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The EIB's role in financing sustainable urban transport projects

The European Investment Bank was created in 1958 by the Treaty of Rome to finance projects supporting the economic and social priorities of the European Union. Currently these priorities are: economic and social cohesion and convergence in the enlarged Union; the implementation of the knowledge economy; the development of trans-European networks (TENs); support for SMEs in the enlarged Union; protecting and improving the environment and promoting sustainable communities; and supporting sustainable, competitive and secure energy. Outside the Union, EIB lending is governed by a series of mandates from the European Union promoting EU development and cooperation policies in partner countries.





To qualify for financial support from the EIB, any project needs to be proven to be sustainable from both the environmental and economic standpoints. This is typically the case with investments enhancing public transport networks. By promoting a shift from private to public transport and seeking to reduce congestion, such projects not only aim to improve air quality and decrease noise nuisance, but also help to tackle climate change by enhancing energy efficiency and limiting greenhouse gas (GHG) emissions. In short, they contribute to improving the quality of life. In this sense, EIB financing for sustainable urban transport supports European Union transport, environmental and energy policies.

Urban transport projects are, however, not environmentally neutral themselves, and a major feature of the Bank's appraisal process is to check that the net environmental impact of every project is acceptable and that suitable mitigation and compensating measures are properly identified.

The EIB in the public urban transport sector

In 2008, the EIB lent EUR 57.6 billion for capital investment projects, over 89% of which was in the European Union and the remainder in partner countries. Urban transport accounted for EUR 2.8 billion, about a fifth of EIB direct lending in the transport sector as a whole and 6% of total individual loans. Although the loan volume going to urban transport varies annually and according to country and EIB lending is based more on demand than on quotas, this proportion has remained similar over the last five years. Consequently, it is rare to come across a high-quality metro or light rail project in the European Union that has not received funding from the EIB.

Between 2004 and 2008, EIB support for the urban transport sector amounted to over EUR 14 billion of direct financing. Some 69 urban transport projects

Case Study: Metro de Barcelona – Línea 9

The project consists of the construction of a new metro line ("Línea 9", 49 km in total length and 53 stations), forming part of the underground network in the city of Barcelona and interconnecting five municipalities in the surrounding metropolitan area. Línea 9 is the centrepiece of the city's public transportation development strategy, whose objective is to create an efficient, high-capacity, public transport infrastructure to serve the increasing demand from suburban locations. It will also significantly improve the links between Barcelona's international airport and the city centre and will be connected twice with the Madrid – Barcelona – France high-speed rail link.

There is always an element of uncertainty when it comes to boring underground tunnels. In order to minimise problems, the promoter decided to develop a model to control in real time the progress of the shield-tunnelling machines. Moreover, the Bank asked for an exhaustive analysis to be carried out, taking into consideration in a structured manner, all risks that could affect the project and focusing in particular on the potential negative social impact. It was thus felt necessary to quantify the costs arising from the need to deploy non-conventional preventive measures, in order to reduce the risk of ground movement. The Bank considers this to be the most appropriate approach and, even though the capital cost of the project has increased the importance of the project and its context justify the assumption of the extra costs, which will have the advantage of significantly reducing the level of construction risk and preventing undesirable delays in implementation (the project is expected to be completed by 2014).



were financed, of which 61 were located in the EU. These included the construction, extension or rehabilitation of public transport infrastructure (metro, light rail or tramway systems) and the acquisition of rolling stock in capital cities (London, Athens, Madrid, Sofia and Belgrade, for example) and other major towns (Barcelona, Valencia, Malaga, Marseille, Florence, Gdansk, Istanbul, etc.).

In the five-year period between 2004 and 2008, most of the Bank's lending for public transport went to Spain: EUR 4.8 billion (34%), with the construction of new metro lines in Madrid, Barcelona and Seville taking up the lion's share. Urban transport projects in France accounted for over EUR 2.3 billion (17%), for projects such as the extension of the Toulouse metro or the construction of new tramway lines in Paris, Nice, Le Mans, Toulon or Clermont-Ferrand, and EUR 500 million went on a programme supporting local authorities investing in sustainable urban transport. Loans in the United Kingdom came to

EUR 1.3 billion (9%), of which over EUR 650 million went on the construction and operation of the East London Line.

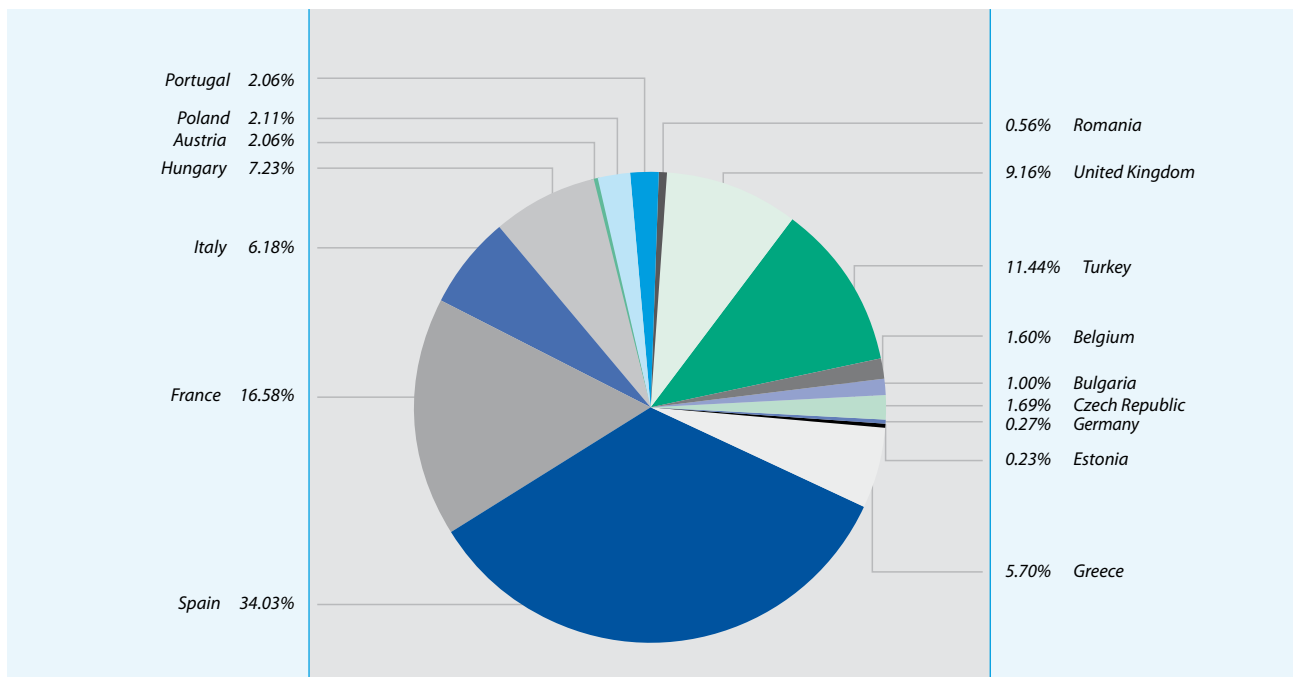
Outside the EU, where EIB lending for public urban transport totalled EUR 1.6 billion over the last five years, the Bank has played a significant role in financing urban mass transit in cities such as Istanbul, Bursa and Antalya in Turkey.

Financing urban public transportation

A major challenge for the EIB's involvement in public transport is to support solutions that strike a balance between the growing demand for mobility and the quality of the urban environment. Particularly in the new Member States and the Pre-accession countries, this entails limits on the indiscriminate proliferation of new infrastructure and leads to the implementation of rational long-term planning processes.



2004-2008 – EIB individual loans in the urban transport sector: EUR 13.6 billion





Unfortunately, urban public transport projects are only rarely financially self-supporting and usually face substantial operating deficits. Typically, tariffs have to be at acceptable levels, because mobility is considered a common good and public transport is used as a tool for income redistribution. Nevertheless, even if the financial rate of return is negative, the project may still show a robust economic rate of return and meet the EIB's requirements.

To meet their financing needs, both for new investment and to cover operating deficits, most cities use a comparatively discretionary contribution from central, regional and municipal governments. However, there is a growing need for new approaches to mobilising the required financial resources, not only to ensure a quality service, but also to increase the supply of services to meet changing societal needs. Here the EIB can play an important role.

Appraising projects with a view to financing them

As part of the appraisal of public transport investment plans, the EIB considers the structuring and general coordination of the operation from a financial point of view. If needed, it will provide technical assistance to the project promoter to ensure that the operation is feasible and fundable. This requires carrying out a detailed analysis of the risks associated with the various phases of the project (design, procurement, construction and operation).

To that end, the EIB will consider the various stakeholders involved in the operation, the potential risks and ways of minimising those risks.

Against this backdrop, the EIB conducts a thorough analysis of each project, and its technical experts prepare an appraisal report that includes:

- the justification for EIB funding (EU policy objectives served);
- additional favourable factors (e.g. the innovative nature of the investment);
- the key risks;
- recommendations to the borrower, miscellaneous comments, service life;
- the general terms and conditions applicable to the loan and its disbursement;
- supervision of the contract by the EIB (type, content and frequency of reporting);
- a general assessment of the environmental as well as social impact on the people who will be affected.

To sum up, before a decision is taken to finance a project, the EIB has to establish that the project is viable from an economic, financial, technical and environmental point of view. A promoter interested in obtaining a loan from the Bank will therefore have to prepare adequate documentation that allows the Bank to analyse the various project-related issues. In addition, the EIB always carries out an on-site visit

with the promoter in order to ensure that the project appraisal is as objective and comprehensive as possible.

Funding urban public transport projects through public-private partnerships at the EIB

The number of projects funded through public-private partnerships (PPPs) is constantly increasing. The vast majority of the EIB's PPP lending is in the transport sector, including urban transport. EIB support for urban transport PPPs between 2004 and 2008 amounted to EUR 3.5 billion.

The main attraction of PPPs lies in the increased efficiency and effectiveness achieved by sharing a project's risks. Risks should be shouldered by those best able to manage them: the construction and operational risks are borne by the private enterprise, while public authorities

take on the responsibility for establishing and maintaining a balanced legal and economic framework throughout the life of the project. In addition, PPPs enable public authorities to create public service infrastructure, while staggering the burden of their investment over time and, in certain cases, allowing off-balance sheet commitments.

Successful PPPs involve a close partnership between the parties involved, while keeping a constant eye on the final customer. The public authorities and the private concession-holder must have a clear grasp of the project's scope, both in terms of its purpose (public service) and its duration (long-term). Given all of these factors, the EIB normally analyses public transport PPPs in two distinct stages. Firstly, during the preparation of the bidding specifications, the Bank assists the developer with the financial organisation of the invitation to tender. Secondly, it validates the viability of the operation once the concession-holder

has been selected and provides the necessary finance.

The Bank works in close cooperation with all the main players: the European institutions, public authorities and the private sector. To meet this challenge, the EIB has a dedicated inter-directorate unit for giving advice and transferring know-how on the structuring of PPPs. In addition, alongside national and regional PPP authorities and the European Commission, the EIB is an active participant in the recently created European PPP Expertise Centre (EPEC), which will facilitate the sharing of experience among public sector PPP authorities within Europe and provide practical PPP implementation assistance. The EIB is committed to a partnership with all the stakeholders involved in urban public transport projects, whether PPPs or more conventional structures. It makes sure that its considerable financial resources are used in the best possible way to enhance the quality of life of Europe's citizens.





EIB support for the Covenant of Mayors initiative

The European Investment Bank has agreed to support the Covenant of Mayors initiative, contributing to its development and towards financing the necessary investments in energy efficiency and renewables technologies to make cities greener.

A number of EIB financial instruments can be applied to support this initiative, including:

- individual loans to finance large projects (or groups of projects promoted/implemented by the same entity);
- instruments to finance small-scale investments in collaboration with the local banking sector;
- a combination of grants and loans, when subsidies are available and needed to overcome important barriers.

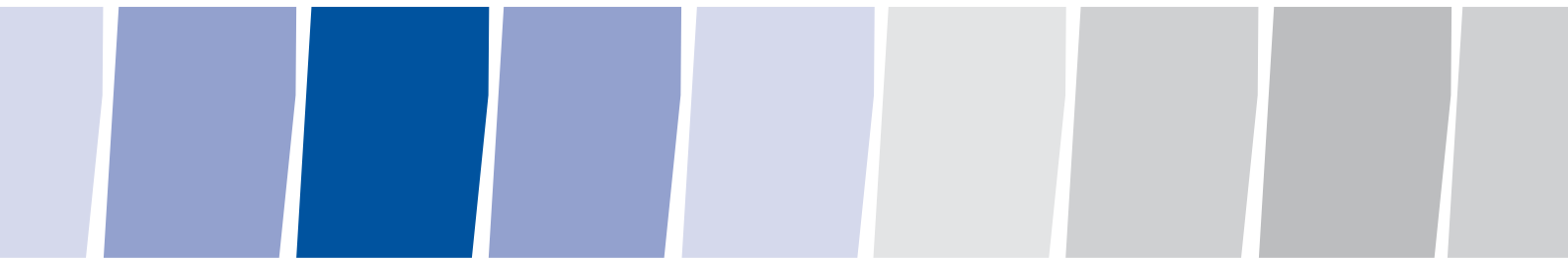
In sectoral terms, the main focus at this stage is on energy efficiency and renewable energy in public buildings, social housing, street lighting and urban transport (for example, energy-efficient buses). Energy Service Companies (ESCOs) are expected to play a substantial role in implementing investments in these areas.

In this context, the Bank has recently established a Clean Bus Framework Finance Facility (CBFF) to provide advantageous long-term financing to urban transport operators replacing or expanding their bus fleets with new vehicles that exceed existing environmental requirements, especially buses that run on alternative fuels, hybrids or buses that use other clean technologies.

The EIB is working with the European Commission to set up a grant facility to support the preparation of projects. This facility would be available to cities or groups of cities that have specific, sufficiently large investment programmes to implement the objectives of the Covenant. Project proposals would normally be considered for investment programmes of EUR 100m or more; however, proposals involving smaller amounts may also be considered.

These advisory services could cover measures aimed at enhancing local capacity for project development, including the preparation of the tendering process. The goal is to support the development of projects presenting innovative solutions or that will serve as a demonstration to others. These advisory services should result in the implementation of investments directly related to the objectives of action plans prepared under the Covenant of Mayors.

Cities or groups of cities are invited to contact the EIB for a preliminary discussion on their investment plans (contact: covenant.of.mayors@eib.org).



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