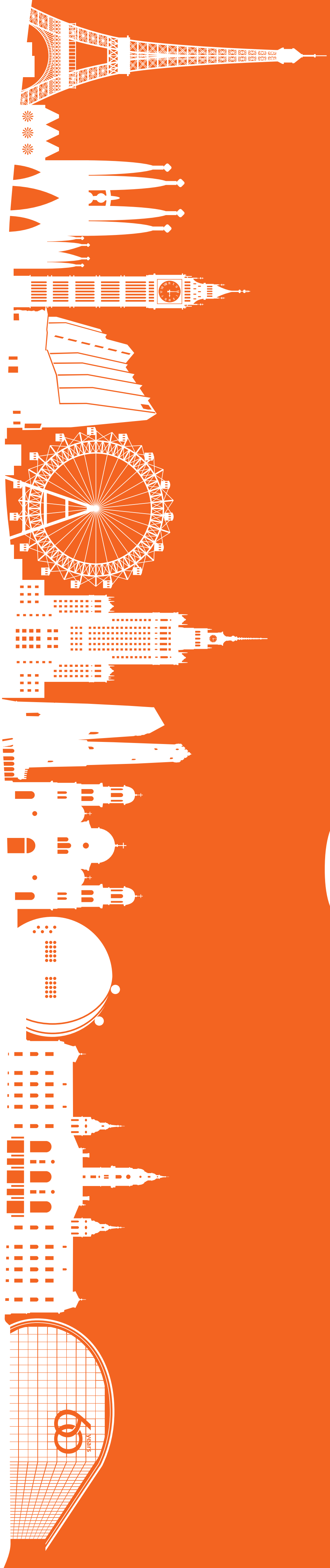

City, transformed

The EIB in the city

Investment on the agenda

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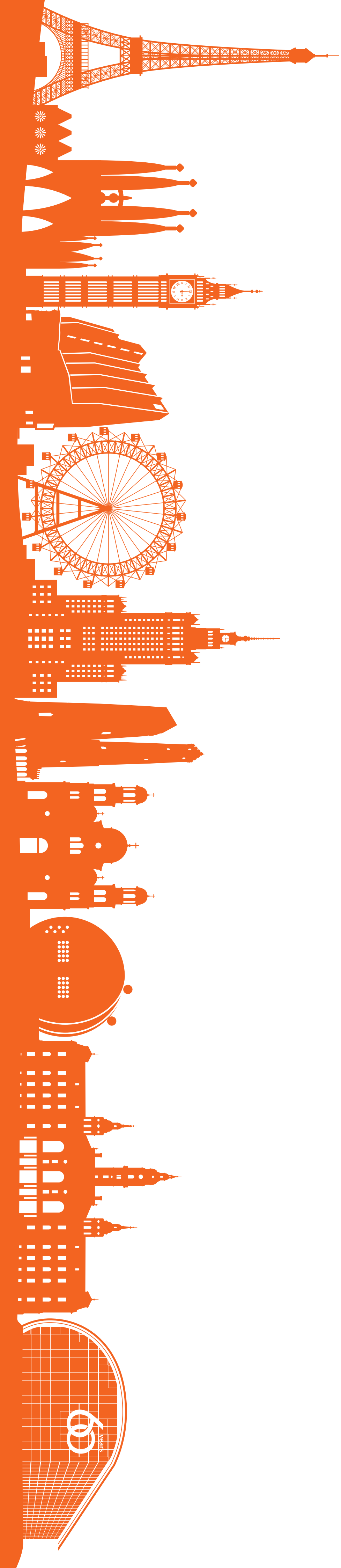
European Investment Bank
The EU bank



The EIB in the city

Investment on the agenda

By Prof. Greg Clark,
Dr. Tim Moonen
and Jake Nunley

The EIB in the city: Investment on the agenda

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“City, transformed” has shown how Europe’s cities have developed over the last 50 years. The European Investment Bank has adapted alongside them, building a greater, more focused role in urban development that takes it into truly innovative areas. Future cities need to face up to challenges in climate, productivity, knowledge, social mobility and resilience. Here’s how the EU bank is setting up to be a partner on that path.

Introduction

Europe’s cities are key hubs of employment, trade and population. They also host much of the innovative advantage of the European Union’s Member States, in the knowledge economy, climate change action and social cohesion. Unlocking potential and progress in Europe’s cities requires investment. Investment enables cities to re-calibrate towards new requirements. For more than 50 years, as the EU’s main long-term financing arm, the European Investment Bank has been an indispensable investor in the urban revival of Europe’s cities. In the last three decades especially, the Bank has established itself as Europe’s largest investor in urban road, metro, housing and power projects. These coincided with and contributed to a long, successful and somewhat unanticipated process of re-urbanisation, urban growth and urban success across Europe.

The EIB’s long-standing remit has been to broaden the financing base for infrastructure investment, energy, technology, enterprise and urban development in the public interest, and to provide more depth and capacity to the financial services sector where it serves these aims. The EIB’s evolving role in urban investment since the mid-1980s is shaped and informed by agreements and principles established during successive EU Presidencies (e.g. Amsterdam 1997, Lille 2000, Bristol 2005, Leipzig 2007, Toledo 2010), culminating in the adoption of an Urban Agenda for the EU through the Pact of Amsterdam in 2016. As more attention has been drawn to particular urban development challenges and the need for a multi-level governance approach to address them, the EIB’s financial and advisory toolkit has expanded and matured. The Bank has had a substantive impact, providing different kinds of cities (small, large, growing or shrinking) with the capital they need to transform, better serve their citizens, and, address new issues.

The EIB’s approach to cities has unfolded in five broad cycles:

1. Cycle 1 (1988-1996): the first EU urban pilot projects and EIB loans focused on urban heritage, environmental improvements, and inter-city transport.
2. Cycle 2 (1997-2000): the emergence of integrated urban development programmes that utilised new EIB framework loans to deliver combined projects including housing renewal and broad-based urban infrastructure.
3. Cycle 3 (2001-2006): the increase in capital provision and technical assistance for new Member States to support EU enlargement, and the emergence of advisory services such as Joint Assistance to Support Projects in European Regions, known as JASPERS.
4. Cycle 4 (2007-2013): the rise of a sustainable cities agenda, the diversification of the EIB’s toolkit of financial instruments, and the post-crisis imperative to support economic transition.
5. Cycle 5 (2014-2020): increased momentum to serve a comprehensive urban agenda, enabled by an expansion of EIB financial tools.

Over these cycles, three main changes have taken place. Firstly, EIB investment has become less sectoral, with an increasing focus on integrated urban development. Secondly, as EU policy focused more explicitly on cities, so too has the Bank's investment activity. Finally, financial tools have become more diverse. The range of instruments has increased from investment and framework loans to cover urban development funds, equity investment funds, and, increasingly, intermediated loans and guarantee arrangements. Over these cycles, the EIB's role in technical assistance and advisory functions has grown steadily. It has become a knowledge bank for cities, as well as a financial institution.

Summary table

Dates	EU policy development	EIB approach to cities	EIB instruments for cities	Illustrative cities
1988-1996	Urban pilot projects	Heritage investment Urban environment	Investment loans	Cardiff, Cologne, Dublin, Lyon, Madrid, Lisbon
1997-2000	EU Council Amsterdam Amsterdam Special Action Programme	Integrated urban development First housing loans	Investment loans Framework loans	Amsterdam, Bologna, Berlin, Milan, Rome, Thessaloniki
2001-2006	EU enlargement (10)	Increase in technical assistance for new and accession Member States Affordable housing Housing renewal	Investment loans Framework loans JASPERS	London, Warsaw, Katowice, Hamburg
2007-2013	Leipzig Charter Treaty of Lisbon Europe 2020 Strategy EU enlargement (2)	Sustainable communities Knowledge economy Innovation and SMEs	Investment loans Framework loans Structural programme loans JASPERS JESSICA/UDFs ELENA	Manchester, Aarhus, Bratislava, Valetta, Szczecin, Stockholm
2014-2020	Juncker Plan (2015) EU Urban Agenda (2015/6) Pact of Amsterdam (2016)	Infrastructure investment EIB urban lending review Green cities Smart cities Inclusive cities	Investment loans Framework loans Brownfield funds Urban development funds Structural programme loans JASPERS JESSICA/UDFs ELENA FELICITY NCFF Cleaner Transport Facility ESFI URBIS Urban Toolbox Smart Cities Framework ARRU small cities programme, Tunisia	Athens, Rouen, Sofia, Wałbrzych, Zenata

1. The first cycle: early urban environment efforts (1988-1996)

Prior to 1988, the EIB only financed infrastructure components of urban development projects in the less-developed EU regions. This is because the eligibility criterion used for the early loans was regional development and, therefore, the Bank only financed projects located in designated regional development areas. Outside these areas, urban development was seldom financed, although other criteria, such as the environment or rational use of energy, were applied to finance building rehabilitation.

The EIB made the environment one of its priorities in 1984. At the end of the 1980s, the Bank began to concentrate its efforts on the urban environment. This was especially welcome, as many European cities had been negatively affected by deindustrialisation, the deterioration of living conditions in city centres, large vacant industrial sites, and the sprawl of poorly equipped suburbs.

The Bank extended the eligibility criteria 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 European Community. 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 disparities within large conurbations. These objectives had to conform to the overall goal of making efficient use of scarce resources. In this way, it came to be 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.

At this time, the most important EIB financing tool available to cities and regions was the traditional investment loan, provided as a long-term loan to the private and public sectors. Investment loans were direct loans for a specific investment project or programme, with all investment components identified and appraised up-front. As a result, the main investments in cities in this period were for single items, often visitor economy infrastructure – for example upgrades to the Cologne Trade Fair, Dublin Castle, Cardiff Trade Centre and Dublin Temple Bar. In general, though, the vast majority of EIB urban investments continued to be in transport infrastructure.

Although the overall volumes of urban lending were modest by comparison with today, the EIB's approach to integrated urban development continues to be derived in part from the initial lending criteria for heritage-related investments first endorsed in 1988.

2. The second cycle: expanding the scope and scale of investment in cities (1997-2000)

A step change in the EIB's momentum for investment in cities occurred in 1997 with the **European Council of Amsterdam** on growth and employment. The Council drew particular attention to the challenge of urban renewal and resolved to widen eligibility beyond the initial lending criteria for heritage-related investments endorsed in 1988 to a broader "urban environment" concept. Its resolution called on the EIB to step up lending for investment to help job creation. The subsequent **Amsterdam Special Action Programme** resulted in a widening and deepening of EIB action, from transport and heritage into strategic areas such as efficient infrastructure, SMEs, education, healthcare and housing investment in well-defined urban renewal schemes. This in turn led to the formal adoption of the urban sector as a key area for EIB involvement and to the establishment of an urban division within the Bank's Projects Directorate.

The main elements of the EIB's special action programme consisted of:

- A **special window for new instruments** to help finance technology-related and high-growth SMEs by recourse to the EIB's surpluses. The Bank's Governors agreed that the EIB would commit up to a total of €1 billion of its surpluses over three years to support such initiatives, and the EIB also developed new financing schemes under which SMEs could benefit from risk-sharing or subordinated finance and venture capital facilities. A European Technology Facility was immediately launched with a budget of €125 million to provide venture and equity capital for high-technology and fast-growing SMEs, with immediate impact on the innovation eco-systems in Madrid and Barcelona.

- Expansion of EIB financing in the areas of **education, health, urban renewal and environmental protection**. The Bank began examining larger education and health projects in Germany, Greece and Spain. Global loans (lines of credit to a local bank for supporting small-scale ventures) were arranged for such investment in Belgium, France and the Netherlands. Existing global loans for infrastructure projects were extended in this period to include health and education schemes. Noteworthy projects included significant hospital modernisation schemes in Berlin and Mecklenburg-Vorpommern, and the construction of a new hospital in Thessaloniki.
- New impetus in the financing of **Trans-European Networks (TENs)** and other **large infrastructure investment**, by developing aspects of the EIB's TENs Special Window, including extra-long grace periods and maturities, special tailor-made financing packages, earlier involvement in project preparation, and strengthened support for public-private partnerships.

This funding period also saw the emergence of flexible financing tools that would become critical for the EIB's ability to invest in cities. The most important of these proved to be the **framework loan**. Introduced in the mid-1990s, the use of this flexible instrument began in Italian cities. One of the largest operations was the "Roma 2000" project, designed to help Rome prepare for the new millennium. Through six intermediary banks, the EIB lent the Rome municipality and wider Lazio region a total of €730 million to cover around 500 coordinated works to improve tourism, urban transport, local heritage and water and waste management.[1]

Within the EU-27, framework loans have grown from less than 1% of EIB operations in 1999 to nearly 20% today, with the average framework loan now worth over €200 million. Framework loans allow the EIB to cover a portfolio of projects across multiple sectors by authorising the counterpart city or region to manage the allocation and disbursement of funds over a three- to five-year investment period. They create leverage by blending with national, regional, EU grant or loan funding. As a result, they can overcome common barriers relating to small project size, enabling the EIB to reach out to smaller city schemes in the transport, telecommunications, water, human capital and infrastructure sectors. City or regional councils typically work with three- to five-year capital investment programmes, but only give their final approval to investments on an annual basis. A key advantage of framework loans is that this is taken into account. They set up criteria for financing, without specifying individual projects. Projects in the indicative investment programme can be replaced by other projects, provided they meet the same criteria.

The framework loan enabled the scale of urban sector investment to increase significantly in this cycle. Ten projects worth over €100 million were agreed between 1998 and 2000, compared to just one prior to 1997. Lisbon, Berlin and Milan benefited substantially. The ability to invest in social housing as part of a wider programme of urban renewal was also critical in allowing the EIB to invest in social housing on a large scale in cities such as Manchester, London and Helsinki, as well as across Belgium. But most EIB investment in cities continued to focus on urban transport. From 1988 to 2002, 67% of the Bank's lending through individual loans for urban development in the EU went to urban transport. Of these, metro and urban railway projects accounted for 65% of total transport investment, urban road projects accounted for 17%, and the remainder went to tram and bus projects and composites.

3. The third cycle: priming for EU enlargement (2001-2006)

In 2000, the **Lisbon European Council** coincided with the appointment of a new EIB President. At this time, the EIB announced a shift in its objectives. While it intended to continue providing infrastructure and policy support to the European Union as it had for more than 40 years, in the new century the Bank was determined to play a significant part in achieving the Lisbon summit's stated objective of making Europe the world's most competitive high-technology and knowledge-based economy by 2010.

To this end, the EIB's status was upgraded. Prior to 2000, there had been no documented provision for the EIB to be directly involved in the implementation of the structural funds. The rules for the 1994-1999 funding period

1 https://publications.europa.eu/en/publication-detail/-/publication/37830a0e-5747-4549-bd02-3f1aec3e1b8f

were, instead, laid out in a series of regulations that referred to the EIB as merely a "provider of financial assistance alongside the structural funds and other existing Community financial instruments".

As part of this shift, the EIB quickly refocused its lending portfolio, channelling an increasing percentage of its loans towards support for high-technology and venture capital programmes, as well as the SME market. In support of this effort, the EIB drafted a new policy called the **"Innovation 2010 Initiative"** in June 2003, providing an increased emphasis on projects corresponding to the Lisbon Council objectives. At the same time, the EIB braced itself for a new boom in its lending portfolio as the EU welcomed ten new members in 2004.

The **enlargement of the EU** in 2004 added ten new Member States, while the 2007 enlargement added a further two. In both instances, the EIB also expanded in scale. In 2004, its capital increased to €164 billion and its staff grew to more than 1,250 people, and in 2007 to 1,450 people. The expansion of the EIB meant that the new Member States benefited from a huge increase in EU assistance, with the potential for significant impacts on growth and employment. But it quickly became apparent that the best use of these expanded resources would be a challenge for these countries.

During the 2001 to 2006 period, the EIB also began to play a more significant role in supporting the **delivery of structural funds**. It was mandated for the first time to provide expertise and advice. EIB representatives were able to participate in programme monitoring committees in advisory roles, and the EIB could be involved in the preparation of programming documents. Furthermore, the Commission started requesting EIB opinions on major projects and a framework for this advice was initiated. However, the EIB was less involved in the detailed implementation of cohesion policy and financial instruments.

From 2000 to 2006, the Bank's sector-oriented method and its sovereign and regional lending focus prevented a more integrated urban approach. As was the case for many international financial institutions, in some cases it was still easier to process loans for single, identifiable items of infrastructure than for wider regeneration programmes or integrated development. This was especially the case in countries where the market was fragmented, which limited the EIB in its ability to deal directly with cities. From 2004-2006, the EIB co-financed a number of EU-funded investments in the new Member States, which set the scene for the emergence of full-scale EU urban co-financing under structural programme loans and urban framework loans in 2007-2013.

4. The fourth cycle: crisis and innovation in instruments to support cities (2007-2013)

In 2007, the **Leipzig Charter** addressed prevailing concerns about market failure within the urban sector and highlighted the need for an integrated approach to planning and development in pursuit of sustainability objectives. The Bank responded by accelerating lending under the urban umbrella and promoting the application of financial instruments in partnership with the Commission. It also shifted its agenda towards the development of "Sustainable Communities". This meant that in addition to formalising its approach in urban matters within a more coherent framework – the "integrated approach" – the Bank also grew its partnership with local stakeholders to cater to smaller local investments and support SMEs. The integrated approach is now a cornerstone of EIB eligibility for urban renewal, development and regeneration projects. Ultimately, the Leipzig Charter translated into an implicit three-point action plan for the EIB:

- Extending its traditional lending operations in the urban sector by increasing lending amounts and customising its lending products to more appropriately meet the needs of cities and municipalities.
- Growing the scope of its structured finance facility, under which the Bank takes more risk than normal, including possible equity investment, to cover urban projects.
- Promoting financial engineering and instruments, using EU structural funds to capitalise financial instruments for the first time.

At the same time, the **Treaty of Lisbon** and **Europe 2020 Strategy** also reinforced the sustainability agenda. The overarching Europe 2020 strategy is to promote smart, sustainable and inclusive growth, with the emphasis on three key urban challenges:

- **Smart cities.** European cities should become low-carbon, low-waste and smart-flow cities. This involves the efficient management of resources (especially with respect to energy and transport) based on smart infrastructure solutions.
- **Green cities.** European cities should become environmentally friendly, climate-resilient and compact cities. This embeds urban development in green infrastructure and nature-based solutions.
- **Inclusive cities.** European cities should become living, caring, inter-generational cities. This includes improving quality of life by developing affordable housing, regenerating deprived neighbourhoods, improving access to key urban services, developing the local economy and creating jobs.

New tools – JESSICA, JASPERS and ELENA

The EIB responded to these new policy directions by implementing two major programmes aimed at increasing access to structural funds, particularly in small and medium-sized cities. A clear consensus emerged that medium-income cities had not benefited as much as capitals from agglomeration economies and had fallen behind in competitiveness. Accordingly, in 2007, the European Commission introduced **JESSICA – Joint European Support for Sustainable Investment in City Areas**. This provided a valuable opportunity for the EIB to extend its urban investment activity – although JESSICA is funded by the European Commission, it is implemented in partnership with the EIB. JESSICA ultimately involves a range of financial tools (equity investments, loans and guarantees) for cities to access structural funds, especially when the private sector is unwilling to become involved because of a low rate of return or high project risk. It aims to make structural fund support more efficient and effective by using non-grant financial instruments, thus creating stronger incentives for successful project implementation and mobilising more resources for public-private partnerships (PPPs). It can provide up to 50% of a project's financing.

JESSICA was designed to kick-start development projects in cities where private lenders view investment as too risky, in order to stimulate growth and employment. By fuelling economic development in less promising markets, its intention was to attract private investment to the potential yields.

JESSICA allocates money through urban development funds that are established by managing authorities with the EIB acting as a holding fund (a fund of funds, of sorts) when requested to do so by Member States. Although few projects have broken ground, a number of urban development funds have been established, committing €1.5 billion. The EIB manages JESSICA holding funds on behalf of nine Member States amounting to €1.8 billion.

Although deployment of these funds for actual projects was originally relatively slow, a number of new projects recently started. Participating countries include Spain, the United Kingdom, Italy, Poland, Bulgaria and the Czech Republic, involving cities such as Seville, Sofia, Rotterdam, Warsaw and Liverpool, with approximately €1.5 billion committed to urban development funds that are investing in over 40 projects. Having now been operational for 11 years, the programme's success makes the case for the benefits of integrated investment. In the UK, for example, JESSICA has helped forge productive relationships with Manchester and Liverpool around transport, low-carbon and R&D investment. Local authorities have recognised the benefits of cooperating to attract project finance and are now embracing the discipline that private funds bring to projects.

Cities have required considerable help to assemble and package portfolios in an integrated way, so that they can attract joined-up investment. The EIB is engaging at an earlier stage with cities to help them achieve this. Officials note that a joined-up city agenda continues to depend very strongly on the borrowing capacity of local governments and their capacity to create packages that are large enough for lending institutions such as the EIB to get involved.

In 2005 the EIB agreed with the European Commission and the European Bank for Reconstruction and Development (EBRD) to develop a new technical assistance instrument, JASPERS, which came into operation fully during this period. The aim was to improve the preparation of projects financed by the EU's Structural and Cohesion Funds, the objective of which was to help Member States use grant financing provided by the European Union more quickly and more effectively.

The JASPERS project preparation facility is available for infrastructure projects aimed at upgrading transport networks and the environment, as well as for investments that improve energy efficiency or use renewable energy. The assistance may cover technical, economic and financial aspects and any other preparatory work needed to deliver a fully developed project, although much of the detailed technical work remains the responsibility of the respective beneficiary states. JASPERS provides advice, ensures coordination, develops and reviews project structures, removes bottlenecks, fills gaps and identifies problems. It focuses mainly on larger projects, with total costs exceeding €25 million for environmental projects and €50 million for transport or other sectors.

The JASPERS initiative also illustrates the increasing importance of the EIB as an advisory institution in this period. JASPERS also supports the resolution of horizontal issues affecting a sector or sectors across several Member States and helps to build a knowledge base across a common networking platform.

This period of lending also saw the introduction of other funding and advisory initiatives. The advisory European Local Energy Assistance (ELENA) programme (targeting energy efficiency) can support relevant types of smart city projects and further helped in achieving the goals outlined in the Treaty of Lisbon and Europe 2020 plan. New financial instruments such as **FI-Compass** also offer support for the development of smart city instruments.

ELENA is essentially a joint initiative of the EIB and the European Commission under the Horizon 2020 programme. It provides grants for technical assistance focused on the implementation of energy efficiency, distributed renewable energy and urban transport projects and programmes. The grant can be used to finance costs related to feasibility and market studies, programme structuring, business plans, energy audits and financial structuring, among others. Typically, ELENA supports programmes costing more than €30 million over a period of three to four years and can cover up to 90% of technical assistance and project development costs. Some key projects supported by the initiative include:

- The Aarhus Light Rail, involving the upgrading, integration and electrification of two older railway lines with 12 km of new double track, the construction of a new control and maintenance centre and the procurement of 23 new trains (€247 million investment). At signing, the project was expected to make an annual energy saving of 47 GWh and achieve an annual emissions reduction equivalent to 7,300 tonnes of CO_2.
- The Greater Manchester Low Carbon Delivery Unit, focusing on energy efficient street lighting and measures to improve energy efficiency and renewable heat energy production (£130 million investment). At signing, the project was expected to make an annual energy saving of 129 GWh and produce 85 GWh/year of renewable energy.
- The Energy Efficiency Programme for Buildings and Facilities of Bratislava (€66 million investment). At signing, the project was expected to make an annual energy saving of 34,350 MWh/year, and achieve a greenhouse gas emissions reduction equivalent to 9,250 tonnes of CO_2 per year.
- ELENA supported European cities which signed up to the Covenant of Mayors to implement their commitments under Sustainable Energy Action Plans.

Structural programme lending

Another important type of lending in the urban sector in this period was **structural programme loans**. These loans are designed to co-finance the operational programmes of an EU Member State, helping to finance part of the national budget's contribution to investment for priority projects. They are important in encouraging a more integrated approach to infrastructure investment in the respective regions. Although going beyond urban co-financing, structural programme loans have emerged as a major investment instrument in support of EU cohesion policy, providing much-needed national co-financing for national and regional operational programmes, many of which target municipal beneficiaries. They have considerable flexibility, enabling cities, regions and ministries to adjust as their programmes evolve, in close consultation with the European Commission and relevant management authorities.

Nearly €20 billion of structural programme lending was delivered by the Bank from 2007 to 2013 for 31 projects.

By 2014, more than a tenth of over €70 billion worth of annual investment was in the urban sector and a further 25% to 40% of lending also indirectly impacted urban systems.

5. The fifth cycle: an experienced and mature urban lender (2014-2020)

The key development that influenced the role of the EIB was the **Juncker Plan**. This Investment Plan for Europe had three objectives and was made up of three pillars:

Objectives:

- Remove obstacles to investment.
- Provide visibility and technical assistance to investment projects.
- Make smarter use of financial resources.

Pillars:

- European Fund for Strategic Investments provides an EU guarantee and EIB funds to mobilise private investment.
- European Investment Advisory Hub and European Investment Project Portal provide technical assistance and greater visibility of investment opportunities, thereby helping proposed investment projects become a reality. The Hub is a joint venture of the EIB Group and the European Commission.
- Improving the business environment by removing regulatory barriers to investment both nationally and at EU level.

The Juncker Plan enabled the EIB to broaden its financial tools and advisory functions in ways that could support European cities more effectively. In 2016, EU ministers adopted the **Pact of Amsterdam**. The Pact, which represented the culmination of over ten years of preparation under previous presidencies, defines the key challenges for urban development oriented along 12 priority themes and sets out an agenda for action in the areas of "better funding", "better regulation" and "better knowledge". It underlines the major impact that urban development will have on the economic, environmental and social development of the EU and its citizens, as well as on urban areas as places where challenges such as segregation, social exclusion, unemployment and poverty are concentrated. Ultimately, it seeks to establish a robust and overtly European framework for intervention in the urban sector in pursuit of the development of more sustainable communities (see Box below).

The Pact of Amsterdam

The **Pact of Amsterdam** defines the key challenges for urban development across 14 priority themes (the initial list of 12 was expanded in 2019 to include cultural heritage and security in public spaces). It calls explicitly on the EIB to support the implementation of the EU Urban Agenda through its lending, blending and advisory activities. Set against the backdrop of the financial crisis, the refugee crisis and rising social tension, it gives particular impetus to EIB urban investment in support of employment creation, local economic development and social inclusion. In contrast to earlier ministerial declarations on the urban sector (e.g. Leipzig, Toledo, Bristol), the Pact of Amsterdam has a specific section on the role of the EIB. The Bank is mentioned extensively throughout the document.

The Pact specifies "the important role of the EIB" in:

- Financing investments in areas covered by the Urban Agenda, including the blending of grants and loans.
- Cooperating with the European Commission to develop financial instruments that improve access to funding for local and regional governments.
- Directing its urban lending, blending and advisory services towards areas covered by the Urban Agenda and supporting sustainable urban development.

A key policy development in this period has been the advent and implementation of the **EU Urban Agenda**. For the EIB, the Urban Agenda is not only a vehicle and partnership for decision-makers and stakeholders providing an overview on key urban challenges for Europe. It is also a set of principles guiding EIB urban lending and a framework for better urban financing and advice.

The EU Urban Agenda

The EU Urban Agenda addresses problems facing cities by setting up partnerships between the European Commission, EU organisations, national governments and local authorities of Member States and other stakeholders such as NGOs. These are charged with developing action plans to pass better laws, improve funding programmes and share knowledge on best practices in the field of sustainable urban development.

The EU Urban Agenda has had profound implications for the inner workings of the EIB. Today, EIB eligibility criteria are derived from best practice, bank experience and the principles of the Urban Agenda. The main overriding criterion is that investments must help to achieve the headline goal of creating more sustainable cities and communities. But other criteria are as follows:

- Investments in urban regeneration must be genuinely planning-led.
- Investments contributing to social inclusion must be oriented towards a clear public policy objective.
- Investments which contribute to climate action in cities must be consistent with the Bank's climate policy.
- Measures to strengthen community resilience must enhance the city's capacity to respond or adapt to unforeseen challenges.
- Investments which promote smarter development must follow an integrated and citizen-focused approach.

Given these criteria, it is no surprise that the EU 2014-2020 structural funds programme offers more scope for urban resilience and smart technologies. Around 0.2% of the total European Regional Development Fund allocation at EU level will now go to urban innovation, equal to around €370 million in the 2014-2020 cycle. This agenda aims to promote innovative and experimental approaches and solutions for sustainable urban development, especially in forward-looking and cutting-edge studies and pilot projects that demonstrate transferability.

The EIB was further called upon by ministers to continue developing its urban financing and advisory support in the Bucharest Declaration of June 2019.

The EIB also contributes to the Urban Agenda through its various advisory services, such as JASPERS and ELENA. Together with the Committee of the Regions, the Bank has worked on the "EU Urban Agenda Toolbox", an aid for local and regional governments seeking to learn how the two institutions can work together to build sustainable communities.

The **Cleaner Transport Facility** (targeting sustainable urban mobility) emerged during this period. It represents an evolution of ELENA to focus on other areas of energy efficiency and is especially relevant to cities in relation to urban public transport and cleaner/alternative-fuel vehicles.

EFSI, the European Investment Advisory Hub and URBIS

The **European Fund for Strategic Investments (EFSI)** is the central pillar of the Juncker Plan, which is designed to revive investment in strategic projects across the continent and ensure that money reaches the real economy. It aims primarily to address the lack of confidence and investment that resulted from the economic and financial crisis by making use of liquidity held by financial institutions, corporations and individuals at a time when public resources are scarce. EFSI supports strategic investments in key areas such as infrastructure, energy efficiency and renewable energy, research and innovation, the environment, agriculture, digital technology, education, health and social impact. It also helps small businesses start up, grow and expand by providing risk finance (see Box below).

European Fund for Strategic Investments

Rather than a being a fund in the traditional sense, EFSI is instead an EU budget guarantee that provides the EIB Group with first-loss protection, combined with an allocation from the EIB's own capital. EFSI's initial aim was to unlock €315 billion of additional EU investment by mid-2018, a landmark that was achieved.

The EFSI guarantee enables the EIB to fund urban projects involving greater levels of risk than it would normally take on. This is done, for example, through risk-sharing with promotional banks, lending to lower-rated municipalities or municipal companies, financing of private sector services provision to municipalities through PPPs, energy service companies or other structures with limited recourse, or investing in funds targeting urban upgrades. Initial EFSI investments focused on sectors of key importance for the European economy, including the provision of strategic infrastructure; education; research, development and innovation; renewable energy and resource efficiency; and support for small and medium-sized businesses.

In July 2018, the EIB surpassed its initial goal. EFSI's success up to this point was due to the fact that:

- **It has a lean and efficient governance structure.** If a project meets EFSI criteria, it is presented to a group of eight independent experts, known as the Investment Committee. This group decides if the project qualifies for backing by the EU guarantee, helping to ensure that the investment adds value.
- **It is quality-driven.** A key guiding principle from the outset was to invest where there are gaps, rather than following country or sector quotas. Thorough assessment by EIB experts and members of the Investment Committee guarantees that financing goes to viable but challenging projects with true added value for Europe.
- **It helps to mobilise private capital.** By enabling the EIB to take higher risk stakes in a project, the initiative narrows the gap between what private investors may consider economically viable and not viable.
- **It is geographically balanced.** Even though no country quotas apply, EFSI backing has primarily benefited the regions hit hardest by the economic crisis.
- **It is revolutionary in nature.** EFSI-backed projects are often highly innovative and undertaken by small companies with little or no credit history.

Given the success of EFSI, European Commission President Jean-Claude Juncker announced a proposal in his 2016 State of the Union address to extend its duration and capacity to further boost investment, the so-called EFSI 2.0. The proposal will extend the initial three-year period with a target of €315 billion to at least half a trillion euros in investment by 2020. It also seeks to place greater emphasis on additionality and transparency, cross-border projects, projects helping to achieve the COP21 commitments, support for SMEs and enhancing EFSI's geographical coverage. At least 40% of EFSI infrastructure and innovation projects must involve some contribution to climate action, and EFSI 2.0 now explicitly targets new sectors: sustainable agriculture, forestry, fisheries and aquaculture.

The first urban EFSI operation was the €120 million **Ginkgo Fund** for investment in contaminated former industrial sites, the remediation of such sites and their sale for further real estate development across 12 schemes in France and Belgium. An eight-year fund managed by Ginkgo Management, the Ginkgo Fund is an example of the increasing importance of equity investment in EIB operations in recent years.

In Poland, EFSI is supporting the Poznań housing association in the construction of flats for people on moderate incomes. An EIB loan of €34 million is helping finance a project involving the construction of around 1,300 flats by 2021. The loan will enable the housing association to offer flats to people with a low credit score but too high an income to be eligible for council housing.

Alongside EFSI, a number of other funds and advisory platforms have come to the fore in this period. The **Natural Capital Financing Facility** helps EU cities achieve the objectives laid out in the EU Urban Agenda and Pact of Amsterdam by financing green and blue infrastructure. Meanwhile **Urban Investment Support (URBIS)** was launched in Rotterdam in 2017 and is part of the European Investment Advisory Hub. It is already helping cities plan investments to support their own urban development strategies and obtain finance more easily (see Box below). URBIS is intended to assist cities in tackling specific issues – namely that individual municipal projects, for example in the fields of social inclusion, urban regeneration or energy efficiency, can be too risky or too small for the market, and that funding for integrated urban programmes can be difficult to access, due to the grouping of several small projects across different sectors. It effectively helps cities design, plan and implement their investment strategies and projects, with tailor-made technical and financial advice, including on innovative financing options.

Urban Investment Support (URBIS)

URBIS was developed in 2017 in a partnership between the European Commission and the European Investment Bank as a one-stop shop for cities in support of the EU Urban Agenda. In its initial phase, URBIS consists of three complementary workstreams:

- Increasing awareness of existing instruments, programmes and services.
- Providing tailor-made technical and financial advice to cities (e.g. to improve the quality and bankability of projects, assist the review of EU grant applications and help set up project implementation units).
- Exploring innovative financing approaches for city investments.

The platform consists of experts from the EIB's advisory and project services, including EIB staff located across the Member States, and from JASPERS. It also brings on board experts who can explain how to blend EU funds with national and local promotional bank financing and with innovative financing opportunities. URBIS offers its services to cities of all sizes and in all regions of Europe, supporting cities at different stages of the investment programme life cycle and across the different priority themes of the Urban Agenda.

After its first pilot year, URBIS had already far exceeded its initial objective of 20 assignments, with 36 assignments launched or under way. These were linked to and supported in some way over €4 billion of urban investment in projects and facilities across 17 EU Member States. Half of the assignments supported small and medium-sized cities.

6. The future

6.1 Key trends

There are four trends and challenges of key importance for future EIB urban lending:

- The rapid pace of global urbanisation means that there may be more opportunities for the development of new sustainable communities, when compared with an emphasis within the EU on regeneration driven by demographic stagnation and changing population profiles.
- The migration and refugee crisis has highlighted the importance of strengthening the resilience of local communities with regard to absorbing rural and urban migrants, as well as refugees, and urban development is expected to play a significant role in tackling the root causes of migration.
- Demand for the provision of decent and affordable housing is increasing outside the EU as well as inside. In combination with slum upgrading it can be an important measure for fighting poverty. In this context, the overwhelming emphasis on home ownership (rather than rental tenancies) outside the EU implies a need for the Bank to consider the circumstances under which social housing for sale should be eligible.
- Urban development has a key role to play in relation to climate action, with respect to both mitigation and adaptation, as well as the broader but related theme of urban resilience.

Social inclusion has risen to the forefront of the EU Urban Agenda. The refugee crisis, the issue of radicalisation, ageing populations and the increasing polarisation of society all contribute to the importance of this theme. The Bank's emerging response to the refugee crisis – in terms of the strengthening of the resilience of communities, the development of a gender policy, the exploration of social impact financing and the increasing emphasis in the Bank's due diligence on social impact assessment – represents some of the ways in which the EIB is already taking action.

6.2 Directions for the future

As the EIB develops its role in relation to cities, six observable directions for future development are now evident:

Expanded role for the EIB at global level, working with cities beyond the EU

One of the key priorities of the EIB in recent years has been strengthening its impact in cities outside the EU, particularly in North and sub-Saharan African, Middle Eastern and Balkan countries such as Egypt, Namibia, Lebanon and Albania. Although the EIB has worked with such cities in the past, at times rather extensively (e.g. in Casablanca), substantially increasing its commitments in these areas has now become a central focus. This is partly due to the New Urban Agenda, which stipulates the role that stakeholders such as the EIB must play in fostering global sustainable urban development.

A key part of the EIB's increased global role relates to promoting innovation and economic resilience and helping the rest of the world to adjust to urban disruption and change. In 2018, the European Council gave the go-ahead for the EIB to increase lending to projects outside the EU that address migration issues – including strengthening the resilience of urban communities which have to absorb or serve as transit cities for migrants, while at the same time enhancing the delivery of often inadequate urban services for their own citizens.

One example of the EIB's increased involvement in global migration issues is the recent launch of the Economic Resilience Initiative. Designed to rapidly mobilise additional financing to increase the capacity of economies in the Southern Neighbourhood and Western Balkans regions to absorb and respond to crises, the initiative forms part of the joined-up EU response to the challenges posed by forced displacement and migration. It is being implemented in close cooperation with EU Member States, the European Commission, donors and other partners, and will boost economic resilience in these regions and others by investing in vital infrastructure, developing the private sector and stimulating growth and job creation. A specific urban initiative in this direction is the Urban Projects Finance Initiative, which is aimed at accelerating the preparation of resilient urban investments in the Mediterranean and Western Balkans and is being implemented together with Agence Française de Développement (AFD), the Union for the Mediterranean and the European Commission.

Some projects are already making a difference to people living in these regions. For example, in **Lebanon**, the EIB is working to address the barriers to entrepreneurship such as high land prices and hard-to-obtain financing by supporting a Government plan to build three modern industrial zones, two of which will be near the Syrian border in areas heavily affected by the refugee crisis. The hope is that more than 100 small companies will move into these zones – which will be built outside urban centres to reduce pollution and congestion and free up inner-city space for an improved quality of life – and ultimately that more zones will be built nationwide in the future.

Also important for the EIB's expanded global role has been the idea that, although sponsored by Europe, it serves as a development bank for the whole world. This has been particularly evident in the Bank's work on climate initiatives (see below). Here, URBIS, together with partnerships with networks such as the Global Covenant of Mayors, the Rockefeller Foundation's 100 Resilient Cities, Local Governments for Sustainability (ICLEI) and the C40 Cities Climate Leadership Group, has been crucial in enhancing the Bank's global footprint – particularly in terms of promoting the dissemination of best-practice solutions across countries. However, EIB-sponsored targeted operations in the most at-risk states have also been pivotal. Some stand-out examples include:

- A $75 million loan to help upgrade and develop the water and wastewater infrastructure in the greater metropolitan area of Fiji's capital, Suva – the largest ever EIB water investment in a small island state.
- EIB support for a €175 million project to install solar photovoltaic plants, energy storage systems, enhanced-efficiency diesel-engine generators and upgraded distribution networks in the Maldives.

Overall, projects outside the EU now represent around 10% of all EIB financing.

Migration and inclusion within the EU

The EIB has a commitment to support the inclusion of migrants within the EU. Having recognised that migration levels to and within the EU have been (and will continue to be) high for some time, the EIB is working to support the European agenda to strengthen migrant and refugee settlement and social and economic cohesion in the Member States. As a key implementing agent of the EU Urban Agenda, the Bank has a responsibility to ensure that public goods are well supplied throughout the continent and that all cities have a certain minimum threshold capacity for providing a good quality of life for refugees, migrants and citizens alike.

The EIB recently issued a call to action jointly with the World Economic Forum for social inclusion to be placed at the heart of EU economic policy at the launch of a new joint White Paper by the two organisations. This paper argues that inclusion can no longer be treated as an afterthought, and that rather than being a luxury, it is a fundamental catalyst for growth. It makes the case that innovation and entrepreneurship are the prime drivers of growth and inclusion in a win-win space, and puts forward several key recommendations for action, including supporting PPPs for technology diffusion, investing in smart transport infrastructure, and strengthening access to venture capital and non-traditional financing sources for SMEs.

The EIB also continues to promote growth, employment and cohesion in Europe by supporting the implementation of EU regional policy. By financing projects in less-developed areas, the EIB contributes to the reduction of economic disparities between different EU regions, and through a mixture of loans and advisory services, it plays a critical role in raising living standards across the EU. In 2015, the EIB's backing for cohesion objectives within the EU accounted for 26.5% of all funding, and in 2017, support for Cohesion Priority Regions accounted for 29.6% of lending. Some examples of projects financed by the EIB in these areas include the PPP for the development and expansion of 14 regional Greek airports and a multi-sector framework loan supporting investment schemes in the Spanish region of Andalusia. This cohesion-oriented urban and regional investment is key to addressing the spatial dimension of inequality, which has contributed to Brexit, the *gilet jaunes* movement and the challenges facing climate action in some EU countries.

As the EIB looks to the future, there may be an increasing role for investments in areas like social and affordable housing, given the long waiting lists and rates of housing over-burden across the EU, as well as investments targeting improved accessibility for the elderly or disabled, student and key-worker housing, the gender dimension of urban development and social inclusion, and the cross-over between social housing and health care.

Climate action in cities

The EIB has long been a leader in promoting action on climate change – investing in renewable energies and public transport systems, supporting pollution reduction initiatives and remediating brownfield sites. The Bank is now taking its commitment to climate action one step further, focusing on improving resilience and enhancing civic security and participation. Key priorities in the current period include helping cities to promote integrated land-use planning in order to strengthen resilience to environmental disasters, and partnering with cities and other stakeholders to encourage citizens to make more responsible decisions and better safeguard the environment.

The EIB is committed to dedicating at least 25% of its annual financing specifically to climate action, and in 2017 exceeded this target for the eighth year running, providing nearly €20 billion to fight climate change (28% of all funding). Moreover, the EIB is the largest multilateral provider of climate finance globally. This is partly due to its wide variety of potential financing options. The Bank traditionally finances large projects with direct project loans, while it supports smaller projects indirectly, for example through credit lines to local banks or other intermediaries. The EIB also finances programmes of investment through urban programme loans and complements its traditional lending with innovative financing products such as green bonds, ELENA, and equity and fund investments (e.g. EFSI). As of mid-2016, the EIB was the largest green bond issuer in the world. Significantly, more than 35% of climate funding is designated for developing regions, and in 2015 the EIB pledged to increase its climate commitment by $100 billion by 2020.

At the end of 2017, the EIB entered into a unique partnership with the Global Covenant of Mayors, specifically designed to help cities finance climate action and build greener cities for future generations. This new partnership comes under the umbrella of Global URBIS and involves the European Commission, the EIB, the EBRD and a coalition of the mayors of over 7,500 cities worldwide. In 2018, this resulted in the launch of the Global Climate Cities Challenge at the Global Climate Action Summit in San Francisco. This was an invitation to cities worldwide to apply for support in developing and ultimately financing their urban climate action investments. The Challenge, developed in partnership with the Global Covenant of Mayors, the ICLEI and C40 city networks, attracted applications from over 100 cities for 145 projects with total investment estimated at above €5 billion. A final selection from among these projects will be made in autumn 2019.

Smart and circular cities

The EIB has long advanced smart cities goals and objectives, having worked on all of the components of smart cities for many years. Rather than building smart cities from scratch, the Bank is now looking to bring its previous experience together, applying new technologies to boost the amount of smart investment it finances. The Bank's overall approach in this period is to seek more concrete smart investment opportunities that make use of existing assets and infrastructure, enable smart integration and interoperability of systems, and use big data and artificial intelligence.

Following the Habitat III Conference in Quito, Ecuador, in 2016, the EIB announced that it would launch a $105 billion package to finance sustainable and smart urban development projects up to 2021, 90% of which will be invested within the EU and 10% of which will be for projects in other regions. The Bank's commitment to supporting smart cities investment was bolstered in recent times by the JASPERS programme of technical assistance for cities. JASPERS now sets its own "smart development agenda", based on the following priority areas:

- Strengthening research, technological development and innovation.
- Enhancing access to and the use of ICT.
- Investing in education, training and life-long learning.
- Enhancing healthcare activities.
- Promoting smart specialisation and smart cities, with a view to sustainable urban development.
- Improving the efficiency of public administration.
- Developing and implementing best-practice tools and case studies.

To help implement the agenda, training materials, proceedings, videos and other e-learning tools are disseminated through a dedicated web portal, which also provides information on smart cities activities, working papers and studies.

As an increasingly central concept, the circular economy has become part of the EIB's urban work. The EIB has developed, under the Circular Economy Partnership of the EU Urban Agenda, a Circular Cities Funding Guide.

Urban property development and brownfield regeneration

In recent years, the EIB has pivoted towards greater involvement in upgrading the urban fabric of cities on a large scale, through investing in urban property and land. This stems partly from the increasing recognition that many of today's most significant urban challenges are linked to the prohibitive costs of redevelopment arising from land degradation and pollution, and partly from the idea that although JESSICA funds in particular have worked well in the past, long-lasting transformational change will be more likely if the Bank intervenes at scale. Working on larger, mixed-use schemes, involving major property developers, and fostering consortium and partnership relationships between public authorities and private sector stakeholders are all key priorities for the EIB's investment in property and land in this new phase. The key for EIB involvement is to be additional to the market and to provide finance that addresses market failures, which typically include environmental and climate externalities, as well as a preference for greenfield sites.

One example of this shift can be observed in Portugal, where a new EIB project is focusing on the creation of a sustainable financing delivery mechanism for urban rehabilitation and regeneration up to 2020 by involving both public and private stakeholders. The funds will be used for private, social and affordable housing projects, as well as for the refurbishment of buildings for economic activities, including offices, hotels and restaurants throughout the country. Indeed, the transformation of Europe's building stock – not just the enhancement of its energy efficiency, but a move towards a wider green buildings approach – is a key part of the future challenge and one in which the EIB could play an increasing role.

Within Portugal, efforts have been concentrated in Lisbon, which in 2016 became the first EU municipality to benefit directly from EU support under the Investment Plan for Europe. The Bank approved a new multi-sector framework loan that will help to co-finance a strategic multiannual investment plan (2016-2020) for the city, including an emphasis on flood alleviation and prevention, the regeneration of urban infrastructure in brownfield areas, and the rehabilitation of social housing, including new construction and repairs to existing stock. A similar approach was also taken in the Spanish region of Andalusia, where funds provided by the EIB are being used to promote projects in strategic sectors of the economy, renovate public infrastructure and refurbish housing.

Embracing risk to optimise investment impact

In the past, the EIB has tended to invest primarily in projects with moderate risk profiles. The recent shift towards larger-scale development, which inevitably entails relationships with numerous stakeholders, has increased the level of financial risk inherent in the Bank's investments. To offset this risk, the Bank has created several new financial and funding mechanisms, including the European Fund for Strategic Investments. These mechanisms have enabled the Bank to take more risks in specific locations and longer-term stakes in projects that would previously have been unfeasible.

EFSI enables the Bank to address market failures and sub-optimal investment situations by providing funding for projects that, although viable, carry with them a higher risk profile than those supported by normal EIB operations. Although the EIB has been supporting higher-risk projects for several years, EFSI provides additional risk-bearing capacity, increasing the Bank's ability to assume risks relating to the risk profile of the borrower, the investment size, the security available or the project itself. More specifically, EFSI provides the capacity and opportunity to:

- Explore new markets and serve new clients previously considered too risky.
- Develop new financial products for both existing and new clients that are better suited to more complex and riskier projects.
- Design new forms of collaboration and cooperation (e.g. investment platforms, coordination agreements with national promotional banks, co-financing with Sovereign Wealth Funds, etc.).
- Encourage blending with EU funds, including European Structural and Investment Funds at national and regional levels.

New financial instruments such as EFSI have been of fundamental importance in enabling the provision of a high-risk multi-sector framework loan to develop a new investment plan for Lisbon. 50% of the financing for the plan comes from public bodies, including the EIB, the European Commission via structural funds, the Council of Europe Development Bank, and Portuguese public authorities, while the remainder will come from private sector resources.

The up-to-30-year EIB loan delivered as part of EFSI is guaranteed by the EU budget, which allows the Bank to offer the Municipality of Lisbon long-term financing with flexible conditions and at favourable rates. It also addresses a market failure in Portugal: municipalities there do not have access to capital markets and Portuguese banks are therefore generally unable to provide the long-term finance required for such a project. Moreover, the funds are designed to revolve within the life of the loan and can be re-used several times. The lending to financial beneficiaries is forecast to take place over a shorter time than the financing, meaning that beneficiaries will be able to return capital from early loans for re-use on other projects (provided they meet the same conditions). This will ultimately create a multiplier effect on the original financing, further enhancing financial efficiency and sustainability.

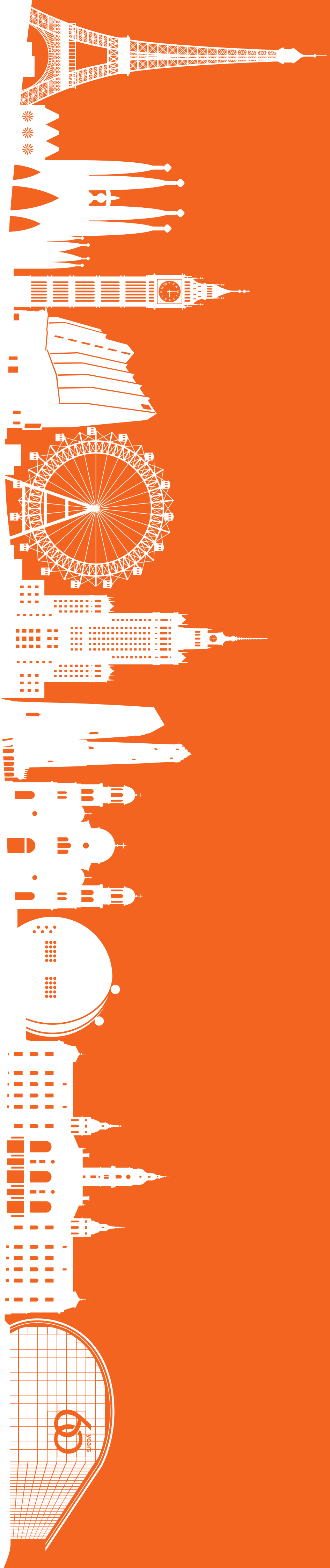
Within the EU, EFSI will be replaced by the InvestEU framework. It will be important to see how the EIB will be able to develop its higher-risk urban and other lending in this context, as well as its related advisory support. The challenge of sub-national financing outside the EU, where cities often face severe budgetary constraints and in many cases are not even permitted to borrow, is also becoming more evident, not least in relation to climate finance. The EIB, which lends inside the EU via direct financing to cities without sovereign guarantees and with all kinds of risk-oriented structures supported by EFSI, has a good base on which to apply some of this experience in countries which are starting to strengthen the credit framework for municipalities, such as Morocco.

Going forward

As Europe's cities have developed and evolved over the 50 years covered by this *City, transformed* essay series, the EIB has adapted, adjusted and aligned its assistance to their needs. The EIB has supported and informed the EU leadership in driving forward an urban agenda for Europe and an urban tool-box to go with it. As cities have become increasingly the fulcrum for action on climate, productivity, knowledge, social mobility and resilience, investment in cities has needed to be smarter and more able to address integrated challenges with nuanced investment tools. The EIB's evolution as a financial and knowledge partner for cities puts it at the heart of global action for progress in our metropolitan century.

Professor Greg Clark CBE is an honorary professor at University College London and Chairman of The Business of Cities, an urban intelligence firm that works in more than 100 cities worldwide each year. He holds thought-leadership roles at The Brookings Institution, the Urban Land Institute, and JLL Cities Research Centre, and is a Board Member of Transport for London and the London Local Enterprise Partnership (LEP). He is author of ten books including *Global Cities: A Short History* (Brookings Press), and *London 1991–2021*, *The Making of a World City*. With a PhD from the University of Bristol, **Dr Tim Moonen** is responsible for the strategic management of The Business of Cities research and advisory projects. He has co-authored more than 50 reports, books and chapters on global city competitiveness, governance and performance. **Jake Nunley** is a lead researcher at The Business of Cities. He studied at the University of Cambridge and Harvard University.

Moonen, Nunley, Clark (left to right) © The Business of Cities



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