central

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36 Interview with Kuntaliitto
37 Information from the website www.ara.fi
government funding does not contain any interest subsidies. The terms and conditions of ARAVA loans are therefore seen as weak.

A particular feature of the Finnish market for municipal finance is the Municipal Guarantee Board (Kuntien takauskeskus), which watches over and safeguards municipal funding across the country. The Municipal Guarantee Board is owned by municipalities themselves, who have a strong interest in strict controls over municipal borrowing. It can be seen as a sort of peer pressure.

Public banks play an important role in Finnish urban finance. Municipality Finance plc dominates the market for public sector funding. In 2005, it provided 32.6% of the money loaned by municipalities, up from a market share of 19% in 1997\(^3^8\). This institution grew in importance following a merger between the Municipality Finance Plc and Municipal Housing Finance plc in 2000. Reason for this merger was the need to establish a stronger financial partner in the municipal sector. Customers include municipalities and joint municipal boards and other organisations that come under their control. The bank also lends to housing corporations that serve the public good.

Depfa Bank, a foreign provider of financial services to the public sector worldwide is one of the main competitors on the supply side of the market for municipality finance. DEPFA BANK plc is a Dublin-based public limited company, incorporated under Irish law, with a network of subsidiaries and branch offices across Europe, as well as in the US, Japan and Hong Kong. The DEPFA share is listed on the Frankfurt Stock Exchange, and included in the MDAX index. It is one of the 30 largest companies traded on the German equity market. Around 30-40 municipalities use funding from Depfa.

The Nordic Investment Bank (NIB) is a joint Nordic credit institution founded in 1975. NIB finances Nordic projects both in the Nordic countries and elsewhere, by granting long-term loans and guarantees to projects that strengthen competitiveness and enhance the environment. After the 1990s, the bank has reduced its involvement in municipal sector financing and concentrated on the energy and waste sectors.

Swedish Export Credit is another competitor with an office in Helsinki. The Swedish Bank, Swedish Export Credit (SEK), majority owned by the Swedish State also provides financial services to both local and regional authorities in Finland. The City of Helsinki in particular has used the services of SEK.

\(^{38}\) Association of Finnish Local ad Regional Authorities, Municipal Loans according to creditor 1995-2005, 15. 8. 2006
Municipalities can also issue bonds\textsuperscript{39}. In 2005, these constituted 2.5\% of loan volumes. This percentage has decreased significantly since 1997 when bonds made up 16.5\% of the total.

In addition, all large Finnish \textit{commercial banks} are active in public sector financing. In 2005 domestic deposit banks provided 28\% of the loans drawn by municipalities. Most of the private banks also have municipal financing departments\textsuperscript{40}. An example of this is the Sampo bank. At the end of 2005, a total of 345 banks were active in Finland: 12 commercial banks, 238 co-operative banks belonging to the OP group, 42 local co-operatives, 40 savings banks and 13 branch offices of foreign credit institutions\textsuperscript{41}. The key Finnish banks are: Nordea Bank Finland, OP Bank Group, Sampo, Aktia Savings bank, Bank of Åland, Evli Bank, eQ Bank, Kaupthing Bank, AsuntoHypoPankki, Tapiola Bank, and Gyllenberg Private Bank. Private foreign banks are also active in the Finnish market. Between 1997 and 2005, the share of foreign banks and creditors’ loans to municipalities has increased from 2.4\% to 25.5\%\textsuperscript{42}.

Finally, \textit{private equity} is often forthcoming from insurance companies, of which 70 are operating in Finland (21 of which are foreign owned enterprises). The supply side market share these other Finnish investors and insurance companies has decreased from 14\% in 1997 to 2.1\% in 2005\textsuperscript{43}.

4.5.4 The Role of the EIB

Although perhaps limited in size, the Finnish capital market for urban development can be considered transparent and competitive. As a consequence, Finnish Municipalities – amongst the most powerful and solid local government organisations in Europe - will always engage in competitive bidding to access capital and usually select the lowest cost alternative. With a total annual lending sum of €160 million per year, Finland is a relatively important market for the EIB, especially when expressed in loan volume per head of population. The EIB will be chosen as supplier of loans if the terms and conditions and costs are favourable when compared to other alternatives.

EIB terms are seen as advantageous compared to private banks and are most suitable for long running large scale social, education and health sector development projects. The fact that the EIB offers flexibility by allowing the pay

\textsuperscript{39} Creditworthiness of Finnish Municipalities
\textsuperscript{40} Credit to Local Authorities in Europe, European Association of Public Banks, 2005.
\textsuperscript{41} Banks in Finland, The Finnish Bankers’ Association, 31\textsuperscript{st} December 2005.
\textsuperscript{42} Oiva Myllyntaus
\textsuperscript{43} Oiva Myllyntaus
back of loans before maturation is also seen as positive. Flexibility of this sort is not common offered by other loan providers.

Interviewees note that the EIB is well known in Finland, especially due to the fact that Sauli Niinistö, the former Finnish Minister of Finance, is the Vice President of the Management Committee of the European Investment Bank. The fact that EIB has Fins among its staff adds to the bank’s awareness of practice at the municipal level in Finland. Furthermore the high credit-rating of Finnish municipalities (AAA) makes the Finnish market particularly interesting to the EIB as well. Around 50-75 municipalities are of sufficient size to be able to borrow money from the EIB.

Only a few years ago, EIB loans tended to be more cost effective then competitors, but this appears to be no longer the case. Finnish borrowers currently find that there is no difference in attractiveness or the price of loans between the EIB and other public banks such as Municipality Finance.

At the same time, the EIB acts as a wholesale bank for Municipality Finance for smaller municipalities which cannot access loans directly from the EIB. Via this intermediary these smaller cities are able to enjoy the advantages offered by EIB loans. Furthermore, the EIB is not necessarily utilised as much as it could be. Not all players are aware of its funding criteria, nor do they necessarily know of the advantages offered by EIB funding. This indicates that the Bank could do more to market itself, despite some efforts in this area.

4.6 Hungary

4.6.1 Investment Needs

Hungarian urban investment needs arise from the following processes:

- Rapid urban growth (not prevalent throughout the country, isolated cases of suburbanisation in the Budapest GMA)
- The growth of urban poverty (especially effecting ethnic and elderly citizens, etc)
- Urban restructuring (brownfield sites and emerging environmental problems)
- Infrastructure and housing stock amortisation
- Aspiration for civic projects or public land redevelopment (large scale area development)
- Urban transport restructuring strategies
There are three well determined types of neighbourhoods where urban renewal and investment needs tend to be focused:

- **inner-city areas** around the historic core of the city were rapidly built with high-density housing by private landlords at the end of the 19th century. In the first half of the 20th century, major renovation cycles were postponed due to the world wars. In the second half of the century, the whole housing stock was nationalized and inefficient State management caused further deterioration. Virtually the whole housing stock was privatized in the 1990s. Thus these buildings are now on to their third form of tenure without ever having been properly renovated since their construction roughly 100 years ago.

- **the high-rise neighbourhoods constructed from the 1960s with prefabricated panels.** A lack of technical quality is widespread in these neighbourhoods. The buildings consume too much energy and were built on such a large scale that they are anonymous and monotonous. These areas are becoming less and less popular and this is leading to social segregation. More affluent households are leaving for other, more attractive neighbourhoods.

- **former industrial areas, now transitional city parts,** were originally located on the urban fringe, but are now, given the expansion of the city, considered to be part of the wider central area.

There is a quantitative shortage of housing in Hungary, including social housing. According to waiting lists at the national level 24,400 applicants were registered in 2003 of which 2,300 in Budapest. Also has to be noted however that not every municipality uses this registration system (for example in Budapest case only 7 out of 23 districts maintain such a list), hence the real need is much higher than the official figures suggest.

There is no comprehensive national research covering urban development in Hungary and information of the volume of investment needs in secondary cities and smaller towns is particularly lacking.

### 4.6.2 Demand Side

Hungary has a large number of local authorities. The 274 cities and towns account for 65.1% of the country’s population of just over 10 million inhabitants. Budapest has a two-tier local government system consisting of 23 district governments and the overarching city government. Both tiers have independent functions and powers. The largest regional cities outside of Budapest are Debrecen (204,700 inhabitants), Miskolc (177,800 inhabitants), Szeged (162,600 inhabitants), Pécs (157,700 inhabitants) and Győr (128,600 inhabitants). In addition there is a second group of 16 cities with a population of 50,000 or more. Next to Budapest, Hungary has six other regional centres and 23 cities and towns of “county” rank, 19 of them being county-seats.
FIGURE 4.5 NATIONAL MODEL FOR FINANCING URBAN DEVELOPMENT: STAKEHOLDERS IN HUNGARY

Demand side

INVESTMENT NEEDS
- Rapid urban growth (not characteristics of Hungary, isolated cases of suburbanisation of Budapest GMA)
- Urban poverty generation (ethnic and elderly elements, etc)
- Urban restructuring (brownfields and emerging environmental problems)
- Infrastructure and housing stock amortisation
- Redevelopment: Aspiration for civic projects or public land redevelopment (large scale area development)
- Urban transport restructuring strategies

LOCAL GOVERNMENT
- National Level
- County Level
- 274 cities and towns including Budapest, 5 largest regional cities and 16 cities with a population of around 50,000.
- Local governments with more than 10,000 inhabitants own 6.2% of the housing stock.

QUASI PUBLIC BODIES
- Municipality companies
- Asset Management companies
- Utility companies
- Urban renewal companies

PRIVATE SECTOR
- Property developers
- Private persons

Public/private partnerships
- SEM IX
- REV 8

Supply side

PUBLIC GRANTS
- EU Structural Funds
- European Regional Development Fund (ERDF)
  - National
  - SF Own Contribution Fund: National C-financing of ERDF support
  - Regional equalization and development grants
  - Panel Program
  - Housing Subsidy System
- Municipalities
  - Budapest has its own Renewal Fund
  - Every municipality can provide grant to individuals or condominiums through Panel Programme
- Guarantees: Hitelgarancia Rt.

EUROPEAN PUBLIC BANKS
- European Investment Bank
  - Individual Loans to municipality of Budapest
  - Global Loans through financial intermediaries (commercial banks): Municipal Finance Facility (MFF) & Municipal Infrastructure Facility (MIF)
  - Framework loans to Municipality of Budapest
  - EIB contribution to the implementation of urban renewal projects supported by the EU Structural Funds; EUR 445 in 2004.
- EBRD
  - Infrastructure, environmental investments, SME (fading out in 2010)
- Council of Europe Development Bank
  - On-lending to National Hungarian Development Bank

OTHER PUBLIC INSTITUTIONS
- Worldbank
  - Big scale projects enhancing quality of life
- National Hungarian Development Bank
  - Municipal Infrastructure Development Loan Programme and other schemes

COMMERCIAL BANKS
- OTP, Raiffeisen, K&H, CIB, HVB, Erste Bank, Volksbank the most significant.

Equity Providers:
- Hungarian Development Bank facility (since 2003)
- Caisse des Dépots et Consignations (through SEM IX)
- OTP (through SEM IX)
Before 1990, the local authorities were primarily agencies of the central government and local councils were subordinate to county councils. After the transition, the intermediate level virtually went out of existence. Almost every municipal function was transferred to the local government level. The new political, social and economic system and the Act of Self-Government has placed limitations on the ability of government to influence urban development.

The Hungarian Law on Local Government states that each municipality has equal rights, but it is not necessary for each municipality to undertake the same tasks. It is possible to assign different functions to different types of municipality. This concept appears in the Law on Local Government where some special municipality forms (cities with county rank and Budapest) are defined.

City / town status is a legal entity in Hungary and there are big differences as to the investment needs according to size and economic and social background. In general we can summarize the main common investment needs as follows:

- Investment in transport services and infrastructure
- Investment in sewage and water infrastructure (collecting, treating)
- Refurbishment of municipality owned buildings, listed buildings, etc
- The development and maintenance of public space (reconstruction of pavements, parks, street furniture, etc)
- Reconstruction of street lighting
- Improving local public security (e.g. camera setting)
- Improving district heating systems
- Investment in social housing
- Investments in local services
- Land decontamination (brownfield sites)

Local governments with more than 10,000 inhabitants own 5.2% of the housing stock in Hungary. This share is highest in Budapest (7.3%) and lowest in the smaller towns. This part of the housing stock basically comprises older tenancies. In most cases the municipalities do not have the power to reallocate tenants without their permission.

In order to fulfill their obligations, municipalities depend highly on the redistribution of tax revenues by the state. The amount of centrally levied taxes redistributed to local governments is determined annually by the national assembly. The source of this revenue comes primarily from personal income tax. Motor vehicle taxes, also, are shared equally between the central and local government levels. Budgetary grants are determined by the national assembly in line with the population of local governments’ areas. Amounts are regulated by the State Budget Act and local governments are given the freedom to spend the revenue as they see fit. In addition, municipalities are supported by earmarked grants.
As mentioned, county level government is relatively weak in Hungary, as local government was given the right to take over powers previously held at the county level. The local authority may also choose to give back any of these functions. The county level must accept and implement the decision made by the local authority. As a result counties have been made responsible for the provision of larger scale public services, namely maintenance of important libraries, secondary schools, hospitals, etc. These functions are commonly found in cities (county seats, and town with more than 20,000 inhabitants). Hence, the county tier of government is an important player on the demand side of the urban development market.

Investment needs include:
1) Upgrading of existing facilities
2) New developments for public purposes (museums, libraries, schools)

The regional level is historically weak in Hungary, as there is no strong regional identity. The 7 regions and regional development councils were established solely for the purposes of coordinating regional. These bodies do not have elected representation. There is still much uncertainty over the future of this level of government.

Though there is no direct investment need at the regional level, the regional councils have played a substantial role in the elaboration of ‘regional operative programmes’ for the 2007-2013, and each ROP contains an urban renewal priority. The overall goal of the priority is to improve the quality of urban life. However, the planned measures differ from region to region.

In Hungary, three types of organisation playing a significant role in urban development can be considered to be quasi-public entities:

- **Management companies of municipalities;** Municipalities have the right to establish commercial and non-profit enterprises and to transfer assets to them to perform public functions or to generate income.

- **Asset management companies;** When the local government system was established in 1990, most assets were transferred from the central government. In general, asset management is still primarily treated as bookkeeping and a tactical task rather than a core and strategic function of local government. These organisations are generally tasked with the maintenance of housing stock owned by the municipality and management of other properties. In the larger towns and cities asset management companies have a greater role to play in urban planning and development, they tend to have a more independent management structure and greater professional capacity, evident for example in the maintenance of sophisticated databases of tenants and assets.
• Urban renewal companies; these are not yet widespread. Yet, every district/settlement can establish its own management model. In practice this has only been done of a few occasions.

While management companies (such as utility companies) can play a direct role on the demand side of the urban investment market (e.g. applying for bank loans without public procurement), the asset management companies and most of the urban renewal companies are only allowed to finance their investment activities through local government.

Condominiums, commonhold residential properties, are a special type of actor on the demand side. Condominiums are independent legal entity with a limited legal capacity and in some districts they are eligible for non-refundable subsidies or subsidised loans to be spent on maintenance and refurbishment. In Budapest condominiums in listed monuments may also get a special support in the form of value-protection in order to facilitate renovation and maintenance in the original state.

The volume of private sector investment in urban development is considerably higher than what the public sector can afford. Property developers are responsible for almost every type of commercial property development, namely: retail, hotel, residential and offices. Recently, mixed-use projects and sport & entertainment facilities have been initiated although they are not common to date. The type of project is strongly determined by location and market signals. There is a legal basis for the transfer of some public space for reconstruction by private sector developers in conjunction with projects on adjacent areas, and this is part of the “bargaining” that takes place between the municipality and the developer. Generally the municipality has the right to grant or withhold planning permission. The activities of the private sector are still significantly concentrated in Budapest, although there is a growing interest in secondary cities. In general the private sector is active where the rates of return are expected to exceed costs and thus there is a profit to be made.

Private persons are very important actors in the housing sector. The new housing regulation in 1993 assured the right of all sitting tenants to buy their own flats which resulted in rapid privatisation in the years that followed. In 1990 22 % of dwellings in Hungary were state-owned and by January 2000 this proportion had fallen to just 5 %. This means, that there is a considerable investment need as for the owners and potential owners connected to housing in urban areas in:

• Refurbishment of houses, flats (physical, technical)
• Purchasing
There are a limited number of examples of projects where Public Private Partnerships have been in operation. Two main models have been put in practice in Budapest so far:

- **The SEM IX Model**; in 1992 the municipality devised a new scheme (a joint stock company) for urban rehabilitation that is still in operation today. The municipality holds a 51% stake in the newly formed company while the OTP (Hungarian National Savings Bank) and Caisse des Dépôts et Consignations each hold 24.5% of the stock. As a non-profit company it is required to reinvest all earnings into ongoing rehabilitation projects. But it also has to act according to the rules of the market and shareholders have certain profit expectations.

- **‘Rév8’ in District VIII**: a joint stock company of the local government (which is the majority owner) and the Budapest City Government. See Chapter 4 for a presentation of the case study.

### 4.6.3 Supply Side

A significant and increasing amount of grants funding is flowing into Hungary through the European Structural Funds. Following an initial programming period 2004-2006, the focus is now on a further developed framework for the period 2007-2013. Urban finance will be mostly funded through the Regional Operational Programmes, which have set specific objectives for urban development.

At the State level, the Ministry of Interior has established a so-called Structural Funds Own Contribution Fund⁴⁴, that municipalities can apply for once their application for ERDF support has been approved. “Targeted” and “addressed” grants are available for investment in priority sectors defined annually by Parliament. These include regional equalization and development grants.

A specific initiative is the Panel Program, managed by Ministry of Local Government and Regional Development, aiming at promoting energy efficiency in housing estates. In the framework of the Housing Subsidy System, some elements can be considered to be grants to specific target groups (families with children). Furthermore there are some loan schemes available through commercial banks, where the interest rate is subsidised by the State. These schemes also target specific groups of purchasers.

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⁴⁴ The Ministry with this name doesn’t exist any more, in the new system of public administration it’s name has been changed to the Ministry of Local Governments and Regional Development
At the local level, the City of Budapest has its own Renewal Fund, which subsidises:

a. the area based urban renewal actions of districts (they need to submit their programme documentation when applying for this non-refundable subsidy and have to contract with the Municipality of Budapest based on the agreed action plan and deliverables)

b. building refurbishment via a non-refundable subsidy (available for condominiums, housing cooperatives, primary for those buildings located in designated urban renewal areas)

c. public space reconstructions, although this was not available in 2006 due limitations in the size of the total fund

Every municipality can provide grant to individuals or condominiums through the above-mentioned Panel Programme. One-third of the fund is contributed by the state and two-thirds by the municipal authority. Municipalities can cover their own contribution with a favourable loan provision called Panel Plus, which is managed by commercial banks.

Guarantees are provided by Hitelgarancia Rt. and these make it possible for credit institutions to grant loans to local municipalities that do not otherwise not have the collateral necessary for borrowing. This guarantee is expected to be especially popular as it will help local municipalities to raise the money required for their own contribution to development projects implemented with the help of EU funding.

Apart from the EIB, Other European as well other International Banks have been lending in the area of urban renewal in Hungary in recent years. The EBRD concentrated its activities on infrastructure, environmental investments, SME (involving financial intermediaries through loan programs, equity provision, etc) and energy. The EBRD’s new five-year strategy, approved at the Bank’s Annual Meeting in May 2006, envisages that the new EU member states of central Europe will have “graduated” from the EBRD by the end of 2010. The World Bank finances large scale projects that contribute to the quality of urban life (e.g Csepel, an energy efficient wastewater treatment plant planned in the south of Budapest,). Up until 2004 the World Bank was also involved in a number of development schemes, such as the Hungary Energy Efficiency Co-financing Project (HEECP) and the provision of loans and guarantees for various municipal investments including street lighting, and communal heating innovations. The Council for Europe Development Bank (CEB) has mainly been involved through the financing of loan constructions via the National Development Bank.

At the national level, the Hungarian public bank – National Development Bank (MFB) has become an important player. One of the responsibilities of the bank is to finance the investments of municipalities / local governments in the fields of infrastructure development and other areas. Its main facility is the Municipal...
Infrastructure Development Loan Programme which enables local governments to apply for preferential-interest loans maturing in 20 years for infrastructure development and investment activities. It provides financing for reconstruction and development tasks related to environmental protection in the community; for work related to roads, sewage networks and street lighting; the development of facilities owned by municipalities; and for investment in public education institutions and the cultural infrastructure of communities. The loan programme was expanded to include the Panel Plus programme which promotes the modernisation and renovation of the poor quality post war high rise residential estates, with a view to enhancing energy efficiency. Financing is now also available to support the development of local government health-care institutions as well as municipal IT initiatives. Loans are accessible either directly or indirectly. This usually involves commercial banks via a refinancing framework, enabling municipalities to access preferential financing through their own bank.

Other services offered by the Hungarian National Development Bank are the Panel Building Renovation Loan Programme (€ 74 million), and the Social Housing Loan Programme (€ 222 million). Besides providing favourable loan schemes, the Hungarian Development Bank (MFB), has played as role as one of the intermediary bodies of the Economic Competitiveness Operational Programme in recent years.

The most important commercial banks active in urban development in Hungary are the OTP, MKB, HVB, K&H, Erste, and Raiffeisen Banks. There have also been projects in which a developer works with capital supplied by a foreign bank that has no local offices in Hungary (such as Deutsche Bank).

A targeted urban development policy is still a missing element at the national level in Hungary, although urban development issues are referred to in various documentations. A National Regional Development Plan, which is the most comprehensive long term plan, was approved in 2005. Based on this document the Ministry responsible is about to produce an urban policy document in 2007, which is expected to address both the issue of urban network development and the need for development guidelines in urban areas.

4.6.4 The Role of the EIB

Although not yet quantified, there is clearly a growing investment need on the demand side in Hungary, and urban issues are becoming increasingly central to national development policy as well. To date national budget sources are by far the most important when it comes to financing initiatives at the municipal level. However, this source of revenue tends to vary widely from year to year. This is largely due to the influence of political periodicity on municipal lending behaviour. Newly elected bodies tend to accumulate financial reserves during their first two
years in office and subsequently resort to borrowing to finance new investment projects in anticipation of the next set of elections.

The available supply of finance is wide-ranging and loan products for municipalities generally have very favourable conditions. There is a significant competition in this sector among commercial banks as well. As a result of this competition, and especially due to the terms on offer by the State through the National Development Bank, this market segment can be said to be functioning below the level one would expect given normal market circumstances.

Within the public sector, there is a general expectation that support will be forthcoming from the Structural Funds, especially in the period from 2007 onwards. It is too early to say what the impact of these Funds will be on the balance between grants and loans. Normally one would expect that grants would tend to replace loans. However, due to the need for co-finance and the limited amount of funding available, municipal loan finance may be further stimulated by the new round of Structural Funds.

Within this context, the role of the EIB can be said to be modest. The overall annual lending in the area of urban development has been € 123 million. A greater role for the EIB appears to be constrained by the following factors:

- A lack of communication and the limited availability of information concerning EIB loan options (global loans through commercial banks, targeting urban investments)
- Competitive products in the market; especially the products of the National Development Bank are difficult to beat. These products are also better communicated,
- Local players on the Hungarian market tend to be favoured due to the avoidance of currency risks, in light of gradual devaluations of the Hungarian Forint in recent years.

4.7 Conclusions

Starting point for our analysis has been the investment needs required for urban development, including urban renewal and urban transport. As we have seen information about investment needs is scarce, subjective, and often not quantified. Time horizons differ, and amounts are not harmonised across countries. Despite these significant deficiencies in available information, some patterns emerge for the three countries on which some quantitative information could be found, the UK, Germany and Finland. Annual investment needs per capita vary between € 400 in the UK to € 832 in Germany. The estimate for Finland (Helsinki only) appears to be relatively high, and can be related to the strong growth that this city is undergoing. Such differences could be explained by variation in price level, backlog in
investments, and economic dynamism, but above all by different methods for measuring these needs.

When comparing investment needs with actual investments, then there are traces of evidence that actual investments are substantially lower than needs. In the United Kingdom, actual investment levels could be seen to be relatively high, which would fit with the overall impression that UK cities are being renovated at a great speed. In Finland, overall municipal investments include many other sectors as well, but national and private sources have not been counted. In Germany, the investment gap appears to be considerable, although it is particularly difficult to quantify actual investments in the context of the Federal state. Overall, there appears to be an urgent need for further research in this area so that more robust conclusions regarding investment needs and actual investments can be drawn.

Despite a wide variation on the demand side of the urban capital markets, some patterns emerge as well. Local governments appear to be by far the most important actors on these capital markets, and larger cities in particular play an important role. Municipalities in Finland and Italy notably have a high creditworthiness, which allows them to play rather independent roles on the market for urban finance.

Growing in importance are the quasi-public bodies, that function at arm’s length of local and regional governments. These bodies have been emerging in all countries analysed. Regional development agencies, municipal companies and publicly-owned housing companies are all active in this area. Their ability to borrow varies strongly. English Regional Development Agencies are important for initiating urban developments, but have hardly any borrowing capacity. Housing companies – with their strong asset bases – have much more substantial borrowing power. The same applies to Cooperatives, such as (private) housing associations and condominiums.

The role of private property developers in integrated urban renewal varies considerably across Europe. Of the countries looked at they are most active in brownfield development in the United Kingdom as well as in Italy, and their involvement in urban regeneration in particular can be considered important. In Germany, the role of the Deutsche Bahn in the area of urban renewal stands out.

The picture arising from the supply side is rich and diverse. Urban developments are funded by considerable amounts of public grants in all countries concerned. The overall tendency points to a stabilisation or a slight downward trend, with the exception of Hungary where the new round of Structural Funds will bring in considerably higher amounts of grant money.

All countries analysed have important public lending institutions that have been specifically set up to finance municipalities, including public works. The Public
Works Loan Board (UK), the Promotional Banks including KfW (Germany), The Cassa Depositi et Prestiti (Italy), Municipality Finance (Finland) and the Hungarian Development Bank form important pillars in the municipal credit market. In recent years, these public lending institutions have become increasingly important and competitive, the loan volumes are sizable and their market share has been generally on the rise. Municipalities tend to be pleased with the terms and conditions and the services overall. In Finland, competition amongst public banks is strong due to the presence of the Irish Depfa Bank, as well as the Nordic Investment Bank. These ‘internationalising’ public banks are not found elsewhere in the countries analysed yet. Public Banks tend to focus on local authorities and do not always provide services to municipal companies and/or housing associations.

Commercial banks play a different role. They are increasingly active in the United Kingdom, Italy and Finland, while their market share is more limited in Germany. In Hungary, foreign banks are of particular importance.

Municipal bonds play a special role in both Finland and Italy. The strong creditworthiness of local governments in these countries is a prerequisite for issuing such bonds. Striking is the fact that bond issues have been on a downward trend in Finland while strongly upward in Italy. These diverging trends point to the variation within European capital markets for urban finance.

Private equity is of varying importance. Some professional players (including institutional investors, pension funds) are active in this market, but their involvement in urban renewal is not yet widely spread. Private equity is of particular importance in the United Kingdom.

It can be concluded that a wide variety of sources of finances increases the options available to initiators of urban development. This is particularly visible in the United Kingdom, where various financing sources are often combined, such as mezzanine finance (combining grants, loans and equity). Such constructions can aid response to investment needs, and increase the feasibility of projects. Thereto, it is important that demand and supply are well matched, and that the capital market for urban finance is transparent.

The EIB can be considered to be a medium-sized player in the various national markets for urban finance analysed. As a European policy-driven bank, it lends to municipalities and housing associations directly. It also lends indirectly, on-lending through other public Banks as well as commercial intermediaries.
The overriding impression of the EIB’s role within the market place is that it functions as a somewhat invisible, but important, ‘safety net’. Invisible as many borrowers in the countries studied have shown that they have limited knowledge regarding the precise role that the EIB plays – its status as a Bank and a European Institution simultaneously is often confusing for potential borrowers.

Nowadays, under most circumstances, the majority of demand can be met through the national frameworks for urban finance, which have been considerably strengthened in recent years. However various players find it advantageous to use the EIB as a wholesale bank. Furthermore, the EIB has demonstrated its importance in those situations where national frameworks leave certain ‘gaps’. Examples include housing associations in the UK, and direct loan agreements with Finnish municipalities. The EIB is also seen as an important player for large projects.

In addition to its role on the supply side, an important supplementary role for the EIB has been demonstrated on the demand side of the market for urban finance. By providing technical assistance to borrowers, including advice on various financial engineering options, the Bank assists in translating investment needs into concrete demand, and in this way makes a valuable contribution to the financing of sustainable urban development in Europe.
5.0 Case studies

5.1 Introduction

From the outset of its work, it has been clear to the Expert Working Group that much information about the role of the EIB in urban development would need to be found at the local level. Therefore, case study research has been carried out in an early stage of the research. The following questions were posed:

- What constitutes a successful EIB Project in the field of urban development?
- What sort of “enabling national context” can contribute to success?

The objective was to produce a series of eight case study reports, throughout the Member States. On the basis of an initial long list, the eventual case studies were selected on the basis of the following criteria:

- Coverage of strategic issues and responses to the sustainable urban development agenda;
- Ability to raise EIB and other funds;
- Geographical balance;
- Projects from which we can learn;
- Replicability/transferability.

The case studies were selected through an iterative process. The Expert Working Group made initial suggestions that were then discussed with the EIB and individual Member States when this was possible. The current package of case studies consists of housing, urban renewal and urban transport projects located in Northwestern, Southern, Northern and Central and Eastern Europe.
Figure 4.1: Case Study Package

A. By Theme

B. By Geography
5.2 Glasgow Urban Renewal United Kingdom

<table>
<thead>
<tr>
<th>General information</th>
<th>Theme</th>
<th>Urban Renewal Northwestern Europe</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Geography</td>
<td>Glasgow Housing Association (GHA) with support from the Scottish Executive, Glasgow City Council and Community Scotland.</td>
</tr>
<tr>
<td></td>
<td>Project promoter</td>
<td>Consortium made up of the above stakeholders together with financing bodies including Halifax Bank of Scotland (HBOS), Royal Bank of Scotland (RBS) and the EIB.</td>
</tr>
<tr>
<td>Stakeholder information</td>
<td>EIB in relation to other lenders</td>
<td>HBOS and RBS were the lead funders contributing about 90% of the total capital investment. The EIB contributes about 10% as co-financier.</td>
</tr>
<tr>
<td>Financial information</td>
<td>Type of loan</td>
<td>Individual loan - line of credit over a 10-year period</td>
</tr>
<tr>
<td></td>
<td>Beneficiary</td>
<td>Glasgow Housing Association</td>
</tr>
<tr>
<td></td>
<td>Overall project</td>
<td>€ 2.5 billion</td>
</tr>
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<td></td>
<td>Proposed EIB finance</td>
<td>€ 230 million</td>
</tr>
<tr>
<td></td>
<td>Status</td>
<td>Loan approved on 8 March 2004. Project currently underway.</td>
</tr>
</tbody>
</table>

Glasgow is Scotland's largest city, with a population of roughly 630,000, and is the centre of a conurbation with a population in excess of 1.5 million inhabitants. Since the mid 1970s, the city has experienced a period of significant economic restructuring, as the traditional manufacturing industries (such as ship building and heavy engineering) that once dominated the economy have declined or disappeared completely and been only partially replaced by new service sector employment. The mass unemployment brought about by the decline of manufacturing led to a familiar pattern of increased poverty and deprivation, neighbourhood decline and outward migration, as people left the city in search of work elsewhere.

The city's housing system has for some time been characterised by a number of problems, as demand for social housing overall has declined and the quality of existing social housing stock has been allowed to deteriorate. Falling demand (caused largely by outward migration from the city and a trend towards suburbanisation) has led to increased property vacancy rates and effective abandonment of houses in certain cases. This has had a knock-on effect on the actual and perceived quality of the residential environment for others living in the neighbourhoods affected. In addition, a sustained lack of investment in the modernisation of social housing stock, in some cases over several decades, has meant that many housing units have fallen into disrepair and have facilities below contemporary standards.
As a third of all housing in Glasgow is social housing and 80% of this is concentrated in the most deprived areas of the city (as measured by national indicators), addressing problems in the housing sector is seen as a crucial element of the city’s overall regeneration strategy. This strategy is set out in the Glasgow Development Plan, which establishes a comprehensive and integrated framework for physical redevelopment and economic and social renewal for the City of Glasgow and the wider conurbation of the Clyde Valley.

Until the mid-1980s, over 70% of social housing in Glasgow was owned by the local authority (Glasgow City Council), after which time this percentage declined, as homes were bought by tenants (under the “right to buy” initiative), demolished or transferred to other social landlords (generally housing associations). By 2002, 80,000 homes remained in the hands of the City Council (down from a peak for 173,000 in 1978). Nevertheless, much of this council-owned stock remained concentrated in the most deprived areas of the city and was in serious need of rehabilitation and reconfiguration to deal with the falling demand. As a starting point for a large-scale programme of renovation and selective demolition, it was decided, following a ballot of all Council tenants, to transfer the remaining Council controlled stock to a housing association, principally as a means to facilitate access to private finance, less readily accessible to the public sector.

The underlying rationale behind this project is to support the improvement of Glasgow City Council’s social housing stock. The stock was transferred to the Glasgow Housing Association (GHA) in March 2003, in order to create an institutional framework better suited to managing funding and overseeing implementation of the renewal project. By improving the housing stock, the scheme seeks to tackle social marginalisation, stem population loss and ultimately reduce unemployment. To support this initiative the Scottish Executive is providing a number of grants to the GHA to support the Glasgow project. In 2003 the EIB approved a loan of up to € 230 million as a contribution towards the private finance component of a capital investment programme in social housing totalling € 2.5 billion over a 10-year period.

The process required to get the project off the ground was quite lengthy and transfer of stock to the GHA took roughly five years up to 2003. In 2002, there was a tendering process for the funding of stock renewal. A panel comprising representatives of the GHA, the City Council, Community Scotland, and the Scottish Executive was established to select project funders. A “pre-formed” consortium of financing bodies was selected, which comprised Royal Bank of Scotland and Halifax Bank of Scotland (HBOS). In order avoid any possible distortion of competition, the EIB was not part of the consortium, but acted subsequently as a co-financier. The commercial banks contributed a total of € 1.125 billion to the € 2.5 billion capital
investment programme, with the EIB contributing about 10% of the total investment (€ 230 million).

The project was assessed to be clearly in line with the Bank’s aim of supporting programmes which are integral to larger and more comprehensive urban regeneration initiatives and promote a more “joined-up” approach to a range of previously disparate remedial programmes. An important reason for involving the EIB was the terms and conditions it could offer. The EIB also supported the due diligence and commerciality of the whole scheme which gave confidence to the commercial intermediaries involved.

5.3 Bremen Hemelingen (Germany)

<table>
<thead>
<tr>
<th>General information</th>
<th>Theme</th>
<th>Urban Renewal/Urban Transport</th>
</tr>
</thead>
<tbody>
<tr>
<td>Geography Project promoter Project partnerships</td>
<td>Central and Eastern Europe Bremen – Land / Municipality Bremen KfW; GEWOBA (local housing company)</td>
<td></td>
</tr>
<tr>
<td>Stakeholder information EIB in relation to other lenders</td>
<td>EIB loan is one of main lenders; other lender is the KfW.</td>
<td></td>
</tr>
<tr>
<td>Stakeholder information Type of loan Beneficiary</td>
<td>Individual loan (transports sector). Bremen – Land / Municipality Bremen</td>
<td></td>
</tr>
<tr>
<td>Financial information Overall project</td>
<td>€ 215 M (strictly related to this particular project); broader investment € 275 M</td>
<td></td>
</tr>
<tr>
<td>Financial information Proposed EIB finance</td>
<td>€ 100 M</td>
<td></td>
</tr>
<tr>
<td>Financial information Status</td>
<td>Loan approved on 19 October 2000; loan fully disbursed in November 2003</td>
<td></td>
</tr>
</tbody>
</table>

With 545,000 inhabitants, Bremen is a major city in the north of Germany. Together with Bremerhaven it constitutes the smallest German state. The Two-City-State is, like Hamburg a ‘Land’ in itself. Bremen is an important industrial location, owing to its historic port function on the delta of the river Weser. In recent years the city has been facing important economic challenges. Traditional industries are being restructured and/or delocalised, resulting in a decline in employment opportunities; at the same time new economic activities are not generating enough jobs for the working population. Therefore, the unemployment rate has climbed to 16.8%, well above the German average of 11.5%.

Maas unemployment is not new to Bremen. In 1961 Carl Borgward, a local car manufacturer located in Hemelingen in the eastern part of the city, had to close its doors; no less than 19,000 jobs were lost. During the 1970s Mercedes opened a new factory in the same area, which is now known as the Daimler Chrysler factory employing 14,000 people, the largest employer of the Two-City-State.
The large scale industrial/commercial lay-out of He melingen makes it a less popular place to live. The district is surrounded by major infrastructure, both railway and motorways, cutting the community into several parts. Due to missing motorway connections heavy traffic heading for the Daimler Chrysler factory must drive through residential areas. 1,000 lorries drive to and from the assembly plant every day. In addition there are high volumes of commuter traffic due to the fact that 60% of the 14,000 workers live some distance from the factory.

The ‘Strassentunnel Hemelingen’ project was developed to address these problems. A tunnel connecting the Sebaldsbrücker Heerstrasse (location of the Daimler-Chrysler-factory) to the A1 motorway has been constructed and addition measures aimed at the revitalisation of the urban area are ongoing. The project aims to improve the living and working conditions in Hemelingen by:

- reducing through-traffic in residential areas
- resolving conflicts between commercial and residential land use
- preserving and improving the attractiveness of shopping facilities
- improving the appearance of public and private buildings and public space
- creating new community facilities
- creating more green space

At the same time, the project aims to strengthen the viability of the industrial locations concerned, by improving their accessibility.

The Strassentunnel Hemelingen project is a good example of an integral project as it includes the following complementary components:

- A tunnel for motorway connection
- A railway bridge for pedestrians and cyclists to connect two parts of the quarter
- A railway bridge to connect a commercial area with the main road
- Measures for limitation of traffic
- Relocation of inhabitants and firms
- Restructuring of market places
- Formation of a new district centre
- Land development for housing including brown field revitalisation
- Building a cultural and educational centre and a family centre

The first part of the project – the 900 meter long motorway tunnel – was opened on 10th May 2003 after a building period of 4 years. The focus has now shifted to the remaining urban renewal components of the plan, which is expected to be completed in 2008.
The overall costs of the project are estimated at €275 million, of which project costs of €100 million for building the tunnel and €115 million for the urban renewal including planning, land acquisition and other measures (estimate 2005). The EIB contributed €100 million through an individual loan with a duration time and grace period of 9 years. The interest rate was fixed at 7 base points below the market level of that time. The loan was signed on 19th October 2000 and fully disbursed in November 2003. The other main lender was the KfW, which also financed €100 million. This loan has a duration of 30 years, has no grace period and the interest rate is fixed for ten years – at a rate below the market level.

The urban renewal measures are projected to attract considerable private investment which will in turn generate higher tax revenues. Further public investment is being made by the Bremen Municipality (for instance via a special investment programme), the Federal government (programme ‘social city’) and Structural Funds under the EU-Objective 2 regime.

Already before the full completion, the Strassentunnel Hemelingen is considered to be a success. The project was greatly welcomed by residents and the business community alike, as it addresses major traffic and environmental problems, while securing accessibility to important industrial sites – so crucial for maintaining Bremen’s employment basis. The success of the project was further supported by the involvement of inhabitants as well as local firms in the decision-making process, helping to generate wider political support for the project as well.

The Bremen Hemelingen project can be said to contribute considerably to sustainable urban development. The project demonstrates the importance of an integrated urban development concept. A large infrastructure project was successfully combined with a range of smaller scale urban investments. Also provided a framework which won the confidence of both private and public investors alike. Regarding the role of the EIB, its flexibility and added value should be recognised. The complimentarity with other lenders is particularly striking. Even given the engagement of the large-scale KfW, the EIB involvement provided complementary value added. The fact that both loans are very different in character (in term of risks and duration) adds to the stability of the financial arrangement.
## 5.4 Agenzia Torino 2006 – Winter Olympics

<table>
<thead>
<tr>
<th>General information</th>
<th>Theme</th>
<th>Composite infrastructure</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Geography</td>
<td>Southern Europe</td>
</tr>
<tr>
<td></td>
<td>Project promoter</td>
<td>Winter Olympics - Agenzia Torino 2006, created by National Law 285/2000 to manage the construction and rehabilitation works of all the infrastructures related to the celebration of the Winter Olympic Games in 2006. 15 different projects and 11 smaller sub projects were selected for financing. For each of them a public tender was launched and specific partnerships were set up under the direction and responsibility of Agenzia Torino 2006.</td>
</tr>
<tr>
<td>Stakeholder information</td>
<td>Project partnerships</td>
<td></td>
</tr>
<tr>
<td></td>
<td>EIB in relation to other lenders</td>
<td>The EIB in this case acted as an indirect lender through the intermediation of Banca OPI /Gruppo Sanpaolo IMI and Dexia Crediop (50% each)</td>
</tr>
<tr>
<td></td>
<td>Type of loan</td>
<td>Global loan - line of credit through two commercial banks (see above).</td>
</tr>
<tr>
<td>Financial information</td>
<td>Beneficiary</td>
<td>Agenzia Torino 2006</td>
</tr>
<tr>
<td></td>
<td>Overall project</td>
<td>€ 822 M</td>
</tr>
<tr>
<td></td>
<td>Proposed EIB finance</td>
<td>€ 400 M</td>
</tr>
<tr>
<td></td>
<td>Status</td>
<td>Loan approved and entirely disbursed. Most of the construction works have been completed (on time for the February 2006 Olympic Games) A final work report is expected in 2007: it will be under responsibility of the intermediary banks and an evaluation will be carried out by EIB.</td>
</tr>
</tbody>
</table>

In June 1999 the town of Turin was selected to host the XXth Olympic Winter Games by the International Olympic Committee in Seoul. In the same year the municipality of Turin and the Italian Olympic National Committee (CONI) set up the private Foundation TOROC (Torino Organising Committee).

The following year, through Law 285/2000 and its various amendments, the Italian government created the Olympic Agency Torino 2006 as a public body (Agency hereafter). The Agency’s main aim was to coordinate and deliver, through public investments promoted by the state, all the necessary infrastructure (transport, sport facilities, etc.) to organise the Games (both Olympics and Para Olympics). The organisation of the Winter Olympics involved some 2,500 paid staff and more than 18,000 volunteers. The Games required more than 65 infrastructure developments spread across eight different locations hosting the events, including Turin, Pinerolo, Torre Pellice and five other villages in the areas of Val di Susa and Val Chisone.
The overall cost attached to the organisation of the Games was initially forecast at €1,700 million. More up to date information indicates an overall expenditure of around €2,000 million. The investment can certainly be regarded as one of the most important urban development projects the country has seen.

In delivering the Olympics, TOROC and the Agency constantly worked hand in hand, complementing each other during the process: TOROC was charged with planning responsibilities. Through private resources, the Foundation had to carry out a number of tasks; from site location and priority setting, to technical and operational activities through costing. Once planning permission was granted by central government, the Agency was responsible for delivery by means of public finance.

The list below summarises the infrastructure works carried out in the run up to the Games:

- Olympic Stadium, which was totally refurbished including adjoining areas.
- Five sport accommodations (two refurbishments and three new builds).
- Olympic Arch, which connected the Olympic Village and the Lingotto area.
- Three Olympic Villages, located in Turin, Bardonecchia and Sestriere.
- Ice palace of Pineroło,(refurbishment and enlargement).
- New Ice palace in Torre Pellice
- 12 new ski lifts in Cesana, San Sicario, Sestriere, Bardonecchia, Claviere and Sauze d'Oulx.
- New ski jump in Pragelato.
- Bobsled slope in Cesana (the only international level facility in Italy)

A total of 15 different projects and 11 smaller sub projects were selected, with an overall investment totalling €822 million. For each one of them a public tender was launched and specific partnerships agreed under the guidance and ultimate responsibility of Agenzia Torino 2006.

Over and above the direct investment in sports facilities required for the delivery of the sport events themselves, the hosting cities also benefited greatly from the development of additional infrastructure necessary for the Games to run smoothly. These were:

- A new section of the Turin underground between the town of Collegno and the railway station of Porta Susa.
- A new railway connection (passante) with a length of 12 km connecting various parts of Turin (still under construction).
- The refurbishment works of 11 provincial and national roads connecting Turin with the other Olympic towns.
The Olympic Games certainly provided the opportunity to bring together a number of development projects at both urban and suburban level. However, rather than simply being a set of isolated projects, the rationale behind the overall investment was a broader one. It consisted of a wider urban strategy which encompassed a holistic approach with regards city planning. These master plans already started back in the 1990s with the regeneration of large derelict industrial areas.

During the bankability assessment phase in 2003, the EIB considered several loan alternatives to finance the Agency. The Bank ruled out the option of a direct loan due to the fact that the Agency was a temporary body which would cease to exist once the Olympics were over. The EIB championed the option of engaging two commercial banks who could act as guarantors during the entire lending span.

All financed projects are part of the Olympic investment programme implemented by the Agency. Further smaller sub-projects were then selected by EIB on the basis of their economic performance, limited environmental impact and long-term post-Olympic usage. In those instances, the EIB acted as an indirect agent lending global loans through two main intermediaries, Banca OPI /Gruppo Sanpaolo IMI and Dexia Crediop (50% each).

When this report went to print the loan had been fully disbursed and a final report on the progress of the building works is expected later in 2007. Progress reports on the development of the various projects, however, are coordinated by the OPI Group, in close contact with the Agency.

For the purpose of this case study, we can state that the overall role of the EIB has been an indirect one. Following risk and guarantee procedures, it was decided the Bank’s financing should be channelled through commercial banks acting as intermediaries.

Anecdotal evidence, however, tells us that top managers responsible for the wider urban regeneration strategy were not fully aware of the fact that the EIB was underpinning the financial plan put forward by commercial banks. This finding reinforces the view that unawareness of EIB financing at the project level is common. Furthermore this is evidence of a ‘de facto’ gap between city planners, developers and financing institutions, which will need to be narrowed if we are to see greater and more fruitful coordination of urban development strategies in the future.
### Helsinki Urban Renewal (Finland)

| General information | Theme | Urban Renewal |
|                     | Geography | Northern Europe |
|                     | Project promoter | City of Helsinki in line with wider urban development strategies (Helsinki Master Plan). |

| Stakeholder information | Project partnerships | The City of Helsinki is responsible for project management. The Development Bureau within the Council is charged with development and implementation together with the Planning, Education and Public Works departments. Helsinki’s water and energy companies are also involved. |

| EIB in relation to other lenders | The EIB is seen as a cost-effective funding stream after the Finnish State cut municipal funding in 2002. Commercial banks are also sought for financing similar type of projects within the wider urban development plan. |

| Financial information | Type of loan | Framework loan - part of an integrated urban development municipal plan. |
|                       | Beneficiary | City of Helsinki |
|                       | Overall project | € 791.6 M |
|                       | Proposed EIB finance | € 190 M |
|                       | Status | Loan approved in May 2004. |

Helsinki and the larger Helsinki Metropolitan Area, which also encompasses Espoo, Kauniainen and Vantaa, have been growing steadily over the last decade and are expected to continue doing so in the foreseeable future. This growth, fuelled by the continued relative economic success of the Helsinki (and Finnish) economy, has placed increased pressure on housing supply and urban infrastructure within the metropolitan area more generally. The need to respond to this increased pressure and accommodate ongoing growth was recognised explicitly in the Helsinki Master Plan “Helsinki: Towards 2020” and the parallel development strategy for the wider metropolitan region.\(^{45}\)

As in other parts of Europe facing similar pressures, part of the answer has been seen to lie in developing a more “compact” urban structure, with higher density development and the maximum possible re-utilisation of brownfield sites. Crucial elements in achieving these goals are the regeneration and more intensive development of certain areas of central Helsinki and the redevelopment of former industrial and dock areas along the city’s waterfront. In addition, there has been recognition of the need to counterbalance development of the city centre with the development of local district centres to act as alternative foci for employment and commercial activities and local transport infrastructure.

\(^{45}\) Development Strategy for Municipalities Joint Land Use
In the past, the City's infrastructure investments were usually financed by the city’s own budget. However, in 2002, the Finnish State cut the funding for municipalities through a reduction of the corporate tax rate. This halved the tax received by the City of Helsinki, which meant that in one year it lost € 200 million of income. The city administration responded firstly by cutting levels of investment in order to balance the books. But the city was also spurred on to look elsewhere for funding.

In the second half of 2003, the City of Helsinki applied for an EIB framework loan to support a number of urban renewal schemes designed to support the urban development aims outlined above. This loan application followed on from a previous EIB loan (in 2001) to the Housing Fund of Finland for social housing development in Helsinki. Each of the respective projects has its own specific objectives, but all are designed to achieve certain core aims of the Helsinki Development Plan. This plan is redrafted every ten years, the last one being approved by the City Council in 2004. The projects included:

- The second phase of a redevelopment scheme for former industrial sites in Ruoholahti (on the waterfront), involving the provision of 240,227 m$^2$ of residential property and 428,305 m$^2$ for commercial and other uses. The EIB loan has been used to part fund site preparation, provide infrastructure, open space, community facilities (total cost € 175.6 million\textsuperscript{46}) and social housing (total cost € 373.4 million)
- The redevelopment of the former container port at Jatkasaari (adjacent to Ruoholahti) in a similar way to the Ruoholahti project, with 657,730 m$^2$ of residential property and 361,320 m$^2$ of offices and other uses. This project will include / has included substantial land decontamination. The EIB loan will be used to co-finance site preparation and infrastructure works with a total cost of € 235.9 million
- The second phase of the redevelopment of the former Arabia works to provide a mixed housing scheme (Arabia-Hermanni), a scheme which started in 2000 and is due to be completed in 2010.
- Support for site preparation and investment in infrastructure and social housing in the Viikki university district, as part of a wider redevelopment scheme in this city centre area (newly developed university and science part)
- Redevelopment of the main city bus terminal (Kamppi) to improve the interchange and provide surface level residential and commercial space, after the bus terminal has been relocated underground. The EIB contribution is for the transport interchange for elements with a total cost of € 97 million.

The EIB funding of the projects is 24%, the rest is financed by income/cash flow financing, as well as private bank loans. The City of Helsinki led the loan application process while the central administration designed the funding. The different sectors

\textsuperscript{46} Total project cost, not EIB loan
were consulted on the various funding options, priorities and what would work. The City of Helsinki is responsible for project management. The Development Bureau is responsible for the development and implementation of the project and for liaising with other departments within the city administration, such as the Planning, Education and Public works departments and Helsinki’s water and energy companies. The unit overseeing the management and direction of the project is small, consisting of the Project Director and a supporting engineer who prepare and direct the works. The unit is directly accountable to the City director/Mayor and cooperates closely with the assistant city director/mayor. Each of the project areas also has its own project team. The Kamppi project, originally part of the loan scheme, was under the management of the Real Estate Department of the City of Helsinki, due to its commercial nature (consisting largely of office space) is now finished. The project board meets twice a year and this meeting is attended by all the heads of the different agencies/offices of the City of Helsinki who are involved in the projects.

Overall, those consulted at the City of Helsinki believed that the EIB terms were more advantageous at the time than those of other banks and most suitable for large scale social, education and health sector development/investment projects. The loan period is long at 20 years and the terms and conditions are competitive. The arrangement has some built-in flexibility, as it allows the City to pay back the loans before the loan expires, which was not encouraged in negotiations with other loan sources. Flexibility was also a feature of the framework loan agreed upon as the funds can be disbursed when it suits the individual projects covered by the framework. The loan arrangements have worked well, taking into consideration the needs of the City of Helsinki. The City has not had any problems with the process, although the documentation required by the EIB is naturally more complex and time-consuming to complete and assemble than that required by private banks. The EIB site visits are also an additional procedure, not done by many of the commercial banks.

Overall, the Helsinki case study is a good example of the use of framework loans for municipal infrastructure – a practice which has been repeated since. The EIB was considered an attractive alternative for State funding and the conditions were considered favourable by the borrower. The various project components all appear to contribute convincingly to sustainable urban development – and are part of the Helsinki Master Plan. The ‘stand-alone’ nature of the individual project components is likely to complicate the monitoring and ex post evaluation of the project as a whole.
### 5.6 Budapest VIII – Corvin Szigony (H)

<table>
<thead>
<tr>
<th>General information</th>
<th>Theme</th>
<th>Urban Renewal</th>
</tr>
</thead>
<tbody>
<tr>
<td>Geography</td>
<td></td>
<td>Central and Eastern Europe</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Municipality of Budapest</td>
</tr>
</tbody>
</table>

| Stakeholder information | Project promoter | The Municipality of Budapest and the District Council of Budapest VIII created a specialised not-for-profit organisation for Urban Renewal (Rév8). Some private real estate sector involvement and a consortium of local developers was established in July 2003. |

| EIB in relation to other lenders | Municipal financing is a growing business area for commercial banks. The EIB’s main competitor in terms of lending is CEB. The private real estate sector also contributes financially to regeneration activities. |

| Type of loan | Individual loan for Urban Transport and framework loan for Urban Regeneration; later converted into Global loan (with Volksbank as intermediary). |

<table>
<thead>
<tr>
<th>Beneficiary Overall project</th>
<th>Budapest City Council</th>
</tr>
</thead>
<tbody>
<tr>
<td>Proposed EIB finance</td>
<td>€ 260 M (Corvin Szigony Project)</td>
</tr>
<tr>
<td></td>
<td>€ 574 M</td>
</tr>
<tr>
<td></td>
<td>- € 314 M (Individual loan - Urban Transport)</td>
</tr>
<tr>
<td></td>
<td>- € 260 M (Framework loan - € 60 M towards Urban Regeneration, of which Corvin Szigony, one part)</td>
</tr>
</tbody>
</table>

| Status | Loan approved in October 2002. Project currently underway as part of the 2000-2006 Budapest Urban Renewal Programme. |

The Corvin-Szigony urban regeneration project forms part of a wider urban regeneration and renewal strategy in Budapest’s eighth District (Józsefváros), which is itself part of a city-wide Urban Renewal Programme, launched in 1998. This area of Budapest is part of an “inner ring” of densely-populated neighbourhoods, dating from the 19th century, which border the city’s Central Business District (CBD) on the right bank (Pest side) of the Danube. Over a period of several decades, Budapest VIII became caught in a spiral of deprivation and decline, with minimal or non-existent investment in the local housing stock and urban infrastructure combined with a gradual exodus of the higher income groups and subsequently businesses. The District gained a reputation as a “ghetto” in the heart of Budapest, while the 19th century tenement blocks (many of them owned by the local authority and un-modernised since the pre-war period) increasingly fell into serious disrepair and in many cases had to be condemned as unsafe or unfit for habitation.

The Corvin-Szigony project was initially planned by the authorities and the newly-formed Rév8 Urban Renewal Company in Budapest VIII in the late 1990s, following the launch of the city-wide Budapest Urban Renewal Programme and Urban Renewal Fund in 1997. This strategic Programme delineated problem areas and established investment priorities and funding arrangements, with the urban
regeneration component focusing on rehabilitation of housing and environmental improvements in deprived neighbourhoods. Given the scale of its problems, Budapest VIII was identified as a priority District for intervention and the Corvin-Szigony project was developed as the centrepiece of planned regeneration activities. The project was included, along with two other “complex” regeneration schemes in other Districts\(^47\), in the Budapest Urban Renewal Programme for the years 2002-2006.

The Corvin-Szigony project has sought to regenerate a 22 hectare area of District VIII, through a programme of housing stock demolition, refurbishment and renewal, combined with the development of new public spaces and retail and office accommodation. The original housing element of the project (which has since been slightly modified) involved the demolition of 1,100 dilapidated apartments, the renovation of a further 1,400 (46 buildings) and the construction of 2,800 new built units. The project strategy was initially developed through a partnership between the Municipality of Budapest (MoB) and the District Council of Budapest VIII, which together created a specialised, not-for-profit Urban Renewal Company called Rév8\(^48\) to develop and eventually to oversee the implementation of the regeneration scheme in the Corvin-Szigony area. The key objectives of the project can be summarised as follows:

- To remove or renovate unfit living accommodation, raise the quality of the local housing stock to modern standards and address existing problems of overcrowding;
- To increase the amount of public open space and improve the general environment of the neighbourhood;
- To provide additional retail and office opportunities, thereby promoting local economic activity;
- To improve the attractiveness of District VIII and redress the trends of population decline and “business flight”.

From the start, the project has sought to rely on the private real estate sector to undertake and contribute financially to the regeneration activities. After some delays, a consortium of local developers was appointed through an open tendering process in July 2003. This consortium subsequently changed ownership in autumn 2004\(^49\) and slightly revised plans were put forward that has increased the retail and office elements in the development programme.

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\(^{47}\) One in District IX and one in District X

\(^{48}\) Rév8 was initially created in 1997, with the MoB and the District Council as the major shareholders, see: [http://www.rev8.hu/](http://www.rev8.hu/)(in Hungarian)

\(^{49}\) See Business Hungary, September 2004 [http://www_businesshungary.com/](http://www_businesshungary.com/)

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In 2002, the project was included, alongside two other complex urban regeneration schemes in Budapest, in a larger loan application to the EIB and a framework loan covering the outline project was approved in October of the same year. The Municipality submitted a loan application to the EIB for a total of €574 million, part of which was sought to cover the cost of selected components of the Urban Regeneration Programme, including the Corvin-Szigony project. The loan request, which was approved in October 2002, comprised two main components (an individual loan and framework loan) in four areas of urban development in Budapest:

1. Urban transport - an individual loan of €314 million for the rehabilitation of Line 2 of the Budapest Metro and replacement of 27 tramcars;
2. Urban regeneration, health and education – a framework loan of €260 million, of which €60 million was for the urban regeneration component.

Under the framework loan arrangements, the overall sum of the loan for urban regeneration was approved (in light of the existence of a clear and targeted urban development strategy), but the individual “sub projects” (including the Corvin-Szigony project) were subject to approval on the basis of a completed “sub project pro forma” submitted by the Municipality, detailing the objectives of the project and its fit with the overall urban development strategy.

Subsequently, in the light of the changing political reality and the relations between District and City, District VIII preferred to be less dependent on the City and decided to transfer this loan component into a global loan that was provided through the Volksbank as an intermediary (EIB Global Loan Facility). This construction also allowed the District to better tailor the loan to the financial and cashflow requirements of the project. Under the new arrangement, the Volksbank is required to pass on part of the advantageous conditions to the beneficiaries.

Overall, the Budapest VIII Corvin-Szigony project demonstrates that inner city renewal is not only a privilege for Western European cities, but is achievable within the New Member States as well. In many senses, the development of the District contributes to the sustainable communities approach. An important impact of the project is that residents and other city users are being attracted to this inner-city area – thus dampening the strong suburbanisation trend affecting Budapest. However, the institutional challenges for such projects are not to be underestimated – especially in larger cities where central and district authorities each play their role. The foundation of the project (Rev 8) was put in place in a period that District VIII and City Authorities were aligned and considered to be allies. Due to co-dependency, this is an important success factor for the project. The EIB has been willing to adjust the loan when a change in the institutional and political situation occurred. The subsequent wish of the District VIII to be less dependent on the City authorities led to the transfer of a part of the loan to the Volksbank. A loan initially
designed as framework loan was therefore transformed into a global loan. Despite this flexibility, Hungarian institutions involved sometimes question the added value of the EIB in the urban development area. Hungarian banks and other private capital sources are increasingly keen to be involved in such projects and they are frequently considered more flexible.

5.7 Alicante Tramway (Spain)

<table>
<thead>
<tr>
<th>General information</th>
<th>Stakeholder information</th>
</tr>
</thead>
<tbody>
<tr>
<td>Theme</td>
<td>Ferrocarriles de la Generalitat Valenciana (FGV - Valencia Regional Government Railways)</td>
</tr>
<tr>
<td>Geography</td>
<td>FGV, Generalitat Valenciana (GV - Regional Government) and Municipality of Alicante.</td>
</tr>
</tbody>
</table>

EIB loan guaranteed by GV who enjoys an excellent credit rating. Financial resources also come from direct subsidies from GV to FGV.

<table>
<thead>
<tr>
<th>Type of loan</th>
<th>Individual loan</th>
</tr>
</thead>
<tbody>
<tr>
<td>Beneficiary</td>
<td>Managing Authority for the Transport Network and Ports of the Generalitat Valenciana (GV - Regional Government). This is a separate entity from FGV.</td>
</tr>
<tr>
<td>Overall project</td>
<td>€ 373.23 M</td>
</tr>
<tr>
<td>Proposed EIB finance</td>
<td>€ 175 M</td>
</tr>
<tr>
<td>Status</td>
<td>Loan approved on 18 July 2003 when the first € 30 M were disbursed. A further € 45 M were disbursed on 12 January 2004. The remainder € 100 M were issued on 9 March 2004.</td>
</tr>
</tbody>
</table>

Alicante is an important tourist centre. Travellers to the region were estimated at 2.5 million in 2001, equivalent to around 10 million overnight stays, of which a third from abroad. Apart from the traditional seasonal visitors, the area is progressively becoming a destination of choice to many north European citizens seeking to retire in warmer climates. Foreign residents in 2001 totalled 62,664. The baseline situation in Alicante was similar to that of other medium-sized European cities, where mono-functional land use, population growth and better living standards have contributed to increases in mobility and longer average journeys. Increased use of private vehicles was generating a number of problems, including pollution, a lack of parking space, increasing accident rates and reduced accessibility. The Alicante region is densely populated (256 inhab/km²) and the population is concentrated around four main cities: Alicante itself, Elche, Alcoi and Torrevieja. The population of the urban areas has nearly doubled in the last 30 years, mostly due to migration flows from central Spain but also, to a lesser extent, as a result of natural growth and residential tourism.
Against this backdrop, the existing public transport infrastructure in the region (a bus network and a railway line along the Costa Blanca) was no longer adequate. The proposed solution is a new light rail network connecting the key urban centres and providing energy efficient environmentally friendly public transport. The TRAM Transport System – as it was called - is a major urban development project consisting of the conversion or reconstruction of existing railway infrastructure into a high quality light railway network of around 40km in total length in the area of Alicante. The project also involves the acquisition of new rolling stock. The proposed system aims to ease city traffic congestion and promote “intermodal” journeys. People will be able to move quickly, comfortably and at a reasonable price, overcoming physical barriers created by buildings and other structures within the city. In addition, the project seeks to contribute to social cohesion by revitalising deprived areas and creating new open spaces and green areas, as well as fostering commercial activity.

The Valencian Regional Government, motivated by its previous positive experience with the Valencia tram, decided to analyse the viability of implementing a similar transport strategy in Alicante. The tram-train technology deployed in the Alicante TRAM scheme combines the benefits of speed, capacity, accessibility, comfort and a high degree of integration in both urban and interurban environments. Such technology has the advantages of a train transport system when used outside the core urban areas and also has the advantages of tram transport systems when operating within the city. The construction works include a large-scale urban renewal component and will provide underground access to Alicante, connecting with the future Central Station, where the TRAM will connect with high-speed trains, and regional trains and buses.

The Alicante TRAM scheme was initially developed by the regional government (Generalitat Valenciana – GV), the city of Alicante and the regional railway operator Ferrocarriles de la Generalitat Valenciana (FGV), which owned the stretch of railway line to be incorporated in the new system. The project development was led by the Generalitat’s Transport and Infrastructure Division.

Financing for the project came from two principal streams:

- Direct subsidies from the Regional Government to FGV (Valencia Regional Railways) from their own budget. In 2004 these amounted to €29.19 million.
- A loan from the European Investment Bank, guaranteed by the Regional Government, of €180 million.

The borrowing authority for the EIB loan is the Managing Authority for the Transport Network and Ports of the Generalitat Valenciana (GV), which is a separate entity from Ferrocarriles de la Generalitat Valenciana, the system operator and infrastructure owner. FGV Infrastructure management experts and external
engineering consultants developed the project design and oversee project management and construction. The whole project is coordinated by the Transport Authorities of the Ministry of Infrastructures and Transport, through their own Projects and Construction department.

The project leaders argue that the TRAM project has been a success (in terms of implementation) to date and highlight the considerable additional benefits that will accrue to the local population and economy, once the scheme has been completed. In addition, they highlight that the cooperative approach between different levels of government and different (albeit related) organisations has improved governance structures and led to more coherent and joined-up policy making.

Overall, the Alicante Tramway project can be said to be relatively straightforward in its design and implementation. Its value as a case study stems however from its replicability – the fact that so many medium-sized cities and towns in Europe are working on similar projects, but tend to be financed through grants rather than loans. The involvement of the EIB as main lender meant that ample attention had to be given to traffic forecasts, socio-economic impact studies and environmental impact studies. These studies demonstrated that the societal benefits of Tramway projects far exceed the financial benefits. It is precisely in such situations that the involvement of the EIB – with its financial as well as broader policy aims – is appropriate. A constraint faced by developers of lightrail and Tramway projects is often the limited size and therefore credibility of the borrower – commonly the Transport Authority of the city or region concerned. In the case of the Alicante Tramway, a guarantee of the Regional Government of Valencia was therefore required. Such guarantees may however not always be so easily obtained in other medium-sized cities across Europe where regional structures and competencies are less well developed.

5.8 Brno Municipal Infrastructure (CZ)

<table>
<thead>
<tr>
<th>General information</th>
<th>Theme</th>
<th>Urban Renewal</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Geography</td>
<td>Central and Eastern Europe</td>
</tr>
<tr>
<td></td>
<td>Project promoter</td>
<td>The Statutory City of Brno</td>
</tr>
<tr>
<td></td>
<td>Project partnerships</td>
<td>Statutory City of Brno and Brno City Council</td>
</tr>
<tr>
<td>Stakeholder information</td>
<td>EIB in relation to other lenders</td>
<td>EIB loan to part finance medium-term capital investment projects in city capital investment programme (2005-2008). The rest of the programme is financed principally through city, national and EU resources.</td>
</tr>
<tr>
<td>Financial information</td>
<td>Type of loan</td>
<td>Framework loan - part of an integrated urban development municipal plan.</td>
</tr>
<tr>
<td></td>
<td>Beneficiary</td>
<td>Municipality of Brno</td>
</tr>
<tr>
<td></td>
<td>Overall project</td>
<td>€ 298 M</td>
</tr>
<tr>
<td></td>
<td>Proposed EIB</td>
<td>€ 85 M</td>
</tr>
</tbody>
</table>
Brno is the Czech Republic’s second largest city and the administrative, commercial and cultural centre of South Moravia. The city’s current population is roughly 370,000 and has declined from 390,000 in 1991. The steady decline in population experienced over the last 10-15 years is mainly the consequence of increased suburbanisation (net migration to areas outside the city), rather than a symptom of significant economic problems. Indeed, the city’s economy has developed considerably since the early 1990s, as the city has sought to exploit its natural position as a key regional centre. Brno plays an essential role in this part of the Czech Republic and the total metropolitan area has about 750,000 inhabitants – thanks to its strategic location – an important crossroads of railway, road and air transport. The City of Brno has a rich history and cultural tradition and is the seat of various national institutes – the Supreme Court and the Constitutional Court, Design Centre etc. It is also a centre of industry and business – including the largest fair trade centre in the Czech Republic. The city Brno is becoming an important centre of science and innovations (Mayo Clinic, IBM etc.) and has a large number of university students – up to 70,000.

Fostering further economic development remains a core priority for the city authorities, as reflected in the current strategic development plan “Strategy for the City 2020”, which sets out broad development objectives up to 2020. The city’s land-use and spatial policies are set out in a Master Plan, designed to fit the strategic development objectives and revised periodically to take account of new developments. The priorities and strategies established in the Master Plan provide the framework for more detailed development projects within the city.

The projects put forward for consideration in the Framework Loan application were all taken from the 2005-2008 capital investment scheme and included road repairs, improvements to tram lines, drainage and waste water treatment, and improvements to cultural and educational establishments. The capital investment programme is based upon the municipality’s development strategy. The total value of the loan will be up to €85 million, out of a total budget for schemes eligible for EIB funding of €170 million and a total programme of investment of €298 million. At the time the initial loan application was approved, the precise portfolio of projects had yet to be finalised.

The following EIB-funded projects can now be listed:
1. Reconstruction of Liberty Square (2000/2001, EIB share 99%)
2. Reconstruction and completion of the Brno City Archives (2000/2005, EIB share 55%)
3. Reconstruction of roads in historic core (2000/2008, EIB share 64%)
5. Reconstruction of Square of 28 Dubna (2003/2006, EIB share 99%)
6. Brno industrial zone (2005/2006, EIB share 100%)
7. Industrial zone – Cernovika Terasa (2001/2006, EIB share 43%)
10. Building modifications of the new Town Hall – A Stage (2004/2006, EIB share 100%)
11. Reconstruction of catering facility in Charity Hospital (2004/2007, EIB share 100%)
12. Reconstruction of the Spilberg Castle – Stage II (2001/2007, EIB share 75%)
15. The Hlavni – Absolonova connecting road (2003/2007, EIB share 99%)

The total investment required for the above project portfolio currently amounts to €127.5 million, of which the EIB finances €73.2 million (57.4%).

The project portfolio presented above fits well with a range of policy objectives, including EU objectives in the field of urban development and will complement the Objective 1 support – both the current support as well as the foreseen assistance for the 2007-2013 programming period. The projects are expected to jointly act as a significant catalyst for further regeneration and positive social and economic impacts.

Under the terms of the Framework Loan, the EIB will review the sub projects selected as part of its monitoring process.

Overall, the Brno Municipal Infrastructure Framework Loan is a good example of the opportunities provided by the EIB for taking forward sustainable urban development. None of the projects concerned are big enough to qualify for EIB finance individually, but the overall portfolio well exceeds the minimum threshold. The Objective 1 status of Brno also allows the City to boost its investment levels considerably.

The Brno case brings to the fore the question how many projects can be funded under a framework loan, and at what point a global loan should be considered instead. This relates especially to the monitoring requirements of the Bank. Following and approving each of the project components is resource-intensive and is likely to have implications once such municipal framework loans are being applied more widely and extensively.
The Brno case also allows us to pay some attention to the relation between different EIB loan categories. Apart from the municipal framework loan described above, Brno also received other loans classified under sectoral categories – such as a research laboratory on the new campus of the Masaryk University (categorised as innovation). It is to be understood that such sectoral loans can also have an impact on sustainable urban development – whether positive or adverse. This raises the issue of how to co-ordinate urban development loans with other EIB loans that may have an impact on sustainable urban development as well.

5.9 Conclusions

Before commenting on the above case studies themselves, it should first be mentioned that the collection of the underlying information has been rather problematic. Overall, public information regarding urban development projects funded by the EIB can be regarded as scarce – especially in the light of the scale of the funds involved. Commonly, project managers and other project-related staff are poorly informed about the role that the EIB has played in their project. Representatives from local financial departments were sometimes more helpful, but not in all cases. Information about individual EIB-funded projects appears to be all but absent at the national level. The Bank itself has been helpful in providing information, though only within the limits of its rather stringent information policy. After all, projects by the Bank are considered private transactions and the Bank is therefore not in a position to divulge all necessary details required for this case study work.

Based on the information collected, all the projects covered by the case studies appear to contribute to sustainable urban development. Whether the Glasgow Urban Renewal, the Bremen Hemelingen tunnel, the Helsinki Urban Renewal, Budapest VIII Renewal, Alicante Tramway or Brno Municipal Investments. The involvement of the EIB in these projects has generally been appreciated by the parties concerned. Furthermore all projects were integrated in larger urban development plans, which is an equally important aspect of sustainable urban development and one of the criteria for EIB funding in urban development.

Across the projects investigated, the EIB is seen as a lender with a long term orientation and patient capital; its terms and conditions were often more advantageous than other lenders, at least at the time when lending decisions were made. EIB involvement enabled a larger ‘scale’ of intervention to be made and helped to deliver flagship projects which could serve as examples to other cities. In both the UK and in Germany, the complementarity with other lenders is particularly striking. However, the precise role and value added by the EIB is different in each and every case. In several cases, a substantial time period elapsed before disbursement. In some cases, the actual disbursements were significantly lower.
than initially planned or have not taken place at all due to changing circumstances or the availability of alternative financing solutions which proved to be more attractive.

The EIB’s role is often indirect; in the Glasgow Urban Renewal project it acted as a wholesale bank, while in the Helsinki, Budapest and Brno case studies framework loans were used – making the Bank less visible as well. The Helsinki case study set an example in the use of framework loans for municipal infrastructure – a practice which has been repeated since. Despite its advantages, the monitoring of framework loans can be considered resource-intensive, and measuring impacts through ex post evaluations are likely to be more complicated than individual loans.

Urban development poses particular institutional challenges – and these can become even more apparent when a professional player like the EIB becomes involved. Co-operation between various government levels can be put to the test, as seen in Helsinki, Budapest and Alicante. Such co-operation can change over time, for instance after elections. The EIB has demonstrated a willingness to adjust loan arrangements (though not terms and conditions) following a change in the institutional or political situation.

The EIB makes an important contribution at the project level. In order to be bankable, the EIB requires projects to be well prepared and solid. In the case of the Alicante Tramway project for instance, the EIB, as main lender, required ample attention to be given to traffic forecasts, socio-economic impact studies and environmental impact studies – and not just financial analysis. Perhaps this is the most important contribution that the EIB can make to building and maintaining sustainable communities in Europe.
6.0 KEY FINDINGS

6.1 Introducing the Capital Market for Urban Finance

Understanding the role of the EIB in financing sustainable urban development requires some basic understanding of capital markets for urban finance. What are the investment needs (demand) and which sources of finance are available (supply)? What are the allocation mechanisms for matching supply and demand? When are loans preferred over and above public grants? When are commercial loans and private equity favoured over public loans? And under which circumstances does urban investment fail to take place at all? The figure below presents a basic model for financing urban development that has been used throughout this study.

Figure 6.1: Model for Financing Urban Development - Basics

The model assumes that transparent and fully developed capital markets for urban finance are important to promoting urban investment and therefore contribute to sustainable urban development. In such capital markets the investment needs driving urban development are translated into demand by a range of public and/or private project promoters. On the supply side various sources of finance are available and accessible to project promoters. Competition between projects (demand side) and between various sources of finance (supply side) helps to ensure that the right projects are funded by the most appropriate funding sources, against the most favourable terms and conditions.

If capital markets for urban finance were to function in this manner, supply would be efficiently matched to demand and markets would be transparent. However capital markets for urban finance are not static and develop over time. Capital markets may also operate imperfectly and it is this imperfection which can explain the evolving role of the EIB and underpins its importance in funding urban development projects.
We analysed the divergence from the basic model in five different countries (UK, Germany, Italy, Finland and Hungary) by looking at:

- Investment needs in cities (6.2);
- The demand for urban finance (6.3);
- The supply of urban finance (6.4);
- The functioning of capital markets for urban finance (6.5)

This approach led to the identification of key research issues that we sought answer in this study, namely:

- The evolving role of the EIB (6.6);
- The roles of the EIB in practice (6.7); and
- How the EIB really contributes to Sustainable Urban Development (6.8).

The supporting argumentation to our key findings is presented in the following section, based on the research in five countries and seven case studies.

6.2 Investment Needs in Cities

Cities in Europe are nowadays facing a range of important demographic, economic, social and environmental challenges that each result in significant investment needs. Demographic trends are shaped by an ageing population and new patterns of immigration, which together result in 1/3 of European cities dealing with population growth and 1/3 with population decline.\(^{50}\) Cities are also facing major economic challenges: they fulfil a key role in achieving the Lisbon Agenda and in developing knowledge-based and competitive economies. Cities are therefore indisputable engines of economic growth and employment. But they are also places where social exclusion is frequent and severe. Cities also face important environmental challenges, including degradation and urban sprawl. They also need to contribute to the reduction of CO2 emissions, for instance through building and upgrading sustainable public transport systems and by improving energy efficiency in the housing stock.

Although there is a shortage of comparable data on investment needs across cities, the related investment needs appear to be considerable if not enormous. Cities commonly acknowledge such investment needs through engaging in strategic and integrated urban planning exercises (for periods up to 20 years), yet the funding of the ensuing investment packages is almost always problematic. For instance in Germany, key challenges include the need to revitalise city centres, the need to cope with increasing number of deprived districts in the West and to deal with

oversupply of housing in the East. In Hungary, investment is required in inner city areas, particularly in the high-rise neighbourhoods constructed since the 1960s and in derelict industrial areas. In the United Kingdom, significant investments are needed to keep pace with growth in the South East and with stagnation and decline in the North. In Finland significant levels of investment are required for the regeneration of derelict harbour areas in Helsinki, in urban transport, housing development as well as housing repairs.

6.3 Demand for Urban Finance

Investment needs do not necessarily translate into investment demand. An important factor is the extent to which actors on the demand side are prepared or able to take forward urban development projects and make successful funding requests – through strategic investment planning. Building on the ‘chain approach’ developed during the preparations for the Bristol Ministerial Informal, this research project has provided further evidence that the response capacity of public and private project promoters varies considerably from country to country as well as within countries. This response capacity includes dimensions of governance, skills and investment. The research confirms that strong skills and good governance go hand in hand and are both essential preconditions for attracting investment in general and loan finance in particular.

Local governments are still the most important initiators of urban development projects. Local tax reductions and reduced transfers of state subsidies may make local governments more dependent on capital markets. Municipalities in Finland and Italy for example, have a high creditworthiness, which allows them to operate independently in the market for urban finance, by issuing bonds for instance.

However, the role of local government as direct investor is generally in decline due to the growing importance of quasi-public bodies – public or private bodies at arm’s length of government. These bodies have been emerging in all countries analysed and include regional development agencies, municipal companies and publicly-owned housing companies. Their ability to borrow varies greatly. In the UK, English Regional Development Agencies are important for initiating urban development, but their borrowing capacity is negligible. Housing companies on the other hand, with their strong asset bases, have substantial borrowing power. The same applies to Cooperatives, such as (private) housing associations and condominiums. In Germany, regional development agencies, local real estate companies, housing companies and housing cooperatives are important. Municipal companies are now responsible for more than 50% of all local investments. In Italy, housing companies (ex Istituti Autonomi Case Popolari), and regional development agencies
are significant players as are municipal companies and municipal housing companies in Finland. In Hungary, municipal companies, asset management companies, utility companies and urban renewal companies have all recently emerged. Across Europe, utility and railway companies – such as Deutsche Bahn and the Italian Railways – often play an important role due to the fact that they are in possession of key development sites and real estate in strategic city locations.

The role of private property developers in integrated urban development including brownfield development has traditionally been limited in Europe. However, private property developers are now becoming increasingly active in areas of urban regeneration.

6.4 Supply of Urban Finance

Contrary to public grants, virtually unlimited amounts of loan capital and private equity are available and there appears to be no shortage of capital in principle for urban development. However that does not necessarily result in ready supply.

This research has identified a range of suppliers of urban finance, most of which are acting at national or sub-national levels. Investment criteria differ between various sources of finance, between public and private funding bodies as well as between loan, grant and equity providers.

Urban development is funded by considerable amounts of public grants in all countries reviewed. Public grants are provided on the basis of policy objectives and broader economic, social or environmental considerations. The overall tendency points towards a stabilisation or a slight downward trend in the volume of public grants in the EU15, and an increase in the New Member States where the new round of Structural Funds increases the amount of grant money being made available.

In each of the countries analysed public lending institutions play an important role in funding economic and social development at local and regional levels. Public loans are provided to projects with a revenue earning potential (either directly or indirectly through local taxes). Projects are required to be technically solid and borrowers need to have a creditworthiness – both are important for ensuring future revenue streams. Projects eligible for public loans also need to contribute to broader public policy objectives. The Public Works Loan Board (UK), the Promotional Banks including KfW and Savings Banks (Germany), the Cassa Depositi et Prestititi (Italy), Municipality Finance (Finland) and the Hungarian Development Bank all form important pillars of the municipal credit markets in their respective countries. In recent years, these public banks have become increasingly important and competitive, loan volumes have increased as has their market share. Generally
municipalities appear to be pleased with the terms, conditions and levels of service being offered. In Finland there is strong competition between public banks, with new banks entering the market such as the Irish Depfa Bank and the Nordic Investment Bank. Banks operating internationally in this sector is not a widespread phenomenon to date. Public Banks tend to focus on local authorities and they do not always cater for municipal companies and/or housing associations.

Municipal bonds play a special role in both Finland and Italy. The strong creditworthiness of local government in these countries is a prerequisite for issuing such bonds. Having said this bond issues are on a downward trend in Finland but have been increasing in Italy. These diverging trends point to the variety in funding preferences across Europe.

Commercial banks fulfil a different role. A favourable financial rate of return, technical criteria and creditworthiness are the primary criteria for the disbursement of commercial loans while public policy considerations are only of secondary importance. Commercial banks have been relatively slow to enter the market for urban finance, as they are not always fully familiar with the risks and complexity related to property markets. Nevertheless, with rising property prices, particularly in the major European urban centres, commercial banks are becoming increasingly active in this field, in all countries studied. The market share of commercial banks in Germany is more limited, while foreign commercial banks are of particular importance in Hungary.

Private equity is of varying importance across the countries examined. Some professional players (including institutional investors and pension funds) are active in this market, but their inclusion in urban renewal is not spread to date. In this context the UK Private Finance Initiative is a noteworthy example of an attempt to stimulate private investment in areas previously funded by the public sector (e.g. urban lightrail projects).

6.5 The Functioning of Capital Markets for Urban Finance

Are Europe’s capital markets for urban finance truly transparent, efficient and fully developed? Do they contribute to sustainable urban development? This research has resulted in the following key findings:

- No correct and comparable estimates of the (potential) magnitude of the market for urban finance exist as information regarding investment needs in comparison to actual levels of investment is systematically lacking at EU
There are reasons to assume that investment gaps are significant, but vary from country to country and fluctuate over time.

- Investment needs are often not translated into demand due to limited response capacity – the ability to take forward urban development projects and make successful funding requests. Overall, project promoters in urban development tend to have a limited knowledge of financial engineering, and appropriate expertise is often called in too late in the process to the detriment of project feasibility and/or sustainability.
- Much of the available capacity to take forward urban projects is shifted from local governments to quasi-public and private bodies.
- The capital sources of finance (supply side) are diverse and there appears to be no shortage of capital in principle for urban development. However, that does not necessarily result in ready supply.
- The relative attractiveness of public loan finance varies between countries, depending on the availability of grants, private equity, municipal bonds and commercial loans.
- Capital markets for urban finance are above all shaped at the national level, while major urban centres are the focal points for these markets. The research findings point towards the absence of a true EU lending market for urban finance to date.
- Capital markets for urban finance do not tend to be fully transparent, efficient and well developed. Project promoters tend to have a fragmented awareness of alternative forms of finance. Intermediaries are rare, as are funds specifically set up to cater to urban development.

By identifying various imperfections in the functioning of these capital markets we were able to provide answers to the research questions posed by the Expert Working Group. These concern:

- The role of the EIB; and
- The value added by the Bank in financing investment in sustainable cities and communities in Europe.

### 6.6 The Evolving Role of the European Investment Bank

Following its establishment in 1957 based on the Treaty of Rome, the role of the EIB in financing urban development has gradually evolved. In 1988, the Bank’s eligibility criteria for projects that focused on improving the quality of life in the urban environment were extended. By 1997, the EIB’s role has grown since the urban development mandate was extended at the Amsterdam Summit in 1997, in particular regarding social housing.

52 This is also concluded in the OECD Territorial Review (2006) on the Competitive Cities in a Global Economy
More recently, the role of the EIB has been stressed in connection with the increasing importance of a European urban policy agenda. This policy agenda is consistent with the Lisbon goals and the role of cities therein, and has gained urgency following the recent social unrest in cities and the increasing impact of migration. The role of the EIB was further discussed during the Bristol Ministerial Informal in December 2005. Around this time the European Commission also initiated the JESSICA initiative in which the EIB is set to play a key role.

The mix of financial products within the field of urban development made available by the EIB has also been evolving over time. In addition to individual loans, so-called framework loans and global loans have been particularly important in this area, allowing the Bank to fund packages of projects that are in their own right too small to meet the Bank’s minimum investment threshold (€ 25 million for individual loans).

A global analysis of lending patterns points to significant EIB lending volumes across sectors and the EU as a whole – at an annual average of € 38 billion per year within Member States (period 2000-2006). Urban development (urban renewal, urban transport and global loans in urban infrastructure combined) accounts for 20% of the total volume, about € 7.6 billion per year. This equates to an average of about € 16 per EU resident per year. EIB lending in urban development is relatively high in Greece, Spain, Denmark and Finland, equating to levels above € 30 per resident per year, twice the EU average.

The annual fluctuations in lending for urban development appear to be limited, with the exception of 2006 when lending in this sector appears to be dropping – to a volume of almost € 4.78 billion. This decline appears to be in contrast to EIB lending in general, which means that urban development loans made up a smaller proportion (12%) of all EIB loans in 2006. Recently, the EIB’s competitive position has been somewhat eroded due to low overall interest rates – now having reduced its advantage in the area of 10 basis points. Information about factual disbursements could possibly change these patterns but was not available to the Expert Working Group.

6.7 The Roles of the EIB in Practice

As a European policy-driven bank, the EIB plays a dual role as an institution of the Union adapting its activities to Community policies and as a bank working in close collaboration with the banking community. In practice, the EIB’s role in financing urban development varies according to the national framework in place, the size and types of projects, the sophistication and expertise of project promoters, the existence of other forms of funding and the relative attractiveness of the Bank’s
terms and conditions. Building on the model for financing urban development as presented above (section 5.1), 4 actual (and 5 potential) roles can be distinguished:

A. EIB as Lead financier
B. EIB as Co-financier
C. EIB as Wholesale bank
D. EIB as Technical Assistance provider
(E. EIB as Intermediary)

Ad A. *EIB as Lead financier*

As a Lead financier, the EIB can bring loan finance to areas where this was not previously encountered. As the Bank does not intend to compete directly with other financial institutions, it is particularly well placed to contribute to the development of urban capital markets that are not yet mature or even embryonic. By doing so, the EIB can act as a benchmark lender and a catalyst – a point of reference for other funding sources and a stimulus for other financial partners to join in.

The EIB can be considered to have been leading on various case studies analysed, including the Helsinki Urban Renewal, the Alicante Tramway, the Budapest VIII – Corvin Szigony, and Brno Municipal infrastructure.

Using the EIB as Lead financier can have several advantages, including favourable terms and conditions, the long duration of loans, the flexible payback conditions, and the ‘quality stamp’ it can provide to projects. For borrowers with insufficient credit standing, EIB loans are only available if there is a creditworthy partner to act as guarantor. For example the Alicante Tramway loan was underwritten by the Regional Government of Valencia. Several projects were identified where EIB funding had been contracted, but subsequently not utilised. The EIB’s user friendly policy of not applying appraisal fees or penalties for non-disbursement can be regarded as an advantage for (potential) borrowers here.

Ad B. *EIB as Co-financier*

The EIB acts as Co-financier for other public and private institutions. A good example is the case of Bremen Hemelingen (Germany), where the EIB is a co-financier partner of the KfW. The EIB also acted as Co-financier for the Glasgow Urban Renewal project (HBOS and RBS were Lead financiers). In New Member States especially, the EIB often provides the co-financing necessary for access to Structural Funds grants. The Brno Municipal Infrastructure project is a case in point. The EIB can also be used to co-finance projects where private equity is involved.
Figure 6.2: Financing Urban Development - Roles of the EIB in Practice

A. EIB as Lead financier

Investment needs

Demand side
- Local government
- Quasi-public bodies
- Housing associations
- Private bodies

Supply side
- Public grants
- EIB
- Commercial banks
- Private equity

B. EIB as Co-financier

Investment needs

Demand side
- Local government
- Quasi-public bodies
- Housing associations
- Private bodies

Supply side
- Public grants
- EIB
- Commercial banks
- Private equity

C. EIB as Wholesale bank

Investment needs

Demand side
- Local government
- Quasi-public bodies
- Housing associations
- Private bodies

Supply side
- Public grants
- EIB
- Commercial banks
- Private equity

D. EIB as Technical Assistance provider

Investment needs

Demand side
- Local government
- Quasi-public bodies
- Housing associations
- Private bodies

Supply side
- Public grants
- EIB
- Commercial banks
- Private equity

E. EIB as Intermediary
Using the EIB as Co-investor can have several advantages, including its favourable terms and conditions, the long duration of loans, the flexible payback conditions, and the ‘quality stamp’ it can provide to projects.

**Ad C. EIB as Wholesale bank**
The EIB acts as a wholesale bank for smaller projects by providing finance via intermediaries rather than directly. It does so mostly via global loans that are usually on-lent by intermediaries to urban projects. Both public and commercial banks use the EIB as a wholesale bank. Global loans for urban development are particularly important in Germany. The EIB also played a similar role for the Winter Olympics/Agenczia Torino project, where it acted as an indirect financer through the intermediaries Banca OPI/Gruppo Sanpaolo IMI and Dexia Crediop. In the Budapest VIII - Corvin Szigony project, funds were subsequently made available through the Volksbank.

Using the EIB as a wholesale bank has various advantages, above all the favourable terms and conditions that the EIB can provide. The EIB looks to ensure that at least some of the benefits arising from its favourable terms and conditions are passed on to the projects themselves.

**Ad D. EIB as Technical Assistance provider**
In the above the various roles fulfilled by the EIB pertain to the supply side of the financial market. One important role of the EIB can be placed on the demand side, namely providing advice and assistance to project promoters. This stems from the Bank’s expertise in feasibility assessment and financial engineering solutions. The advisory role of the EIB was praised by virtually all project promoters and experts consulted.

Using the EIB as Technical Assistance provider can have significant advantages as it helps to translate investment needs into demand for finance and build pipelines of bankable projects and build the competence of Member States, local and regional intermediaries including local and metropolitan governments. EIB’s foreseen role in the JESSICA and JASPERS initiatives can be seen in this light as well.

*(Ad E. EIB as Intermediary)*
In addition to these four models there is potential for the EIB to act as intermediary for other funding. This role implies that the EIB acts as a financial arranger, bringing demand and various supply sources together – without necessarily using in its own funds.

Using the EIB as intermediary can have important advantages. Thanks to its reputation, the EIB is seen as a credible partner both in government and in private banking circles alike (e.g. as managers of JESSICA holding funds).
The overall impression of the role of the EIB in urban capital markets in practice is that it is varied and significant. As regards competition the EIB’s intention is to avoid it by complementing other partners in the banking system.

However, the Bank has a low profile as many borrowers in the countries studied have indicated limited knowledge regarding the precise role that the EIB plays. Its dual status as a Bank as well as a European Institution is often confusing for potential borrowers. In the case study research, project staff were often poorly informed about the role that the EIB had played in their own project. Information about the role the EIB can play in urban development is often deficient at the national level too.

In recent years, national frameworks for urban finance have been considerably strengthened in Europe, and many demands for capital can be met locally. Nevertheless, various players find it advantageous to use the EIB in one or more of its capacities. As a lead financier, a co-financier or wholesale bank, the EIB has a proven track record in situations where national frameworks leave certain ‘gaps’ (in terms of sector, type of borrowers or project size) or where terms and conditions are not advantageous.

In addition to its supply side roles, an important supplementary role for the EIB can be identified on the demand side of the market for urban finance. By providing technical assistance to borrowers and project promoters, including advice on the financial engineering options available, the Bank can help to translate investment needs into concrete financial demand, and hence play an invaluable role in financing sustainable urban development. This role could be significantly expanded in the future but would involve improving awareness of the EIB and its capacities.

Despite the various advantages, there are also several constraints when using EIB loans, including the conditions that are natural to a public policy driven bank:

- **Restrictions on eligible projects**: the EIB mandate does not allow finance in all areas where investment needs are high, e.g. new built housing;
- **Minimum size of transactions**: the minimum lending threshold (€ 25 mln.) poses limitations for smaller projects notably in smaller and medium-sized cities that are not in a position to group projects into packages;
- **Creditworthiness** – borrowers with limited credit-ratings need to obtain guarantees from third parties (e.g. regional and/or national governments);
- **Approach towards risk**: the EIB tends to price higher risks more so than commercial or national public banks, which reduces the attractiveness of the EIB as lender for such projects;
• **Bureaucracy and customer-orientation.** Certain stakeholders have made known that they consider EIB practices to be overly bureaucratic, and have found the EIB to have a less customer-friendly attitude than encountered at other banks. Audit procedures are more extensive than is the norm, when compared to national public banks;

• **Integrated urban planning requirements;** projects taken forward under the urban development heading require that they fit well with integrated urban development plans; in the absence of such plans, EIB finance cannot be obtained under this heading;

• **Socio-economic and environmental requirements;** in addition to financial feasibility, urban development projects that require EIB finance need to provide evidence concerning socio-economic and environmental impacts. Not all project promoters are willing to invest in the necessary studies or are willing to adjust the projects accordingly.

It is important to underline that some of the above constraints - often highlighted as disadvantages by individual project promoters – can also be regarded as important tools for fostering sustainable urban development.

### 6.8 How does the EIB contribute to Sustainable Urban Development?

First of all, as a European policy-driven bank, the EIB contributes to sustainable urban development through the priorities it has explicitly selected for funding – and as confirmed in its Corporate Operational Plan. Eligibility restrictions are important as well. For instance the Bank actively encourages brownfield development, whereas it is limited in the extent it can fund greenfield developments.

Furthermore, the Bank contributes to sustainable urban development through a number of implicit factors. An important conclusion of this study is that loan finance in general can make a positive contribution to the promotion of sustainable urban development. Thorough assessment of a programme or a project’s long-term viability, combined with prudent long-term management guaranteeing adequate revenue flows can make a valuable contribution to the sustainability of urban development projects. Loan finance also imposes external discipline upon projects leading to better control, value for money and predictability of outcome.

The above-mentioned constraints also provide important tools and incentives to promote sustainable urban development. The need for integrated urban development plans and the requirement of socio-economic and environmental impact studies prove to be important checks and balances.

The information gathered at the project level confirms that the above factors are played out in practice: all the case studies appear to have contributed to sustainable urban development. These projects are Glasgow Urban Renewal, the Bremen
Hemelingen tunnel, the Agenzia Torino, Helsinki Urban Renewal, Budapest VIII Renewal, Alicante Tramway and Brno Municipal Investment. The involvement of the EIB in these projects has been appreciated by stakeholders concerned. Furthermore, all projects were part of larger urban, integrated developments.

The EIB involvement in these projects has been largely positive. Across the projects investigated, the EIB is seen as a lender with a long term orientation and patient capital. EIB involvement facilitated larger ‘scale’ interventions and often supported ‘flagship’ projects which subsequently served as examples of good practice in other cities. In all countries studied, complementarity with other public and commercial lenders has been a feature.

Yet, it is important to recognise that the EIB is also a major player in other sectors, such as education, energy, environment, research and wider transport. Although not always acknowledged, investments in these other areas are also likely to have an impact on sustainable urban development – either positive or negative. Therefore, when further assessing the role of the EIB in sustainable urban development, it is important to take a broader view and include a larger part of the Bank’s portfolio.

While keeping this limitation in mind, it can be concluded that the EIB contributes to sustainable urban development both explicitly and implicitly within the sectors of urban renewal and urban transport across Europe.

### 6.9 Areas for further Research

In carrying out this research, it has become clear that the urban finance sector in Europe has a long way to go towards maturity. Literature on urban development rarely takes account of the importance of finance and conversely finance literature tends to take limited interest in urban development. Most urban finance literature is concerned with the national level and a European platform for discussion appears to be largely missing.

The following areas of research are deemed important for the further promotion of knowledge about financing investment in sustainable cities and communities in Europe:

1. **Common approaches towards assessing investment needs.** Not only across Europe, but also within individual Member States there is a lack of objective information about real investment needs and the criteria, methods and standards required for assessing these investment needs. As a consequence, the magnitude of the potential market for urban finance is not known, investment gaps not fully substantiated, and pipelines of possible projects not
objectively determined and prioritised. (Possible initiators: EC, EIB, Member States).

2. **Comparison of assessment methods across Europe.** Methods for measuring financial and economic returns, and assessing social and environmental impacts are not standardised across Europe. Despite the existence of some guidelines in this area (such as for Cost-Benefit Analysis), considerable progress can still be made. As a consequence, there is insufficient basis to compare different investment projects across countries – which hinders European and international players when it comes to making fully-informed investment decisions. (Possible initiators: EC, EIB, Member States).

3. **Monitoring markets for urban finance across Europe.** This study has provided a rudimentary analysis of the operation of capital markets for urban finance within 5 European countries. As these markets are swiftly changing, it would be important to monitor their developments. Furthermore, it would be important to extend the analysis to other Member States as well. (Possible initiators: EC, EIB, Member States).

4. **Monitoring the implementation of the JESSICA initiative.** Although not an explicit focus of this study, the preparation of the JESSICA initiative has been carried out in parallel. Based on the exchanges and the cross-fertilisation during its activities, the Expert Working Group would be well placed to monitor the implementation of the JESSICA initiative. (Possible initiators: EC, EIB, Member States).

5. **Analysis of EIB disbursement patterns.** Analysis of EIB lending patterns as presented in this report has been based on recordings of loan agreements (ex ante). As these agreements do not always materialise in practice, it would be important to complement this analysis by an assessment of EIB disbursement patterns (the necessary information is currently only available within the Bank). (Possible initiator: EIB)

6. **Positioning of various IFI’s in the area of urban finance.** Next to the EIB, several other International Financial Institutions are active in the area of urban finance – within Europe or beyond. The Council of Europe Bank (CEB) has been active in the area of social development notably, while the Worldbank has a global experience in urban finance. Although the EBRD is not active in the area of urban finance, it has built up a unique experience in institution building in a part of Europe that now includes the EU. A positioning exercise of the various IFI’s in the area of urban finance could be beneficial for all stakeholders involved, including its Member States. (Possible initiator: Member States).
7. **Extending the range of case studies about EIB lending in sustainable urban development.** This study had to restrict itself to a limited number of case studies. Although the geographic and thematic coverage of these projects has been quite balanced, it is likely that additional case studies about EIB lending in sustainable urban development would generate additional information. *(Possible initiator: Member States)*

8. **Exchange of best practices in urban finance.** Although much experience is specific to national and local contexts, it is nevertheless important to exchange best practices in urban finance across Europe. To this end, communities of practice could be established, taking into account the variety of projects (e.g. urban regeneration, urban transport, local level, city and metropolitan level, supra-regional and supra-national levels). *(Possible initiator: EC, EIB, national, regional and local governments through URBACT).*

9. **Best practices in urban finance outside Europe.** Given the state of play, it is important to recognise that much learning has taken place already in other parts of the world. Best practice studies, notably from North America and Asia, could inform the European debate. *(Possible initiator: OECD).*

10. **Creating and sharing benefits.** The ability to create value out of urban development projects is vital for sustainability; sharing these benefits among stakeholders is also important and the mechanisms and tools for putting them in place are not widely available. Despite several studies on value capture and benefit accrual, a basic understanding of these concepts is often not in place amongst key practitioners, and many opportunities appear to be lost in this area – with reduced feasibility of projects as a consequence. *(Possible initiator: Urban Land Institute, Europe section).*

11. **Assessing institutional capacities in urban finance.** A crucial finding of this study is that potential needs for urban investment are not readily translated into concrete demand. The response capacity of project promoters (in terms of governance and skills) appears to be a critical bottleneck – notably but not only in New Member States. This weakness results in the reduced feasibility of projects and/or their suboptimal implementation. A clear need exists for further assessment of these institutional capacities and a prioritisation of subsequent actions to address these shortcomings. *(Possible initiator: EC, EIB, Member States).*

12. **Promoting skills development in urban finance.** Following the above assessment, the promotion of skills development in urban finance could be supported, e.g. through exchange of practices, awareness raising, training
provision, etcetera. (Possible initiator: Academy of Skills for Sustainable Communities – ASC).
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Annex 2: Glossary

**appraisal fees**: amount charged for a professional opinion, usually written, of the market value of a property, such as a home, business, or other asset whose market price is not easily determined. Usually required when a property is sold, taxed, insured, or financed.

**asset management**: Asset management is often used to refer to the investment management (see below) of collective investments, whilst the more generic fund management may refer to all forms of institutional investment as well as investment management for private investors. Investment managers who specialize in advisory or discretionary management on behalf of (normally wealthy) private investors may often refer to their services as wealth management or portfolio management often within the context of so-called "private banking".

**basis point**: One hundredth of a percentage point (0.01%). Basis points are often used to measure changes in or differences between yields on fixed income securities, since these often change by very small amounts.

**beneficiary**: An individual, institution, trustee, or estate which receives, or may become eligible to receive, benefits under a will, insurance policy, retirement plan, annuity, trust, or other contract.

**bonds**: A debt instrument issued for a period of more than one year with the purpose of raising capital by borrowing. The government, states, cities, corporations, and many other types of institutions sell bonds. Generally, a bond is a promise to repay the principal along with interest (coupons) on a specified date (maturity).

**capital market**: A market where debt or equity securities are traded.

**cash flow**: A measure of a company's financial health. Equals cash receipts minus cash payments over a given period of time; or equivalently, net profit plus amounts charged off for depreciation, depletion, and amortisation.

**co-financier**: In financing a given commercial activity, one who makes a living participating in the financing in conjunction with one or more other financiers.

**commercial bank**: An institution which accepts deposits, makes business loans, and offers related services. Commercial banks also allow for a variety of deposit accounts, such as checking, savings, and time deposit. These institutions are run to make a profit and owned by a group of individuals, yet some may be members of the Federal Reserve System. While commercial banks offer services to individuals, they are primarily concerned with receiving deposits and lending to businesses.
condominium: A form of property ownership in which each owner holds title to his/her individual unit, plus a fractional interest in the common areas of the multi-unit project. Each owner pays taxes on his/her property, and is free to sell or lease it.

cooperative: A type of common property ownership, such as when the residents of a multi-unit housing complex own shares in the corporation that owns the property, rather than owning their own units. also called co-op.

cooperative bank: a bank specialised in the financing of cooperatives (see above).

credit line: An arrangement in which a bank or vendor extends a specified amount of unsecured credit to a specified borrower for a specified time period. also called line of credit.

credit rating: A published ranking, based on detailed financial analysis by a credit bureau, of one's financial history, specifically as it relates to one's ability to meet debt obligations. The highest rating is usually AAA, and the lowest is D. Lenders use this information to decide whether to approve a loan.

creditworthiness: A creditor's measure of an individual's or company's ability to meet debt obligations. A measure of credit rating (see above).

economic externalities: The side effect on an individual or entity due to the actions of another individual or entity. For example, the production of energy in a nuclear power plant benefits the owners of the power plant, but creates externalities in the form of radioactive waste for the environment and its inhabitants. These are then quantified in the form of economic externalities.

economic rate of return (ERR): An index of the socio-economic profitability of a project. It makes project benefits equal to present costs, i.e. Makes economic net present value equal to zero. It therefore factors in economic externalities (see above).

eligibility criteria: qualification requirements for insurance coverage or pension plan participation.

equity: Ownership interest in a corporation in the form of common stock or preferred stock. It also refers to total assets minus total liabilities, in which case it is also referred to as shareholder's equity or net worth or book value. In real estate, it is the difference between what a property is worth and what the owner owes against that property (i.e. the difference between the house value and the remaining mortgage or loan payments on a house). In the context of a futures trading account, it is the value of the securities in the account, assuming that the account is liquidated at the going price. In the context of a brokerage account, it is the net value of the account, i.e. the value of securities in the account less any margin requirements.

internal (or financial) rate of return (IRR): The rate of return that would make the present value of future cash flows plus the final market value of an investment or
business opportunity equal the current market price of the investment or opportunity. Also called dollar-weighted rate of return.

**framework loan:** Lines of credit earmarked for use by a number of future projects, including in some cases projects that are yet to be designed. In an urban finance context, these loans mesh with 3-year municipal programmes and ensure that money is readily available to the borrower when necessary by taking into account the city’s urban development plan.

**global loan:** Credit lines made available to banks, leasing companies or financial institutions, which lend-on the proceeds to small or medium-scale investment projects that meet the Bank’s criteria.

**grace periods:** The additional period of time a lender or insurance policy issuer provides for a borrower to make payment on a debt without penalty.

**guarantee:** To accept responsibility for an obligation if the entity with primary responsibility for the obligation does not meet it.

**individual loan:** In an EIB context, these are specific loans whereby borrowers can be both in the public and private sectors, including other banks. The loan amount is agreed directly with the EIB if the capital investment project exceeds € 25 million.

**interest:** The fee charged by a lender to a borrower for the use of borrowed money, usually expressed as an annual percentage of the principal; the rate is dependent upon the time value of money, the credit risk of the borrower, and the inflation rate. Here, interest per year divided by principal amount, expressed as a percentage also called interest rate.

**interest rates:** A rate which is charged or paid for the use of money. An interest rate is often expressed as an annual percentage of the principal. It is calculated by dividing the amount of interest by the amount of principal. Interest rates often change as a result of inflation and Federal Reserve policies. For example, if a lender (such as a bank) charges a customer $90 in a year on a loan of $1000, then the interest rate would be 90/1000 *100% = 9%.

**interest subsidies:** Financial aid given by the government to individuals or groups in the form of a reduced interest rate.

**Intermediary/Intermediate:** A third party who facilitates a deal between two other parties. Investment banks normally act as intermediaries between an issuer of a security and the investing public.

**investment banks:** An individual or institution which acts as an underwriter or agent for corporations and municipalities issuing securities. Most also maintain broker/dealer operations, maintain markets for previously issued securities, and offer advisory services to investors. Investment banks also have a large role in facilitating mergers.
and acquisitions, private equity placements and corporate restructuring. Unlike traditional banks, investment banks do not accept deposits from and provide loans to individuals.

investment criteria:

investment management: the professional management of various securities (shares, bonds etc) and other assets (e.g. real estate), to meet specified investment goals for the benefit of the investors. Investors may be institutions (insurance companies, pension funds, corporations etc.) or private investors (both directly via investment contracts and more commonly via collective investment schemes eg. mutual funds).

Investors: An individual who commits money to investment products with the expectation of financial returns. Generally, the primary concern of an investor is to minimize risk while maximising return, as opposed to a speculator, who is willing to accept a higher level of risk in the hopes of collecting higher-than-average profits.

lead financier: The commercial, investment or public bank or which has primary responsibility for organising a given credit or bond issuance. This bank will find other lending organizations or underwriters to create the syndicate, negotiate terms with the issuer, and assess market conditions. also called syndicate manager, lead manager, managing underwriter. A company’s principal provider of capital, such as the entity which originates and structures a syndicated deal.

leverage: The degree to which an investor or business is utilising borrowed money. Companies that are highly leveraged may be at risk of bankruptcy if they are unable to make payments on their debt; they may also be unable to find new lenders in the future. Leverage is not always bad, however; it can increase the shareholders’ return on their investment and often there are tax advantages associated with borrowing. Also called financial leverage.

maturity: The date on which a debt becomes due for payment. Also called maturity date.

mezzanine finance: Financing/debt that incorporates equity-based options, such as warrants, with a lower-priority debt. Mezzanine debt is actually closer to equity than debt, in that the debt is usually only of importance in the event of bankruptcy. Mezzanine debt is often used to finance acquisitions and buyouts, where it can be used to prioritize new owners ahead of existing owners in the event that a bankruptcy occurs.

mortgage: A loan to finance the purchase of real estate, usually with specified payment periods and interest rates. The borrower (mortgagor) gives the lender (mortgagee) a lien on the property as collateral for the loan.
**multi-borrower:** Body/organisation who receives something of value from a variety of financiers with the promise of giving something of (usually greater) value at some point in the future.

**partnership:** A type of unincorporated business organisation in which multiple individuals, called general partners, manage the business and are equally liable for its debts; other individuals called limited partners may invest but not be directly involved in management and are liable only to the extent of their investments. Unlike a limited liability company or a corporation, in a partnership the partners share equal responsibility for the company’s profits and losses, and its debts and liabilities. The partnership itself does not pay income taxes, but each partner has to report their share of business profits or losses on their individual tax return.

**pension funds:** Fund set up for a pension plan.

**public private partnership (PPP):** this is a system in which a government service or private business venture is funded and operated through a partnership of government and one or more private sector companies. these joint public and private sector efforts fall into three categories:

- the introduction of private sector ownership into state-owned businesses, using the full range of possible structures (whether by flotation or the introduction of a strategic partner), with sales of either a majority or a minority stake;
- the Private Finance Initiative (PFI, see below) and other arrangements where the public sector contracts to purchase quality services on a long-term basis so as to take advantage of private sector management skills incentivised by having private finance at risk. This includes concessions and franchises, where a private sector partner takes on the responsibility for providing a public service, including maintaining, enhancing or constructing the necessary infrastructure; and
- selling Government services into wider markets and other partnership arrangements where private sector expertise and finance are used to exploit the commercial potential of Government assets.

**principal:** capital as contrasted with the income derived from it. The amount borrowed, or the part of the amount borrowed which remains unpaid (excluding interest). Often also called principal amount.

**private finance initiative (PFI):** this is a type of PPP (see below) initiative whereby the public and private sectors enter a contract which shares between them the risk of undertaking an investment project, typically to provide a major capital asset for the public services such as a school or a hospital and related support services like repairs and maintenance. The public sector retains some of the risks it would bear in a conventionally procured project, like demand risk or the risk that it has not adequately assessed its requirements, but transfers the remainder to the private sector. Furthermore, the public sector underwrites the public service, but not the private sector service provider, ensuring that safeguards are in place in event of failures in the private sector. The private sector takes on those risks it is best able to manage, like design, construction and maintenance risks, so that it is better incentivised to
perform. The financial cap to the risk assumed by the private sector is the full value of the debt and equity it provides to a project.

**privatisation:** The repurchasing of all of a company's outstanding stock by employees or a private investor. As a result of such an initiative, the company stops being publicly traded. Sometimes, the company might have to take on significant debt to finance the change in ownership structure. Companies might want to go private in order to restructure their businesses (when they feel that the process might affect their stock prices poorly in the short run). They might also want to go private to avoid the expense and regulations associated with remaining listed on a stock exchange. also called going private opposite of going public.

**promoter/originator:** The first investment bank or other financial institution to promote a proposed new securities issue; often becomes the lead underwriter for that offering.

**property developers:** organisation that makes improvements of some kind to real property, thereby increasing its value. The developer may be an individual, but is more often a partnership, limited liability company or corporation.

**public grants:** Public funding for a nonprofit organisation, usually for a specific project.

**quasi-public body:** Privately operated corporation with some sort of government backing, and specifically mandated responsibilities that are stated in the corporation's legal charter. Though quasi-public corporations can usually issue stocks publicly, their primary responsibility is always to carry out their designated mandates, and creating shareholder value is a secondary objective.

**reserves:** In asset-based lending, the difference between the value of the collateral and the amount lent. Also, funds set aside for emergencies or other future needs. In an auction, the minimum amount a seller is willing to sell at, known to the auction house but not the bidders. From the point of view of financial statements, reserves are provided as an estimate of liabilities that have a good probability of arising, such as bad debt reserve attempts to estimate what percentage of the firm's creditors will not pay (based on previous records and practical experience). Reserves are always a subjective estimate (since they reflect contingent liabilities).

**risk sharing finance facility (RSFF):** Financial product that aims to improve access to the EIB debt finance for participants of large scale European R&D projects. It consists of a contribution from the European 7th Research Framework Programme to the European Investment Bank.

**savings banks securities:** An investment instrument, other than an insurance policy or fixed annuity, issued by a corporation, government, or other organization which offers evidence of debt or equity.
structural funds: Funds that allow the European Union to grant financial assistance to resolve structural economic and social problems (for further info visit http://ec.europa.eu/regional_policy/funds/prord/sf_en.htm)

structured finance facility (SFF): financial service established by the EIB in order to match the types of funding to the requirements of projects with a high-risk profile and to pursue its equity financing and guarantee operations in favour of large-scale infrastructure schemes. It provides a broad mix of financial products:
  • senior loans and guarantees incorporating pre-completion and early operational risk;
  • subordinated loans and guarantees ranking ahead of shareholder subordinated debt;
  • mezzanine finance, including high-yield debt for industrial companies in transition from SME scale or in the course of restructuring;
  • project-related derivatives.

The aim of the SFF is to furnish value added for priority projects by complementing the commercial banks and capital markets. From the year 2000, these facilities are managed by the European Investment Fund.

subsidies: Financial aid given by the government to individuals or groups.

tax exemption: A direct reduction taken from taxable income for a specific reason, as allowed by the IRS.

transaction costs: Costs incurred when buying or selling assets, such as commissions and the spread.

wholesale banking: Banking services for financial institutions.
Annex 3: List of Investment Areas for Cities

The European Commission has recently taken stock on the areas in which European cities need to invest. The following current issues and challenges have been delineated:

- problems of social exclusion
- deterioration of the environment
- wastelands and urban sprawl
- spatial inequalities (between neighbourhoods) or social inequalities (between different groups)
- Over-representation of highly qualified people
- Over-representation of people with very low skills and levels of qualifications
- Booming cities have to solve the problems caused by population growth, increase in property prices, lack of available land, traffic congestion, and overstretched public services
- Declining cities suffer from population loss, dereliction, too few jobs or low quality of life.
- Re-location of industries, competing for new knowledge based businesses

These current issues and challenges require investment in at least seven different areas:

2. **Mobility**
   - **Environment**: Improve the affordability, efficiency and effectiveness of public transport, as well as linking the different transport modes. In addition, promotion of the use of cycling, walking and other alternative and “soft” forms of transport through demand management, regulated access to or even the pedestrianisation of the city’s sensitive zones; the construction of cycle and pedestrian paths; encouragement of energy efficient vehicles and alternative transport fuels.
   - **Social**: Ensure autonomy for all people without reliance of private car, for example older people, young people and those with mobility impairments to ensure access to jobs and services including healthcare, shopping.
   - **Safe**: Increase safety feeling in public transport for employees and users.
   - **Economic Development**: Cities in peripheral locations need good links to major airports and to the major axes of the Trans-European Transport Networks (TENs) (priority in new Member States).

8. **Access to service facilities**
   - **Adapt Public Services**: Invest in modern, efficient and affordable services with easy online access including healthcare, social services, training and public administration. Use new technology to improve these services and adapt to current and future demographic changes, especially the aging population. Improve the efficiency of the administration with one-stop desk and regrouping different services.
   - **Economic Development**: Provision of childcare to increase participation in the labour market and gender equality.
   - **Social Aspect**: Ensure that citizens from deprived areas have access to services. Moreover, certain groups may need help in accessing healthcare and social services. Immigrant and disadvantaged populations may suffer from particular health and social service problems. They may also face barriers in accessing these services.

9. **Natural and physical environment**
   - **Conversion**: Rehabilitation of derelict brownfield sites and renovation of public spaces, avoiding the use of greenfield sites.
   - **Urban sprawl**: Co-ordination of land use policies and Structural and Cohesion Fund investments between urban areas, rural areas, the region and the national level to manage urban sprawl.
   - **City Centres**: Initiatives to make urban areas and city centres attractive places to live.
**Environment:** Investments to achieve compliance with EU laws on air quality, waste-water treatment, waste management, water supply and environmental noise. Active management of congestion, transport demand and public transport networks, with a view to improving air quality, reducing noise and encouraging physical activity (6th environmental framework programme).

**Decouple economic growth and energy use:** Effective energy use in urban areas. Investments and economical management of energy resources. Promotion of energy efficiency and renewable energies.

### 10. Culture

**Identities:** Promote a vibrant culture, based on the availability of facilities such as cultural and scientific centres, historic quarters, museums, libraries and the preservation of the architectural and cultural heritage. Cultural activities make the city more attractive to citizens, businesses, workers (especially mobile and highly qualified workers) and visitors, and strengthens the image of the city, local pride and identity. Moreover, cultural tourism is in itself a rapidly growing industry.

**Immigration:** Cultural policy as a tool for building bridges between communities and fostering the integration of immigrants and other newcomers to the city.

### 11. Attract new businesses

**Improve Economic infrastructure:** This includes transport and accessibility to be integrated with regeneration and renewal of buildings, business parks and incubators, commercial centres.

**Provide Consulting Services:** Providing advice and support services to business, including social enterprises including assistance in the adoption and efficient use of new technologies, science parks, ICT communication centres and incubators. It also includes support and coaching in the areas of management, marketing, technical support, recruitment, and other professional and commercial services.

**Establish Networks:** Promotion of systems of cooperation between local partners including business, trade unions, universities, NGOs, training institutes and the local community. New mechanisms for sharing knowledge and experience are helped by the existence of support networks. Organising workshops, networks and exhibitions is a good way of helping potential partners meet.

**Invest in Disadvantaged Groups:** Access to finance can be a particular issue in deprived areas and specific groups including ethnic minorities, young people and female entrepreneurs. Public authorities and NGOs can play the role of facilitators, for example by guaranteeing the quality of projects.

**Improve Attractiveness:** Attract and retain knowledge workers by increasing the attractiveness in terms of transport, services, environment and culture.

**Coordinated strategy:** Cities should take a leading role in preparing an innovation strategy for the broader region and establish partnerships and clusters of excellence with universities and other institutions of higher education, creating business incubators, joint ventures and science parks.

**Target Education:** Cities should work to make regional RTD innovation and education supply more efficient and accessible to local firms, in particular SMEs and social enterprises.

**Democratize the information society:** Tackle the digital divide, in line with the objectives of the new i2010 initiative (in e-Government, e-Business, e-Learning, digital literacy, e-inclusion and e-accessibility) as well as with regional and national information society strategies.

**Environment as Driver of the Economy:** Cities should support early adoption of eco-innovations and environmental management systems. Build a leading position in a future growth sector.

### 12. Tackle disparities

**Promoting social inclusion and equal opportunities:** Actions for breaking-up of patterns of segregation and the integration of migrants, including language and more general training. Inclusion of immigrant women in training actions is one of the keys to successful integration.
- Measures to raise women's skills and qualifications, facilitating their return to the labour market after periods of absence, supporting single mothers and other women (including those from ethnic minorities) facing labour market obstacles, and also giving the opportunity to obtain knowledge and qualifications regarding entrepreneurship and self-employment.

- **Education**: Cities can support education and training in many ways, such as supporting the development of coherent and comprehensive lifelong learning strategies, a better recognition and valorisation of non-formal and informal education, investing in attractive, accessible and high quality training provision at various levels, supporting the modernisation of systems (including modular and scalable ICT training and eLearning schemes), promoting the quality and attractiveness of vocational training, and improving investment in the learning infrastructure.

- **Target Education**: Local authorities need to offer 'finely tuned' training and integration programmes, which offer routes back into employment, as well as entrepreneurship. The long-term unemployed require specific support. Comprehensive 're-engagement' packages are needed, covering work experience, training and confidence building with flexible arrangements for on the job training with local employers.

13. **Increase security**

- **Better planning**: Improving the planning, design and maintenance of public spaces to "plan out" crime, helping to create attractive streets, parks and open spaces which are safe and feel safe. Such planning requires quality information and statistics (including victimization surveys) to enable better targeting of policy.

- **Youth Work**: Focus on "youth at risk". Catch young would-be criminals at an early stage in their "career". Offer vocational training opportunities.

- **Invest in safety**: Creation and "professionalisation" of local safety-related jobs, co-operation between security services, involvement of local residents in a meaningful and sustainable way. This includes the creation of local mediators, community safety officers and street wardens who have emerged as key figures in tackling local crime in many cities. Improved and recognized training is a key here. It also includes neighbourhood watch schemes and projects to bring the police closer to local communities.

Annex 4: Methodological note on EIB Lending Patterns

The purpose of the data collection on EIB Lending patterns has been to analyze the development of EIB loans for urban renewal and urban transport projects in EU-27 from 2000 until today. Loans are classified according to the region, the sector and its eligibility. Use has been made of official EIB sources, notably the Annual Reports and the EIB website. There are 11 different sectors listed on the EIB website:

- Energy
- Transports
- Telecom
- Water, sewerage
- Urban Infrastructure
- Composite infrastructure
- Industry
- Services
- Health & Education
- Farming, fisheries, forestry
- Global Loans

Loans are also listed according to its eligibility:

- Economic and social cohesion
- Transport projects of common interest
- Energy projects of common interest
- Environmental protection and improvement
- Innovation 2010 Initiative (i2i)
- Human capital

Every loan is assigned to one sector and may pursue many objectives. The loans included in our analysis were taken from the EIB website under Loans activity, Region, Country, Sector, and was limited to the years 2000 until and including November 2006. Contrary to expectations, loans taken out for urban renewal and urban transport have not been assigned consistently to one sector. Hence, all loans were assessed individually and following observations have been made:

Loans for urban transport is mostly assigned to “Transport”, sometimes to “Urban Infrastructure”, very few times as “Composite infrastructure”.

- Urban renewal loans are mostly found in “Urban Infrastructure” but also in “Composite Infrastructure”, especially in Italy and most recently in Spain.
- Loans for instance to upgrade buildings of universities (which have not been included) are randomly found in either “Urban Infrastructure”, Health & Education”, or “Services”.
- Transport projects with a more regional character were not included i.e. loans to upgrade regional road infrastructure, airports, railway lines, etc.
• All Global Loans for “Financing small and medium-scale infrastructure schemes were taken into account. A more detailed classification is not available and sometimes a description was missing completely. Hence, some inaccuracy may result from it.
• Loans to create industrial parks, classified under urban infrastructure, were excluded.
• Loans for investment in a Ringroad-Highway were only included if it was directly related to improvement of the urban transport system.
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### OVERVIEW OF EIB LOANS IN URBAN DEVELOPMENT OVER THE PERIOD 2000-2006 IN MILLION EUROS

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**This programme includes investment for urban renewal and urban transport measures. The total investment was split in equal proportions into both categories.**

| Latvia                    |      |      |      |      |      |      |      |         |                  |
| No projects               |      |      |      |      |      |      |      |         |                  |

| Lithuania                 |      |      |      |      |      |      |      |         |                  |
| No projects               |      |      |      |      |      |      |      |         |                  |

| Luxembourg                |      |      |      |      |      |      |      |         |                  |
| Urban Renewal             |      |      |      |      |      |      |      |         |                  |
| EU Court of Justice       | 0    | 0    | 0    | 184  | 0    | 0    | 0    | 184     | 26               |
| **Total**                 | 0    | 0    | 0    | 184  | 0    | 0    | 0    | 184     | 26               |

| Malta                     |      |      |      |      |      |      |      |         |                  |
| No projects               |      |      |      |      |      |      |      |         |                  |

| Netherlands              |      |      |      |      |      |      |      |         |                  |
| Urban Infrastructure (Global Loans) | 0 | 0 | 0 | 100 | 0 | 0 | 100 | 14 |
| **Total**                 | 0    | 0    | 0    | 100  | 0    | 0    | 100  | 14     |                  |

**Note:** The figures represent the total investment in urban development projects over the period 2000-2006, measured in million euros. The data includes various loans and investments, categorized by specific projects and loan types. The average per year is calculated based on the total investment over the period.
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**Notes:**

- The programme includes investment for urban renewal and urban transport measures.
- The total investment was split in equal proportions into:

**Sweden**

- **Urban Renewal**
- **Urban Transport**
- **Urban Infrastructure (Global Loans)**

**Spain**

- **Urban Renewal**
- **Urban Transport**
- **Urban Infrastructure (Global Loans)**

---

**Average Yearly**

**Sweden**

- **Urban Renewal**
- **Urban Transport**
- **Urban Infrastructure (Global Loans)**

**Spain**

- **Urban Renewal**
- **Urban Transport**
- **Urban Infrastructure (Global Loans)**
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<th>2002</th>
<th>2003</th>
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