

Evaluation Report

Operations Evaluation Department (EV)

EIB Financing of Urban
Development Projects in the EU



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NOTICE

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EXECUTIVE SUMMARY

This evaluation covers the loan portfolio of urban development projects financed by the European Investment Bank (EIB) during the period 1988-2001. The evaluation was carried out in 2002 and examined the Bank's activities within the European Union. The assessment was based on:

- In-depth evaluations with field visits to 21 urban development projects, carried out by teams of external consultants (Arup, empirica and Nomisma).
- A desk review of an additional 26 projects, carried out by the Operations Evaluation Department (EV) with the aim to increase the degree to which the evaluated projects are representative of the urban development portfolio.

Prior to 1988, the EIB only financed infrastructure components of urban development projects in the less developed regions of the EU. However, in 1988 the Bank's eligibility criteria were extended to finance this type of investments throughout the European Union. From 1997, the EIB has also financed housing investments where they are integrated into well-defined urban renewal and development schemes.

During the period 1988-2001, funding for urban development projects in the EU totalled EUR 29.5 billion (10% of EIB total lending). The greater part of the Bank's financing of urban projects has been through individual loans (EUR 22.5 billion), with the remainder being financed through allocations from global loans (EUR 7 billion). In the second half of the 1990s, lending in the sector increased and the annual lending averaged EUR 2.5 billion. The vast majority of projects financed were developed by public authorities. However, involvement of the private sector, for example through Public/Private Partnerships (PPPs), is increasing and the evaluation includes a number of such projects. This evaluation is limited to projects in the EU, as up until now the Bank has financed very few projects of this kind outside the EU.

In the period under review, sixty seven percent of the Bank's lending through individual loans in urban development in the EU went to *urban transport* (EUR 15 billion) to finance 100 projects or programmes. Of these, metro and urban railway projects took up EUR 10 billion (65%), urban road projects accounted for EUR 2.5 billions (17%) and the remainder went to tram and bus projects and composites. Investment in Spain (EUR 3.7 billion) and Portugal (EUR 2.6 billion) account for the main part of EIB individual loans, followed by the United Kingdom, France and Italy.

The urban development projects that are not urban transport are referred to as "urban use" projects in this evaluation. Often these projects are heterogeneous and complex in nature. Bank lending for *urban use* in the EU started later than lending for urban transport. In the period under review, 82 projects or programmes had been financed through individual loans (EUR 7.4 billion). EUR 3.1 billion (42%) went to large urban restructuring projects, such as land reclamation and sewerage systems, while EUR 3 billion (40%) financed other forms of urban use, such as the renovation of historical city centres and cultural and historical buildings. As yet, social housing projects represent only a small fraction of the Bank's lending. In terms of geographical distribution, projects in Italy amounted to EUR 2.9 billion (39%), followed by Germany EUR 1.2 billion (16%) and Spain with 10%.

Project performance

In the large majority of cases, the *implementation* quality of the projects evaluated seems to be good, particularly for the transport projects. Delays and cost overruns were observed in a few cases, but generally, implementation took place broadly on time and within the initial budget. Most of the projects evaluated were developed by the public sector but no significant differences in implementation performance between projects developed by the public and private promoters were observed. Only four out of the 47 projects in the in-depth evaluations and desk reviews had cost overruns of more than 20%.

In most of the cases, alternatives to the projects were not analysed by the Bank. In four of the 21 projects evaluated in-depth, lower cost alternatives existed, but were not considered, which may have led to choosing “prestige” solutions, to over-design, or to overcapacities. In addition, some schemes, integrated in large urban use projects, experienced significant delays due to bureaucratic, legal, institutional or political complications.

The assessment of project performance in this evaluation uses the standard *evaluation criteria: relevance/efficacy, efficiency and sustainability*¹. In addition, of the complementary criteria listed in the annex, the most relevant to this evaluation is the EIB performance.

The evaluation found that a straightforward assessment of the urban development projects' relevance and efficacy was made more difficult by the fact that the initial objectives identified at appraisal tended to be very general and often a clear link between inputs, outputs and objectives had not been established. This was especially true for urban use projects. In response to this situation, the evaluation formulated seven key objectives to enable an assessment of the projects' relevance and efficacy:

- Promote economic development,
- Improve capability (capacity and reliability) of urban public transport,
- Improve physical attractiveness and/ or the image of the city,
- Improve the environment,
- Maintain European heritage,
- Strengthen the “compactness” of the city
- Maintain social cohesion.

Each of these objectives was subsequently subdivided into objectives that were more specific. The assessment of whether the initial objectives had been attained was difficult due to the limited ex-post information available, particularly for urban use projects. In general, monitoring by the promoters to see whether the initial objectives had been attained was weak. Nevertheless, with one exception (a programme consisting of many separate projects carried out by different promoters), the available data was sufficient to assess the projects' results.

The evaluation concluded that all projects that were evaluated in-depth were *relevant and effective* in terms of their achievement of the initial objectives or of reformulated objectives. For the urban transport projects, three specific objectives have been analysed: actual traffic compared with initial forecasts; changes in modal distribution and effects on mobility patterns; and financial performance. The assessment of urban use projects was based on the reformulated objectives.

¹ See annex.

Project efficiency was the key criterion in this evaluation and was measured by the ex-post Economic Rate of Return (ERR). The estimation of the ERR for urban development projects is a complex task as some important outputs of the projects cannot be expressed in monetary terms, particularly for urban use projects. For urban transport, the ex-post ERR was greater than initially foreseen in seven of the 11 projects and for the remainder it was less or uncertain, but in all the cases it was expected to be higher than 5%, which is the normal benchmark for the projects in the EU. The ex-post ERR could only be calculated for six out of the 10 urban use projects evaluated in-depth and in only one of these cases the ex-post ERR was unacceptably low (negative). In three other cases the efficiency of the projects was rated good, based on qualitative assessments, while one programme was considered too diverse to assess because it consisted of a large number of projects, carried out by many different promoters.

All the projects evaluated in-depth were considered sustainable. The criteria for sustainability were technical soundness, government commitment, socio-political support, economic, financial and environmental sustainability and management effectiveness.

To summarize, the aggregate score on the four evaluation criteria was good for 19 out of the 21 projects evaluated in-depth. Of the other two, one was too diverse to assess and the other was rated poor. The poor results of the last project had been predicted at appraisal, but the project was nevertheless financed. The projects analysed in the desk review were not rated due to the generally limited information on project results. However, no evidence of significant problems was found that might have led to unsatisfactory results, apart from four out of the 26 cases.

In most of the projects analysed in-depth, the quality of the ex-ante assessment of revenues was good, but revenue forecasting was not a critical issue for the success of project developed by the public sector. However, it is an important issue in projects involving the private sector. In five of the 10 Public/Private Partnership projects studied in the desk reviews and in-depth evaluations, the revenues were seriously at risk or significantly lower than initially expected. Overoptimistic traffic forecasts, non-acceptance of (increased) tolls and cyclical movements in the property market were at the root of most of the problems. For most of these problematic cases the public sector had to intervene to rescue the project and, in some cases, private shareholders of the projects went into bankruptcy. After the intervention of the public sector, which resulted in re-allocation of risk, four out of the five projects went on to achieve good results.

Most of the operations reviewed were among the first PPPs in Europe, and many of them are now used as case studies by the banking community in order to better understand the issues involved. The analysis of PPP structures was not the main objective of this evaluation.

EIB contribution

The Bank reacts to borrowers' needs, rather than acts as an initiator or formulator of projects itself. Since needs are varied, the range of the 21 projects reviewed in-depth reflects well on the Bank and its activity –the EIB is clearly flexible and adaptive to borrower needs. The main difficulties arose from the absence of a hierarchy of European Union and national objectives, EIB objectives derived from these and detailed project objectives against which to select and assess projects.

The appraisals generally provided proper due-diligence. Overall project performance demonstrates this approach to be highly effective. However, few of the appraisals examined project alternatives and revenue forecasts were sometimes not fully analysed. In many of the PPPs evaluated, the Bank has not fully analysed risk allocation and mitigation, and certainly not in those cases where the Bank did not carry project risk.

Comparing the Bank's management of the project cycle for stand-alone urban development projects with programmes involving different promoters showed that in the case of the latter, it is difficult for the Bank to play a significant role in any of the phases of the project cycle, from

planning to monitoring. It is therefore recommended that the Bank develop a specific approach for programme lending. It is suggested that in these cases the borrower should have a real coordinating role in the development of the projects involved.

The financial additionality provided by the Bank varied, although it was obviously enough for it to be involved in the financing, but was strong in only a few cases. Most of these were PPPs, where the Bank clearly has a role to play. The Bank could provide competitive financing and facilitate co-financing with commercial banks. When the public authority in charge of the project has reputation problems or relatively difficult access to financing, which seems to have been the case for at least one project, there is some evidence that the Bank's involvement has played a positive role in advancing the projects. Given that the promoters of the urban development projects in the evaluation were competent, the Bank has limited itself to technical due-diligence and has provided very limited technical additionality.

Recommendations

Based on these findings, the following recommendations are put forward:

Recommendations	OP/PJ Accept or Reject proposal:	OP/PJ comments or reasons for rejection
<p>1. The Bank's urban development policy objectives should be systematised in an urban development policy paper, which links European Union and national objectives, derived Bank objectives and individual project objectives, and gives guidance to project identification and appraisal (Chapter 2 and Section 4.1.1).</p>	Accept	<p>An eligibility document already exists and it is already an efficient go/no-go control check.</p> <p>The proposed policy paper should help the Bank to finance relevant projects by raising awareness of Bank's personnel and Promoters.</p> <p>However, many other important criteria, such as borrower's financial strength or promoter's institutional strength, must also be considered in order to identify projects for appraisal.</p>
<p>2. A common approach for the appraisal of urban development projects should be developed, in order to facilitate comparison of results in similar circumstances (4.1.1)</p>	Accept	<p>The common approach should be a set of guidelines, flexible enough to allow the appraisal team to fit its method to the particular case. In this context, a methodological paper for project appraisal has been proposed.</p>
<p>3. The Bank should develop a specific approach to the financing of urban development programmes consisting of projects carried out by different promoters. When the Bank groups projects into a single loan, the intermediary should have a real coordinating role in the projects' development. (Section 4.1.1).</p>	Accept	<p>Agreed; particularly where an urban municipality assumes the coordination role and the project reflects an approved development plan.</p>
<p>4. As a principle, when clear and viable project alternatives exist, the Bank should review and analyse the selection process for the final choice of the option. (Section 3.2.2)</p>	Accept	<p>The Bank's analysis should take into account all factors that impact on the choice of options for the operation and, where relevant, compare the alternative solutions; however, in the EU the analysis of options has often been reviewed in the feasibility studies prior to the Banks involvement in the operation.</p>
<p>5. For urban development PPP's, the Bank should improve its assessment of revenue forecasts and of the risk allocation and mitigation. (Section 3.2.1).</p>	Accept	<p>The Bank's assessment is now normally a two-stage approach that takes into account that the risk allocation originally foreseen in the bidding documents is often modified as a result of the competitive processes inbuilt in PPP. This assessment should continue to be developed to reflect the risks, including those to revenues, and necessary mitigants in this process.</p>

1 INTRODUCTION

1.1 Approach Taken in the Evaluation

This report presents the conclusions and recommendations stemming from an assessment of the portfolio of urban development projects financed by the European Investment Bank (EIB) during the period 1988-2001. The evaluation was carried out in 2002 and is based on:

- In-depth evaluations with field visits to 21 urban development projects, carried out by teams of external consultants (Arup, empirica, and Nomisma).
- A desk review of 26 projects, carried out by the Operations Evaluations Department (EV), with the aim to increase the overall representation of the projects in the evaluation².

The 21 projects selected for the in-depth evaluations cover the scope of the Bank's 182 urban development projects financed over the period in the EU. They include a large range of transport projects, as well as inner-city renewal projects. The latter, often complex and heterogeneous projects are termed "urban use" in this evaluation. The projects that were evaluated in-depth, together with the 26 analysed through desk reviews, bring the proportion of the portfolio covered by the evaluation to approximately 26%.

In selecting the projects for the field studies, the objective was to have each of the categories represented, with an adequate geographical spread, as well as covering both large and small schemes. This implies relative over-representation for the categories with fewer EIB interventions. When the category was sufficiently large, projects were selected randomly. Public promoters developed most of the projects that were evaluated in-depth but three were initiated as private sector projects. The size of the projects varied from EUR 11 million to EUR 2 billion.

Some loans went to finance groups of projects (between two and several hundred) carried out by different promoters sometimes consisting of a wide range of projects and sometimes spread over several regions. Other loans did not finance a complete project, but only a part of a larger project. However, the majority of the loans went to stand-alone projects in one area with one promoter.

The overall aim of the evaluation was to determine the quality, effectiveness and relevance of EIB operations in urban development, as well as the strategies, policies and procedures that relate to them. Particular attention was given to PPPs, to projects exposed to the fluctuations of the property market, and projects that generated significant financial revenues, since these types of projects are likely to become more important in the future.

In preparing the evaluation, the external consultants received all relevant internal information produced by the Bank and the promoters in relation to these projects. Where possible, the consultants estimated the financial and the economic rates of return, based either on market demand or on an estimation of measurable advantages for users, e.g. timesavings. Transport projects target a clearly defined urban function and can be analysed according to well-tested methods. However, the complexity of urban use projects calls for a framework for ex-ante appraisal and ex-post evaluation in order to generate, as far as is possible, comparable results at every stage. In most non-transportation cases, external effects or city image effects of different kinds were dominant, and sometimes were the only source of benefits. Several projects provided collective goods (restoration of public buildings to upgrade a central square). It is obvious that external effects or general image effects can only be measured partially and on a case-by-case basis, and that their relative importance varies. Sometimes results can only be described but not evaluated, as is the case with "public image" benefits.

² The desk review also included a small number of projects that had not reached completion. This was done in order to obtain information on the most recent developments in Bank financing of urban development, especially programme lending.

The projects financed by the Bank must be seen against the backdrop of the wider trends in urban renewal in the 1990s. The following section describes some of these trends.

1.2 Trends in Urban Development in the EU in the 1990s

In general terms, the 1990's saw a very intensive period of migration from other countries into the cities of the European Union, which created enormous pressure on housing markets and resulted in overcrowding in certain quarters that were target areas for the new immigrants. Local authorities had to deal with this increase of newcomers in their cities that needed special care in schools, on the labour market, in learning basic language skills or on the housing market. The spatial concentration of the migrants in low quality housing areas very often created tension between the decreasing number of traditional inhabitants, who often moved away, and the new population.

Traditional social housing production was reduced in most countries, or given up entirely. Urban renewal, which in the past had concentrated on physical upgrading, was transformed into more subtle and wider policies of community development, including labour market development, improved schools and social services. The more heterogeneous urban population lead to more segregation and higher levels of inequality. The new names for new policies – “New Deal for Communities” or “*Soziale Stadt*” – point in the direction of more complex urban policies, in which traditional investment strategies are combined with economic measures or greater investment in human capital. The EIB has followed suit by moving into the financing of education and health, as well as technological innovation, often in an urban setting.

In many cities, population densities were declining and decaying empty units spreading. This new phenomenon – growth in suburban or attractive inner-city locations and rapid decline and growing empty stock in other inner-city quarters- created demand for a new type of urban policy. Recycling of derelict land became a key issue. At the same time, new growth areas create new transport needs, new demands for infrastructure, shopping and other private services, which in turn are often followed by more jobs. While some booming agglomerations still have to solve the traditional task of managing overall growth – of population, services sector, number of jobs, cars – other urban areas, especially the core cities, are shrinking. These have to manage another type of restructuring without the driving forces of ever growing demands for space or of increasing land scarcity in all parts of the city. As even in cities or urban regions with a declining population, space per head is increasing (housing, retail, leisure activities), growth and decline have to be managed side by side.

Against these new trends, new policies of inner revitalisation were applied and in certain cities became very successful. Docklands and Trafford Park, Duisburg harbour, the Barcelona coastal line and the Parque das Nacoes in Lisbon have created new images for urban development. The future orientation of urban development is to revitalise derelict areas and to redirect private investment away from suburban environments. Several countries (UK, Germany, Netherlands) have also formulated policies to increase the share of investment in brownfield sites in order to protect the scarce open countryside.

In transport, the struggle against traffic jams created by private transport continued in the 1990s. More IT was used to improve traffic flows or increase street capacities without constructing additional lanes. Sustainable transport, as part of a general strategy for sustainable urban development, followed a period in which more parking space, more streets – in effect increased capacities – were the only, or at least dominant, goal. More public transport is still on the agenda. Better traffic management and innovative methods of financing transport infrastructure point in new directions and to new Public / Private Partnerships. The task is intellectually clear but involves radical changes in attitudes and behaviour, as well as the large-scale use of new, more sophisticated instruments. The implementation by the [Mayor of London](#) at the beginning of 2003 of the congestion charge (a toll payable to access London city centre by private car) is a good example of innovative measures.

The 1970s-hope that IT would allow massive substitution of physical exchange for information exchange did not materialise. E-mail and phone communication, goods transportation and face-to-face contacts, business and leisure trips are all on the rise. Cities may be considered service or knowledge cities, but they are nevertheless faced with growing mobility, with an unlimited appetite for transport infrastructure and a need for better traffic management, as space for transportation in most inner city areas cannot be increased. More effective modes of mobility will be necessary for the survival of cities and for the quality of urban life for city dwellers.

Sustainable urban development became the more complex integrating target. All national and local authorities today use sustainable development as the guiding principle that governs different policies and areas of public activities, including the private sector. This new policy direction is also reflected in the 21 projects selected for an in-depth evaluation.

1.3 Overview of the Urban Development Portfolio

The EIB has been financing urban development projects for many years, through both individual loans and global loans. The eligibility criterion used for the early loans was regional development and therefore the Bank only financed projects located in regional development areas. Outside these areas, urban development was seldom financed, although other criteria, such as environment or rational use of energy were applied to finance building rehabilitation. The Bank's participation was limited to the infrastructure component of urban development programmes and, exceptionally to the restoration of buildings and sites of special value (under the heading of "cultural heritage") or affected by natural disasters.

In 1988, eligibility was extended 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 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 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.

Decaying urban areas are now a main concern for member states' governments, in terms of both environment and social cohesion. Thus, in 1997 the European Council of Amsterdam invited the EIB to step up its intervention in the urban environment. Consequently the Bank's lending was extended "on a prudent basis" to housing components when they form an integral part of a well-defined urban renewal and development scheme.

In the period 1988-2001, funding for urban development projects in the EU totalled EUR 29.5 billion (10% of EIB total lending). The Bank has mainly financed urban projects through individual loans (EUR 22.5 billion), although a certain amount of financing has also taken place through allocations from global loans (EUR 7 billion)³. The historical trend of individual loans suggests that the lending stayed at relatively low levels until 1994 (when annual lending averaged some EUR 600 million). In the second half of the 90's, lending in the sector took off and annual lending averaged EUR 2.5 billion up to 2001.

Sixty-seven percent of the Bank's lending through individual loans in urban development in the EU went to *urban transport* (EUR 15 billion). From 1988 to the end of 2001, the EIB financed 100 projects. Metro and urban railways projects took up EUR 10 billion (65%), urban road projects accounted for EUR 2.5 billion (17%) and the remainder went to tram and bus projects and composites. On average, Bank loans for urban transport are almost twice as large as for urban use (EUR 130 million). For urban transport, Spain (EUR 3.7 billion) and Portugal (EUR

³ This figure is an approximation, due to ambiguities in the Bank's database.

2.6 billion) captured the main part of EIB lending, followed by the United Kingdom, France and Italy.

Bank lending for *urban use* took off later than lending for urban transport. Nevertheless, 82 projects in the EU had been financed by the time of the evaluation. Out of the EUR 7.4 billion of EIB lending for urban use, 3.2 billion (42%) went to large urban restructuring projects, such as land reclamation and sewerage systems, and EUR 3 billion (40%) to other urban use, such as the renovation of historical city centres and cultural and historical buildings. So far social housing and the office space market represent still a small fraction of the Bank's lending in this sector. In terms of geographical distribution, urban use projects in Italy and Germany received EUR 2.9 billion (39%) and 1.2 billion (16%) respectively, followed by Spain with EUR 731 million (10%).

2 OBJECTIVES

2.1 Fundamental and Specific Objectives

The Bank's project documentation lists the objectives that the project under consideration is expected to achieve. Typically, the range of possible objectives is extensive. For example, it may include improving the quality of life or the urban environment, reducing traffic congestion or increasing the reliability of the transport system, attracting foreign and domestic visitors, etc.

In part, the wide range of objectives can be explained by the many stakeholders involved in complex urban development projects. Between the first idea and the final decision, the project changes in scope and design and the relevance of objectives changes, in general until the decision receives the backing of the majority of stakeholders. The project needs to be promoted among the stakeholders and the general public, which may lead to additional objectives. The result could be that various stakeholders support the project for different objectives, which the project may pursue simultaneously. Asking the promoter or his representatives about the objectives of a project will consequently produce a series of objectives that find their way to the appraisal report.

A more critical and reflective attitude towards objectives could streamline the analysis and reveal conflicts between objectives, as well as clarify relevant interrelationships between objectives and related instruments or projects. In some cases, based on the project documentation, the evaluation teams had to reject the stated objective of some projects as unachievable (e.g. the provision of office space as an instrument of economic development). In addition, in none of the project appraisal reports was there a discussion of any negative impact on other general objectives. In general, the objectives were not weighted or ranked, but only listed.

The failure to adequately define and weight eligible objectives leads to a situation in which indicators for project success are equally non-transparent. Furthermore, the high number of stated objectives makes it almost impossible to measure achievement rates in relation to each individual objective. Therefore, the evaluation proposes a first level of objectives ("**Fundamental Objectives**") referring to fundamental European Union and national objectives to evaluate the relevance and efficacy of the projects. This set of objectives should be exhaustive, for example (no order of values intended):

- A. Promote economic development
- B. Improve capability (capacity and reliability) of urban public transport
- C. Improve physical attractiveness and/or the image of the city
- D. Improve the environment
- E. Maintain European heritage
- F. Strengthen the compactness of the "European" city and at the same time save on the use of open landscape.
- G. Maintain social cohesion

One objective frequently employed in the Bank's appraisal reports is "Quality of Life". This objective has been excluded from the list, as it has proved too abstract and general: all of the fundamental objectives could be included under the heading "Quality of Life". Furthermore, a project's objectives should be weighted to obtain more precise results, distinguishing between key objectives and additional objectives. A minimal impact threshold should be established. The evaluation team has redefined the objectives of the 10 urban use projects after the site visit. Table 1 shows the reclassified fundamental objectives of the 21 projects evaluated in-depth. The key objective of project sustainability is analysed in a separate section.

Table 1: Fundamental Objectives of the 21 Projects Evaluated

Project	A. Promote Economic Develop- ment	B. Improve Capability of Urban Public Transport	C. Improve Appear- ance, Attractive- ness or Image of the City	D. Enhance Urban Environ- ment	E. Maintain European Heritage	F. Strength- en Compact- ness	G. Maintain Social Cohesion
<i>All 11 transport projects pursue Objective B "Improve Capability of Urban Public Transport" as a key objective; other objectives may come in as additional objectives.</i>							
<i>The 10 urban use and mixed projects have a variety of objectives.</i>							
1		Key Objective	Key Objective	Additional Objective			
2	Additional Objective	Key Objective		Additional Objective			
3		Key Objective		Key Objective		Additional Objective	
4	Project to diverse for classification						
5			Key Objective	Additional Objective		Key Objective	
6	Additional Objective		Additional Objective			Key Objective	
7			Key Objective			Additional Objective	Key Objective
8	Key Objective		Key Objective				
9			Key Objective		Additional Objective		
10			Key Objective		Key Objective	Additional Objective	

Clearly, a project can pursue one or more fundamental objectives. Conflicts between objectives are natural for urban projects; for example, who should be charged for the investments, users or taxpayers? This conflict has occurred and it created serious problems in one project that was evaluated in-depth. In another project, revenues were foregone for the benefit of sojourn quality.

A second level of objectives ("**Specific Objectives**") should form the basis for the indicators used to measure achievement. These specific objectives can be directly influenced by public action, and should be listed exhaustively, for example as follows:

A. Promote Economic Development

Increasing Economic Activity in a Region

The core strategy for regional economic development is to promote the development of new economic activities. In urban projects, the typical case is to increase tourism or the number of visitors in general.

Increase Productivity

None of the urban use projects evaluated resulted in a productivity increase. However, transport projects that improve journey times and reduce operating and maintenance costs are a classic method of increasing the productivity of the economy.

Strengthen Cluster Development

Potential revenues from this strategy include a future higher growth potential as well as some productivity benefits, known as cluster or pooling benefits. Cluster development gained much attention in the 1990s and, in spite of difficulties in assessing the benefits, is thought to be essential to regional development. Yet the risk of failed investment has grown throughout the 1990s, with unsuccessful investment being fairly common, for example in biotech, design, innovation, media etc.

Overcome Bottlenecks

Where bottlenecks are hampering economic development (in land availability, energy or water supply, labour force skills etc.), the economic benefits of overcoming these are very high and can trigger structural improvements. We would expect that in today's European Union severe bottlenecks are very rare, with the exception of urban transport facilities. Following the EU-enlargement and the accession of less developed countries, bottlenecks may become more of an issue.

Note that "increase employment" has not been included in the list of specific objectives, as employment is generally implicit in the objective of increasing economic activity in the region.

B. Improve Capability of Urban Public Transport

Reducing travel times on existing routes.

Creating new direct connections Of the projects evaluated, additional river crossings, tunnels beneath congested A-grade road systems, urban metro developments, suburban railways were examples.

Improving quality of service (reliability, comfort, safety standards) through the introduction, modernisation or expansion of rolling stock.

Improved ticketing and passenger information.

Improved networks offering better connections with other services, reducing the number of necessary transfers.

C. Improve Physical Attractiveness, Ambience or Image of the Urban Environment

Provide local rest and recreation facilities such as parks, promenades

In two of the projects in the in-depth evaluations, increasing the provision of local rest and recreation areas was a key objective. In other projects the development of open space facilities was an additional objective.

Increase sojourn quality of neighbourhoods

The most important examples here are traffic bypasses (in six projects traffic bypasses are an important element). Other examples include the design of roads, public squares and external building appearances. Ambience is a word often used for this type of upgrading.

Provide public image goods:

Public image projects often receive widespread public and political support in fields where cities compete with each other in media-intensive activities. Investment decisions are not

based primarily on the expected rate of return, but on the project's image value and the attention it brings.

D. Enhance the environment

Enhancing the environment by reducing environmental pollution should be distinguished from the other specific objectives under this heading. The typical example of urban projects enhancing the environment is the decontamination of polluted and derelict land. Reducing pollution was a key objective in only one project evaluated in-depth, but it was an additional objective in the transport projects and in three of the urban use projects.

E. Maintain European Heritage

In two projects, preservation of national heritage was a key objective.

F. Strengthen the Compactness of the "European City"

The benefits of the compact "European City" are numerous and include preservation of open landscape, by restricting urban sprawl, and increased choices in employment and consumption. Compact cities provide positive benefit both for residents and visitors.

G. Maintain Social Cohesion

Of the 21 projects evaluated in-depth, there was only one case in which social cohesion was a key objective.

Unproductive Regional Competition

Regions and cities compete with each other for investments, image, attention, media coverage etc. The positive effects of competition have long been recognised and regional competition is thought to guarantee efficient public action. There is strong competition among cities in markets such as trade fairs, ports or leisure activities. However, the positive picture may change if part of the funding is provided at attractive conditions, such as grants. When costs are less of an issue in the eye of the promoter, the decision to enter into in certain projects is more inspired by a "me too" attitude. This may have two effects: funds are not efficiently allocated or, more importantly, the investments may harm each other.

In three of the 21 projects, the evaluation team has found some elements of unproductive regional competition. In one project, a deserted harbour has been provided with two access roads, even though some kilometres south – but in another county - a bigger harbour with idle capacity existed. The deserted harbour remained deserted but at least did not effect adversely the bigger harbour. Another project consisted of the extension of a trade fair in a market segment that already suffered from excess supply. The competitors in this market segment were also subsidised.

The problem of unproductive regional competition was most severe in programmes promoted by a higher regional authority, where the funds were transferred to the final beneficiary as grants, as was the case in several of the operations evaluated. In such cases, it is very difficult, both for the higher regional authority and for the EIB, to restrict the funding to the most efficient projects.

2.2 Integration into an Urban Development Plan

Twenty of the 21 projects were found to be well integrated into an urban development plan, which is a strict precondition for EIB financing. Such integration could not be determined for a programme that included several hundred schemes carried out by different promoters.

The meaning of the concept “Urban Development Plan” has obviously changed over time. Today, large investment projects tend to be a result of a complex planning and bargaining process, from which the Urban Development Plan emerges. As a result, development plans tend to be less stable and more likely to change over time.

The urban transport projects evaluated, in particular metro and public transport projects, have generally been well integrated in physical and policy planning, for example, through integrated ticketing. An exception is one major road project that was intended to influence spatial development in the long term. In the five-year period since opening, the project has generated some development that was uncontrolled due to poor planning procedures by the municipality.

2.3 Contribution of the Projects to the Community Policy “Sustainable Urban Development”

In 1998 the European Commission published a Communication “Sustainable Urban Development in the European Union: A Framework for Action”, which followed on the Communication “Towards an Urban Agenda in the European Union”. The 1998 Communication defined four independent policy aims:

1. Strengthening economic prosperity and employment in towns and cities.
2. Promoting equality, social inclusion and regeneration in urban areas.
3. Protecting and improving the urban environment: towards local and global sustainability.
4. Contribution to good urban governance and local empowerment.

To assess the contribution of the 21 projects to these four EU policy aims, defined after the projects’ implementation, the policy aims need to be compared to the objectives as discussed in Section 2.1.

The Community policy aim “Strengthening economic prosperity” is the same as Fundamental Objective A: “Promote Economic Development”. In four of the 21 Projects “Promote Economic Development” has been the key objective, in three others an additional objective. In three projects, the efficacy was reduced by what we have called unproductive interregional competition.

The Community policy aim “Promoting equality, social inclusion and regeneration in urban areas” emphasises the importance of a co-operative, area-based approach to the regeneration of deprived urban areas. This aim has gained importance in recent years. However, when the 21 projects were carried out in the late 1980s and early 1990s, there was less focus on maintaining social cohesion through urban restructuring projects. Consequently, only one project of the 21 (which was located in Spain) contributes to this Community policy aim.

The two brownfield development projects have contributed to the policy aim “Protecting and improving the urban environment” by decontaminating polluted sites. In a more local sense, the seven projects diverting heavy traffic from densely into less populated areas have improved the urban environment as well. Judging by the 21 projects evaluated in-depth, the EIB has clearly contributed to this policy aim.

The fourth policy aim “Contribution to good urban governance and local empowerment” has not been an objective in the 21 projects evaluated in-depth. But as all 20 projects (one too diverse to judge) have been well integrated into a local urban development plan; good urban governance has been a prerequisite for all projects.

3 PROJECT PERFORMANCE

This chapter analyses in more detail first the implementation performance and, second, the operational results of the urban development projects as measured by the main evaluation criteria: relevance, efficacy, efficiency and sustainability⁴. It will draw both on the 21 in-depth evaluations of individual projects as well as on the desk review of 26 additional projects. In order to avoid unnecessary repetition, the implementation performance of urban transport and use projects is discussed for both together. However, because of the distinct approaches to assessing operational results in urban transport and in urban use, this aspect is dealt with in separate sections.

3.1 Implementation Performance

3.1.1 Scope and delays

Changes in the initial design of the projects have been a significant issue in only a few projects⁵. Generally, in the transport projects reviewed, there is little evidence of significant changes in scope. In a Spanish rail and road project, environmental works were added during implementation, although not at the request of the EIB. In two of the Public Use projects, some changes in the scope of the project occurred in response to office market developments. In one case, contrary to the original planning, office construction was carried out in phases in order to reduce financial risks. This was done after one of the promoters went bankrupt. In addition, in some projects the promoter introduced new objectives, but without changes of scope.

The evaluation did not find a significant distinction between the quality of project implementation by public or private promoters. One of the Spanish metro projects is an outstanding example, on a worldwide scale, of a high rate of km build per annum, achieved at a comparatively low cost per line kilometre and obtained in a fully public context. The main reasons for its successful implementation included a fully integrated management structure, covering planning process, operations and construction management and, in construction management, a highly efficient claims procedure. The river crossing developed by a private promoter demonstrates the merits of an incentivised construction contract. The project opened two days ahead of schedule, after a construction period of 36 months. In case of a delay, the Contractor would have incurred significant financial penalties, which would have increased in proportion to any overrun. Some Greek road projects in the desk review faced significant delays because of planning and expropriation problems. Another transport project in the desk review was implemented late because of the complexities in planning and location of the works, problems to which the Bank had drawn the promoters' attention at appraisal.

In urban use projects, delays in project delivery have occurred mainly in renewal projects, such as projects in which existing city structures have been remodelled and upgraded while they were still in use, e.g. renovations of historic city centres. Some of the urban use projects covered by the desk review also faced small delays. While the number of delayed projects was too small to draw definitive conclusions, programmes seem more vulnerable to delays, especially in regions where bureaucratic, institutional and political complications are common. All greenfield and brownfield developments have been completed more or less on schedule.

3.1.2 Cost overruns

Capital costs have generally been well controlled for most of the 21 projects that have been evaluated in-depth. Only three projects exhibit cost overruns in excess of 20%, whilst in 16

⁴ See annex in this report for definitions of the evaluation criteria.

⁵ Most of the changes have occurred in relatively small projects or components of large programmes rather than large individual projects.

projects outturn costs have been within 10% above or below budget. Only one of the projects in the desk review experienced substantial cost overruns. In general, this can be considered a good achievement. However, the risk and level of cost overruns is clearly reduced by the relatively late entry by the Bank in the vast majority of cases.

Reasons for cost overruns are listed in Table 2. In the 12 projects where overruns have been significant, they have generally been due to insufficient physical contingencies.

Table 2: Reasons for Cost Overruns

	Number of projects
Unforeseen ground conditions/extra civil works costs	9
Additions to project scope	1
Extra environmental works	1
Delay in start	1
No evidence of overrun	9
Total projects	21

Generally, the transport projects considered have been free of major events affecting implementation performance. The Bank's insistence on stringent implementation planning shows that thorough preparation and procedure can pay high dividends during implementation.

In general, the EIB has been associated with urban development projects that deliver broadly on cost and according to time schedule. This is an important part of the "quality stamp" that the Bank can offer to project promoters.

3.1.3 Performance Monitoring by the Promoter

Monitoring must be carried out in relation to the objectives of the project. The extensive discussion on the definition of objectives in urban development projects in Chapter 2 made the point. Without clear - or too many - objectives, no monitoring procedure can be adequate.

Generally, monitoring and data availability has been less than satisfactory for the **urban use** projects, where benefits are diverse, e.g. number of cars in parking garage, visitors of trade fairs, revenues from land sales, let office space, etc. For three out of six urban use projects adequate data were available, whereas for the three others, the promoters could not provide the data for the main indicator for success (theatre attendance for restored theatres, number of non-local visitors to an extended trade fair, number of visitors on the new promenade).

Nevertheless, with one exception, a programme with many different promoters, the available data was sufficient to evaluate the operation. In general, monitoring has been weaker for programmes than for stand-alone projects.

The case is different for projects of which the main objective is not easily measurable, as no direct benefit is apparent, e.g. projects to increase the physical attractiveness of central city areas. Here, monitoring data is not available because the benefits cannot be measured.

A recommendation could be for the Bank to require the promoter to introduce data collection procedures. However, this should not be necessary in most cases. One of the two most commonly used data – land values – is in general available (except in Italy). The other data – number of visitors – is available through entrance fees receipts. Where no entrance fees are levied, it might be considered to require (annual) counting in those cases where the number of visitors is critical to the project's success. The Bank has recently annexed a new section to the finance contract in order to reinforce the monitoring information that promoters must provide.

Some of the **transport** projects evaluated also scored badly on monitoring criteria. In particular, some projects were not monitored against objectives. This was especially true of urban metro and public transport projects where one of the prime objectives was to reduce traffic congestion by achieving a transfer from private transport. However, because car traffic was not the responsibility of the public transport authority, this effect was not properly monitored. This is particularly unfortunate as the effects of the schemes were most probably positive – that is, the promoters are underselling the value of their projects. However, whilst public transport operators appear poor at monitoring car traffic, they are good at monitoring traffic and passengers in public transport. On the other hand, it is understandable that promoters have difficulty monitoring wider economic benefits associated with their investments. The monitoring of the impacts of a river crossing project is a casebook of good practice.

Network Projects: Monitoring of Financial Performance

What is the most useful and cost effective way to evaluate the financial return on transport projects where the effects of the investment are likely to spread over a wide “network”? Two examples where the question arises are where:

- New rolling stock is purchased to replace old units, which are then used on other parts of the network; and
- The investment completes a section of a network, so that a high proportion of benefits are due partly to the new section of railway but also to the journeys through to other parts of the network.

In both these examples, it is difficult to “ring-fence “ the project – so that it is equally hard to produce a reliable estimate of benefits due solely to the investment. In these circumstances, especially where the Borrower is sophisticated and well known to the Bank, it may be most appropriate, rather than to contrive revenue estimates, simply to monitor standard cost coverage indicators of the business as a whole.

This approach should not be exaggerated. It should not lead to turning a blind eye to projects which can be effectively monitored.

3.2 Operational results

3.2.1 Urban transport projects

Relevance / Efficacy

Together, three aspects of the transport projects give an indication of the extent to which they have been effective in achieving their specific objectives: traffic figures, changes in modal distribution, and financial performance.

i) Actual traffic compared with initial forecasts

Opening year traffic in eight of 11 projects was below forecast. Sometimes this was the result of slower rates of transfer or take up or, more profoundly, adverse market reaction to tariffs or charges. Evidence from other transport studies shows that typically there is a gradual increase of demand over the first one-two years of opening. However, subsequent traffic growth in the evaluated projects has generally been higher than forecast, with growth rates between opening year and 2001 shown in Table 3. Thus, in total, traffic has been higher than forecast in the majority of cases.

Table 3: Transport Projects: traffic growth % per annum

Average annual traffic growth	No of projects
Less than 3%p.a.	1
3%-6%	4
6-9%	3
Over 9%	3

Several of the transport scheme appraisals have taken suitably prudent views of traffic growth. The objective of this approach has been to demonstrate that the economics of the project are robust, with the ERR above an acceptable threshold, even with modest traffic growth. This approach is sound and is to be maintained in the case of public sector projects.

In the case of *private* sector transport projects (three of the projects evaluated), the objectives of traffic forecasting are less straightforward. In particular, it may be in the interests of a Concessionaire to encourage the Bank to adopt a cautious traffic forecast if this leaves the Concessionaire in a position to capture all revenue from traffic above this level. It is therefore necessary to have a clear understanding of the purpose of traffic forecasts in private sector projects⁶. Tolls have generally been difficult to accept by the population and new or increased tolls have tended to depress traffic growth.

⁶ We suspect that this aspect to forecasting has improved and strengthened as the Bank's private sector transport portfolio has matured and experience gained. The projects evaluated were pioneering examples of public-private projects.

ii) Changes in modal distribution/effects on mobility patterns

The consequences of inadequate monitoring are particularly apparent in the assessment of impacts on modal split and personal mobility. Most of the urban public transport projects evaluated claimed these benefits but failed to measure them. The traffic analysis of one metro project suggests some modal shift from car (in the sense that the rate of growth of car traffic was arrested) and some evidence of trip generation, suggesting improved personal mobility.

Precise data was available for one tramway project where there had been good monitoring of travel by all transport modes and the Promoter was able to report evidence of a marked reduction (60% to 55%) in the share of car traffic.

iii) Financial Performance

Typically, worldwide, fare box revenues from urban transport projects do not cover operating and maintenance costs, so there is no positive return on capital costs. Therefore, financial performance is normally measured in terms of ratios of revenue to different definitions of operating cost. A prime indicator of project impact is how this ratio has changed since the opening of the new line or services provided by the project. The results of an analysis of these are shown Table 4.

Table 4: Public transport projects' trends in operating ratios
(ratio fare box revenue/operating costs)

Project	Year pre opening	Opening year	2001 or most recent year
Metro A	N/A	-	80%
Metro B	49%	51%	56%
Metro C	43%	44%	43%
Combined transport project	42%	39%	60%
Commuter rail project	58%		71%
Tramway	N/A	-	66%
Rail link	N/A	-	112%

Revenues should be seen in the context of fares policies. In the extreme case, as in two of the concession projects evaluated, the public would not accept the fare structures introduced as part of the project. These examples highlight the added difficulty of traffic and revenue forecasting in toll road projects. Key considerations are the public acceptance of proposed tolls and to balance incentivisation of the concessionaire against the need to establish socially acceptable tolls whilst ensuring the concessionaire is not under-rewarded.

In one private sector transport project, the project is part of a regulated asset base, the return on which is monitored by a regulator. This gives the promoter some autonomy over pricing, whilst ensuring that he is not able, if he so desired, to exploit his partial monopoly position against the public interest. This project serves as a useful model of control through part-regulation and part competition at the sub-sectoral level. In another private road project, the return to the Promoter is capped by a limit on revenues from the concession, defined by cumulative traffic using the road.

The participation of the private sector in urban development projects (nowadays referred to as PPPs)

Five PPPs⁷, out of ten analysed in the in-depth evaluation or in the desk review, faced problems because revenues were lower than foreseen or were severely at risk. The main reasons were:

- (i) The non-acceptance of (increased) tolls by local users
- (ii) Actual traffic turned out lower than expected
- (iii) Downturn of the property market prices

Refusal by the public of tolls was one of the main reasons to cancel a Concession Agreement and the subsequent re-awarding of the concession to a public sector entity. In another case, the public authority had to subsidise the Concessionaire to compensate for not introducing the agreed toll increase.

A third transport project ran into difficulties because the traffic turned out to be significantly lower than expected. The problem was the result of the lack of integration of the project in the public transport network.

A fourth transport project became seriously at risk due to a recession in the property market that led to the bankruptcy of the promoter. This project had to be scaled down to reduce the initial investment in the context of the oversupplied office space market.

After public intervention to address the initial problems, four out of five projects went on to achieve satisfactory results. One transport project continued to perform poorly. The examples show that risk allocation between public and private stakeholders is a crucial issue in the context of PPPs.

One has to bear in mind that the PPPs in the evaluation were among the first that were financed by the Bank. They are now used by the banking community as case studies to improve general understanding of this type of operations.

iv) Additional objectives

Environmental benefits are a specific, but secondary, objective of most urban transport projects and monitoring of environmental effects is normally poor, making it difficult to measure these benefits. This is an important issue for the EIB as the main reason for the Bank's financing of most of these projects (outside regional development areas) was their contribution to improve the environment. An example of poor practice is provided by the town by-pass components of one road project. These bypasses were designed to take traffic away from heavily populated town centres with consequent environmental benefits. The evaluation showed monitoring of traffic impacts to be extremely poor, making it very difficult to assess the extent of traffic diversion to the new routes.

Economic Development Impacts are difficult to measure. In particular, it is difficult to isolate the effects of a transport investment from wider trends in economic development. Nevertheless, there appears a clear break in logic when listing economic development as a project objective and then failing to measure it.

⁷ Four transport projects and one urban use project

v) Conclusion

Based on the measures of actual traffic, changes in modal distribution and financial performance, the urban transport projects generally meet the promoters’ needs and can be considered relevant and effective in all cases. The extent to which the wider objectives are met is less clear and likely to be varied.

Some examples for improved specification of objectives are given in Table 5.

Table 5: Ideas for Improved Statement of Project Objectives

Stated Objective	Clarification; indicators
“Reduce road traffic congestion”	<ul style="list-style-type: none"> • Include a map showing the key routes where an improvement is anticipated; • Specify times of day; current car traffic speeds at these times in appraisal year and forecast of what these speeds would be without and with the project;
Improve access to public transport	<ul style="list-style-type: none"> • Conduct before and after surveys to estimate % or numbers of population within specified walk time/distance of a public transport stop
Improve reliability and punctuality of service	<ul style="list-style-type: none"> • Collect before and after data on (i) reliability (% timetabled services cancelled) and (ii) punctuality (% services arriving within 3 minutes of timetable).
Improve comfort of service	<ul style="list-style-type: none"> • Develop and monitor service comfort indicators covering ride quality, station ambience, cleanliness, and passenger security.
Develop integrated transport services	<ul style="list-style-type: none"> • Introduce “through” tickets usable on all public transport services (heavy rail, metro, bus and tram etc, even taxis) • Provide park-and-ride facilities at attractive tariffs

Efficiency

Efficiency is typically measured by a project’s Economic Rate of Return (ERR), although in the evaluated projects this does not capture all project benefits. In the majority of projects evaluated, it has not been possible to re-work the ERR. However, in most cases, by comparing investment cost to forecast and traffic to forecast, it has been possible to judge whether, if formally re-worked, the ERR would be higher or lower than estimated ex ante. The results of these exercises are summarised in Table 6.

Table 6: Economic Efficiency of Projects

Projects for which ERR was estimated ex post:	No of projects
Greater than ERR ex ante	5
Equal to ERR ex ante	0
Less than ERR ex ante	3

Projects for which ex post ERR was based on judgement:	No of projects
Positive projects: capital cost less than forecast; traffic greater than forecast	2
Negative projects: capital cost greater than forecast; traffic less than forecast	1
Middle ground projects:	0
Capital cost less than forecast; traffic less than forecast	0
Capital cost greater than forecast; traffic greater than forecast	2

Note: this total of 13 includes separate appraisal results for 2 loans to a single metro project as well as 2 loans for a combined road and rail project.

The overall judgement from this analysis is that, of the 11 transport projects (13 loans), seven show an outturn ERR greater than forecast and four show an ERR less than forecast, with two undecided. Note that none of the ERRs would be below 5%, which is the normal benchmark for EIB projects in the European Union. However, four projects in the desk review already had ERRs between 3 and 5% ex ante. The wider economic and environmental benefits that are positive almost without exception are not captured by the ERR. The conclusion from this analysis is clear: the EIB has financed economically sound urban transport projects.

Project sustainability

All the transport projects evaluated are deemed sustainable, as they are technically sustainable, enjoy continued government commitment and socio-economic support, are effectively managed and seem economically, financially and environmentally sustainable.

Aggregate Project Performance

The aggregate performance of the urban transport projects is good. They generally meet promoters' needs and are seen to be relevant and effective. Efficiency is high. The eleven projects that were evaluated in-depth are economically sound and sustainability is good. This shows that having to go through a long decision-making process with many stakeholders tends to ensure a certain quality standard.

3.2.2 Urban use projects

Relevance / Efficacy

As discussed in Chapter 2, urban use projects tend to serve several objectives simultaneously and some of the objectives are difficult to measure. In order to assess a project's performance, the various fundamental objectives and their outcome (efficacy) need to be identified and individually considered. Note that the Fundamental Objectives assessed were not the wide objectives given in the appraisal report (taking these as a basis, efficacy would probably be far lower, but in general not measurable), but rather those that the evaluation team assigned to the projects after the field visits. In no project have the results been counterproductive: all projects deliver at least some positive benefits, although this does not necessarily mean that output is commensurate with input.

The efficacy of the urban use and mixed projects that have been evaluated is high. However, one programme was too heterogeneous to evaluate and in one project, the key objective has not been achieved. The last project concerns the extension of a trade fair, which did not help to promote economic development. In a second programme, the key objective has been achieved by most, but not all, schemes.

Efficiency

In projects with the objectives Environment, Heritage, Image, Compactness and Social Cohesion, efficiency cannot be assessed by simply comparing inputs with outputs, because the output cannot be expressed in monetary terms. Efficiency can therefore only be assessed in terms of cost efficiency, i.e. whether it would have been possible to achieve the same results with lower inputs.

In three projects the evaluation team has detected superior alternatives producing equivalent or higher benefits at lower costs (alternative design). However, in none of the evaluated projects has the EIB analysed alternatives to the proposed project.

For most urban projects, the financial and the economic return can be estimated. However, the estimation of the economic rate of return is a complex task and not fully objective.

The revenues of the project give the financial rate of return (FRR), e.g. land sales receipts, entrance fees, rents etc. Table 7 presents the Financial Rates of Return over the expected lifetime of the 10 urban use projects evaluated in-depth.

Table 7: Ex-ante and ex-post FRR of the Urban Use Projects

Project	FRR	
	<i>Ex ante</i>	<i>Ex post</i>
A	No revenues	
B	Only some components generate a financial return	
C	Only some components generate a financial return	
D	Only some components generate a financial return	
E	-4, 0%	9, 3%
F	7, 5%	10%
G	No revenues	
H	-7, 0%	Lower
I	Not available.	Not available.
J	Only some components generate a financial return (and some are not yet operational)	

Two out of ten urban use projects (including four mixed projects) do not produce any revenues, as is the case for the creation of open spaces. Some are programmes in which only some projects produce revenues, and where an FRR for the entire investment programme would thus be misleading. For other projects, the evaluation team could not obtain revenue figures.

Comparing ex-ante and ex-post FRR where this data is both available and reliable clearly indicates that ex-ante assessments were of good quality. In only one project were ex-post results so disappointing that the investment must be considered a mistake. The poor results of this project had been predicted at appraisal, but the project was financed nevertheless. In one case – a site development project – ex-post results exceed ex-ante estimates by far (+9.3% compared to -4%), reflecting the particularly high risks and unexpected windfalls associated with land development.

As mentioned above, measuring **economic benefits** is the most complex task⁸. Not all benefits can be expressed in monetary terms, and other measures of benefits (e.g. employment, votes, social points, ecological footprint) prove to be even less useful because they are not comparable to inputs.

In four urban use projects the evaluation team had to recalculate the ex-ante ERR, as methods employed at appraisal did not seem entirely appropriate. In one project the ERR did not take the main benefit of the project (heritage) into account, in two others the changes were minor and in another project the recalculated ERR pointed in the other direction. In a further project, the method employed was appropriate but the level of benefits was overstated ex-ante.

⁸ The ultimate goal to condense several economic benefits into one single figure, the ERR, can probably never be achieved, despite successful and ongoing research on cost-benefit-analysis and public choice theory.

Table 8: Efficiency of the 10 Urban Use Projects Evaluated

Project	Cost-Benefit-Efficiency (ERR)			Is the selected alternative best?	
	<i>Ex ante EIB</i>	<i>Ex ante Evaluation*</i>	<i>Ex post</i>	<i>Ex ante (EIB appraisal)</i>	<i>Ex post</i>
A	7.2% - 12.9%	>7.2 – >9.5%	10.40%	Not considered	Yes
B	n.av.		n.av.	Not considered	No
C	15.00%		12.00%	Not considered	Yes
D	n.av.		n.av.	Not considered	Unclear
E	7.00%	-0.60%	15.00%	Not considered	No
F	7.5% (4.2%**)		>10% (>6.3%**)	Not considered	Yes
G	7.70%	>7.7%	8.00%	Not considered	Yes
H	1.00%	Negative	-7.00%	No	No
I	5.0-9.0%	n.ap.	n. ap.	Not considered	Yes
J		n.ap.	n. ap.	Not considered	Yes

* Where re-estimates by Evaluation Team were deemed necessary

** Sunk costs included in the investment total costs

The ex-post ERR could only be calculated for six out of the 10 urban use projects evaluated in-depth and only in one case it was unacceptably low. In three further cases, the efficiency of the projects was rated good, based on qualitative assessments. One programme, which consisted of a large number of schemes carried out by many promoters, was too diverse to be assessed.

Sustainability

On the basis of same criteria as those used for urban transport projects (see Section 3.2.1), all of the urban use projects evaluated are deemed sustainable.

Aggregate project performance

Overall performance for eight out of 10 urban use projects has been rated as good. The results were poor for only one project and a second project was too diverse to assess (see summary table in Annex 2). The following elements may have contributed to the positive results:

- Relevance/efficacy is in general high in urban use projects. Most of the projects are in central city locations, in general too central and too scarce not to be used. This is particularly true for growing cities (growing in terms of used space), which most cities still are.
- A similar argument is valid for efficiency. The major threat for big developments is in the first years when a drop in revenues has a large impact on profitability.
- A slowdown in the real estate prices is more than likely to risk bankruptcy. Two projects were affected by real estate market developments. Favourable market conditions ensured that the first project yielded a two-digit ERR, but in the second a company involved went bankrupt in the early stage of the project.

- Urban use projects proposed for EIB finance have normally gone through a lengthy decision-making process with numerous stakeholders, which tends to ensure a certain quality standard.
- For projects for which the main objective cannot be expressed in monetary terms, such as heritage or city image, the delivery of the project on time and within budget can be considered a successful operation.

4 EIB'S PERFORMANCE

The final chapter analyses the Bank's contribution to the success of the projects that have been reviewed. To this end, it looks at the Bank's management of the project cycle (project identification, appraisal and monitoring), and the value added by the Bank (financial and technical additionality).

4.1 Project cycle

Project identification

The Bank identifies projects mostly through its regular contacts with public authorities, its network of regional offices, technical contacts (at conferences, seminars etc), attendance at annual sectoral programme meetings organised by host ministries and direct approaches from prospective promoters. Follow-on projects with existing borrowers are an important source of activity. Previous projects might have covered different sectors, but they are carried out by the same promoter. Financial intermediaries are not usually a source of project identification, except in Germany. The Bank reacts to borrowers' needs, rather than acts as an initiator or formulator of projects. Its finance is attractive to some of Europe's top quality promoters. There is, in general, no evidence of undue problems with promoters in the projects considered. Since needs are varied, the range of the projects reviewed here reflects well on the Bank and its activity. Clearly, the EIB is flexible and adaptive to borrower needs.

Identification was not based on any comprehensive set of eligible objectives that would link European Union and national objectives, the derived EIB objectives and the individual project's objectives. Such a structured set of objectives does not exist and it is therefore recommended that an urban development policy paper attempts to define the priorities.

Quality of Appraisal

The Bank's due diligence on the projects reviewed appears thorough, covering the technical, economic, financial and environmental aspects of the projects. Economic viability was the principal criterion for project selection. The intensiveness of the appraisal is adapted to the characteristics of the project under review. In a number of cases, especially urban use, a lighter appraisal may well have been possible. The main difficulty in evaluating these projects stems from the unclear and vague definitions of the objectives. In general, the project's financial revenues can be well covered, while wider, economic effects – which, in general, are the key objectives of urban use projects – are often very difficult to assess. In addition, the evaluation showed an inconsistent approach, with different methods being used in comparable situations.

In line with normal practice, the transport projects appraised have focused on estimation of travel time benefits. Whilst timesavings are often a key component of economic benefits, they are not a sufficient indicator of the economic profitability of the project.

The urban use projects often involved multi-sectoral operations, while the urban transport projects consisted of single sector operations. Urban projects were often part of a large investment plan implemented by the public authorities with the objective of improving the overall urban environment. For this reason the appraisal of these projects was often not a straightforward task.

In many of the operations financed, various projects carried out by different promoters have been grouped together and appraised as one unit. This type of operations is often referred to as Framework loans. In these operations, the main shortcoming identified in this evaluation was that the Bank added value in all the phases of the project cycle, from identification to monitoring, was significantly lower than in the rest of the projects financed. This is mainly explained by the limited direct contacts of the Bank's services with the individual project promoters. In most of these cases, Bank's funding was provided to an entity, such as a regional authority, which had limited influence on the projects development. This evaluation suggests that the Bank should have a "programme cycle" adapted to this type of operations, with a more detailed examination of these programmes.

These frameworks loans, when properly handled, can potentially allow the Bank to create significant value added by providing expertise to weaker promoters or helping in the development of complex programmes. For example, one loan to a Spanish city was diffuse and probably time consuming to manage, but supported a good project and also helped the promoter obtain grant funding.

Project Monitoring by the Bank

This evaluation has shown that in many cases monitoring was weak or non-existent. However, it should be noted that in recent times the Bank has made efforts to improve this situation. This is done by systematically discussing monitoring requirements with promoters at the time of appraisal and by including a sufficiently specific clause on the subject in the financing contract.

Monitoring does not always have to focus on the borrower's delivery of the project scope. Particularly in urban development projects, which form part of an urban plan, it is normal for some components to be changed during implementation. In these instances, it is important to avoid obsessive monitoring related to initial physical objectives (km of roads, rolling stock, etc.), but to concentrate on whether the project is essentially meeting its key objectives. Obsessive monitoring of every detail of physical implementation was an issue in one of the programmes in the in-depth evaluation consisting of a series of sub-schemes.

Programme loans could be approved with a much looser definition of scope ("track renewal in region A"), while monitoring would focus on outputs such as indicators of business performance, rather than on a detailed review of the physical objectives. However, this would be a rather fundamental departure from the traditional monitoring approach followed by the Bank.

4.2 Additionality

Financial additionality

The assessment of financial additionality would necessitate a comparison of the situation with and without the Bank's involvement in the project. For most of the projects, it was not possible to have information on alternative sources of finance available at the time. Financial additionality can arise through (i) the loan terms and conditions, (ii) the Bank's quality stamp on a transaction, mobilising co-finance and (iii) the Bank's financial expertise in offering innovative and attractive finance structures.

Additionality of type (i) has been progressively eroded in the decade since most of the projects in the evaluation were financed. Borrowers mentioned flexibility on repayment options, loan tenor (duration) and grace period as features that can still differentiate the EIB from other

lenders. The Bank's quality stamp remains important for borrowers, as projects in the evaluation have demonstrated. Financial additionality of the third type is rapidly gaining importance. The extent to which the Bank offered financial value-added in the urban development projects can be deduced by looking at the various elements of the financing plans and how they fit together. Table 9 below categorises the 21 projects evaluated in ascending order of financial additionality: in all projects, there was additionality of type (i) – if not, the loan would not have taken place. In eleven of the 21 projects most likely there probably has also been additionality of type (ii) – the Bank's quality stamp acting as a catalyser to bring in further finance. In one of these 11, we find additionality of type (iii). This operation is an early example of the Bank contributing its financial expertise to produce innovative and attractive finance structures. In this particular project, the Bank has also accepted project risk.

In the desk review, there were three examples where the Bank has also accepted project risk by having its loans secured by charges on revenues and/or assets. In addition, more than 70% of the projects were co-financed with other banks. In Public/Private Partnerships financed on a project-finance basis, the Bank has generally played a decisive role.

Table 9: Categorisation of projects according to financial additionality

Description	Number of projects
<i>EIB the only source of long term finance</i>	10
Loan to State passed on as subsidy	3
EIB loan additional to budgetary or own funds (including ERDF)	4
EIB loan guaranteed by other banks	3
<i>Co-financing with other banks</i>	11
EIB involvement has mobilised other loans	10
Project risk taken by EIB	1

Technical additionality

Promoters found the Bank flexible, responding quickly to projects that are well prepared and equally ready to wait when promoters need more time to present projects for appraisal. However, the scope that existed for the Bank to provide technical additionality in the projects evaluated appears to be limited.

Whether the Bank should provide technical input (rather than technical due diligence, which clearly *is* needed during appraisal) depends on project characteristics, borrower competence, and Bank leverage. In the European Union, the need for technical input rarely arises because of the borrowers' competence. In addition, the Bank's late entry in the project cycle, often after the start of construction, by itself limits opportunities for technical additionality. In only two of the 21 projects the Bank could have had technical added value.

None of the 21 projects evaluated faced significant environmental problems. Only one project raised important environmental issues at the planning and implementation phase. The promoter addressed these by introducing high environmental monitoring standards. In this process, the EIB actually provided a significant technical additionality.

The Bank should put more emphasis on considering viable alternatives to the projects proposed. In four out of the 21 projects evaluated in-depth, the evaluation identified better and more cost effective alternatives. However, in the large majority of cases, alternatives were not considered in the Bank's appraisal.

EVALUATION CRITERIA

Core criteria

Project performance is assessed using the evaluation criteria as defined by the OECD, DAC Working Party on Aid Evaluation. These are also used in the Evaluations Cooperation Group, which brings together the evaluation units of the multilateral development banks. The criteria used in all evaluations are relevance / efficacy, efficiency and sustainability.

- Relevance is the extent to which the objectives of a project are consistent with the beneficiaries' requirements, country needs, global priorities and partners' policies.
- Efficacy relates to the extent to which the objectives of the project have been achieved, or are expected to be achieved, taking into account their relative importance, while recognising any change introduced in the project since loan approval.
- Efficiency is the measure to which project benefits/outputs are commensurate with resources/inputs (funds, expertise, time, etc.).
- Sustainability relates to the likelihood of continued long-term benefits and the resilience to risk over the intended useful projects life.

Complementary Criteria

The following criteria are used dependent on their relevance to the evaluation.

- 1. Institutional Development** – The extent to which a project improves or weakens the ability of a country or region to make more efficient, equitable, and sustainable use of its human, financial and natural resources, for example through: (a) better definition, stability, transparency, enforceability and predictability of institutional arrangements and/or (b) better alignment of the mission and capacity of an organization with its mandate, which derives from these institutional arrangements. Such impacts can include intended and unintended effects of a project.
- 2. Other Impacts** – This criterion can include other areas of special focus, including:
 - a. Poverty reduction - extent to which project achieved planned poverty reduction impact; unintended impact should also be considered.
 - b. Transition impact
 - c. Environmental impact
 - d. Other impacts
- 3. Borrower Performance** – Adequacy of Borrower's assumption of ownership and responsibilities during all phases. Main focus on effective measures taken by Borrower to establish basis for project sustainability, especially – and right from the identification stage – through fostering participation by the project's stakeholders, in addition to its own support.
- 4. EIB Performance** – Quality of services provided by the EIB during all project phases. Main focus is on EIBs' role in ensuring project quality at entry; that effective arrangements were made for satisfactory implementation and future operation of the project, as well as EIBs' financial additionality.

THE EUROPEAN INVESTMENT BANK

The European Investment Bank (EIB) is owned by the fifteen European Union (EU) Member States and has its headquarters in Luxembourg. It supports EU policies on a self-financing basis, raising its resources on the world's capital markets for onlending to sound capital investment projects that promote the balanced development of the European Union.

Set up in 1958 by the Treaty of Rome, the EIB has its own administrative structure and decision-making and control bodies (Board of Governors - usually the Finance Ministers of the Member Countries - Board of Directors, Management Committee and Audit Committee).

As a major international borrower, which has always been awarded the highest "AAA" credit rating by the world's leading rating agencies, the EIB raises large volumes of funds on fine terms; it onlends the proceeds of its borrowings on a non-profit basis.

The volume of the EIB's operations has grown steadily and the Bank is today one of the largest financing institutions of its kind in the world. While the bulk of its loans are within the European Union, the Bank has also been called upon to participate in the implementation of the Union's development aid and cooperation policies through financing for the benefit of some 120 non-EU countries. It therefore supports:

- Economic growth in the African, Caribbean and Pacific States and the Overseas Countries and Territories, as well as in the Republic of South Africa;
- A stronger Euro - Mediterranean partnership;
- Preparations for the accession of the Central and Eastern European Countries and Cyprus;
- Industrial cooperation, including the transfer of technical know-how, with Asia and Latin America.

The EIB began carrying out ex-post evaluations in 1988, mainly for its operations in non-EU Member Countries. In 1995, the Bank established an Evaluation Unit to cover operations both inside and outside the Union. Ex-post evaluations take a thematic approach and are intended for publication. To-date the bank has published:

1. Performance of a Sample of Nine Sewage Treatment Plants in European Union Member Countries (1996 - available in English, French and German)
2. Evaluation of 10 Operations in the Telecommunications Sector in EU Member States (1998 - available in English, French and German)
3. Contribution of Large Rail and Road Infrastructure to Regional Development (1998 - available in English, French and German)
4. Evaluation of Industrial Projects Financed by the European Investment Bank under the Objective of Regional Development (1998 - available in English, French and German)
5. An Evaluation Study of 17 Water Projects located around the Mediterranean (1999 - available in English, French, German, Italian and Spanish).
6. The impact of EIB Borrowing Operations on the Integration of New Capital Markets. (1999 – available in English, French and German).
7. EIB Contribution to Regional Development A synthesis report on the regional development impact of EIB funding on 17 projects in Portugal and Italy (2001 – available in English (original version), French, German, Italian and Portuguese (translations from the original version)).
8. Evaluation of the risk capital operations carried out by the EIB in four ACP countries 1989-1999 (2001 - available in English (original version), French and German (translations from the original version)).
9. EIB financing of energy projects in the European Union and Central and Eastern Europe (2001 - available in English (original version), French and German (translations from the original version))
10. Review of the Current Portfolio Approach for SME Global Loans (2002 – available in English (original version), French and German (translations from the original version)).
11. EIB Financing of Solid Waste Management Projects (2002 – available in English (original version), French and German (translations from the original version)).
12. Evaluation of the impact of EIB financing on Regional Development in Greece (2003 – available in English (original version)).
13. Evaluation of Transport Projects in Central and Eastern Europe (2003 – available in English (original version)).
14. EIB Financing of Urban Development Projects in the EU (2003 – available in English (original version)).

These reports are available from:

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