



# Financing a city's or region's long-term capital investment programme: EIB framework loans

## Factsheet

An online course (MOOC) for regional and local authorities

### When might a city or region need a framework loan?

Cities and regions have a variety of financing needs. When **a single large investment project** needs long-term funding (such as a metro or a complex urban regeneration project) they typically arrange financing on a project basis. In such cases the European Investment Bank (EIB) or other banks can provide dedicated project-specific loans – at the EIB we call them **Investment loans** because they are used for single investments.

**Framework loans** are different. They are used to finance tens or even hundreds of projects all within an investment programme – typically a subset of projects from the city's or region's medium term capital investment plan for which the entity needs a source of long-term financing which is flexible enough to handle changes in the investment programme over time. **Framework loans can be used to finance multiple small and medium sized projects, usually in the size range EUR 1-50 million, over a period of normally 3-5 years.** City or regional Councils typically work with 3-5 year capital investment programmes but only give final approval to investments on an annual basis. Framework loans take this into account by setting up a framework of agreed criteria for the financing which allows for projects in the indicative investment programme to be replaced by other projects provided they meet the same criteria.

Some cities and regions which benefit from European Structural and Investment Funds (ESIF) use EIB framework loans to provide the co-financing requirement. Typically they finance a range of in-

vestments, some of which are purely under the city or region's budget, and some of which are eligible to benefit from ESIF funds. The confirmation of ESIF funding (e.g. when the city or region responds to a competitive call) may make the difference between a project being affordable and going ahead or being unaffordable and being deferred or cancelled. The framework loan can adjust for such eventualities because projects can be replaced with other projects relatively easily.

### What kinds of cities or regions could benefit?

The total size of the investment programme financed under a framework loan is usually over EUR 100m, with the EIB framework loan providing up to 50% of the total financing. This corresponds to an investment programme for the city or region of at least EUR 20m per year for 5 years. In EIB experience, even cities with a population of as low as 75 000 can generate sufficient investment volume to justify a framework loan, although most of the cities and regions which have framework loans are larger.

**Between 2005 and 2015, some 70 framework loans were signed with 47 EU cities located in 12 Member States totalling over EUR 7.5 billion of EIB infrastructure investment. The corresponding figures for 41 EU regions is some 60 framework loans signed in 8 Member States totalling over EUR 4.3 billion of EIB infrastructure investment.** A list of cities and regions which have Framework Loans already signed or



Board-approved with the EIB since 2005 is shown at the end of this factsheet.

## What are the key features?

- The **borrower** is typically the city or the region, but provided they take responsibility for repaying the EIB loan, they can on-lend the funds to urban or regional companies (such as water or urban transport companies) which can be responsible for the implementation of the projects. The city or region must have a legal relationship with the implementer.
- The projects can be in a range of **sectors** but the list of sectors must be agreed upfront between the EIB and the city or region. They can include for example roads, public transport, water, solid waste, urban revitalisation, social housing, culture, health, education, sports facilities, energy efficiency, public parks and green space. Projects included in the framework loan must contribute positive economic benefits to the city or region, must be financially sustainable, and meet EIB environmental and social requirements.
- Projects are subject to different levels of EIB appraisal depending on their **size**:
  1. Projects **under EUR 25m** are selected by the borrower in line with EIB eligibility requirements under the finance contract, and the EIB confirms the selection and allocation of the projects to the loan after disbursement (EIB ex-post confirmation);
  2. Projects **between EUR 25-50m** need to be approved by the EIB before EIB funds can be used to finance them according to a project fiche (EIB ex-ante confirmation);
  3. Projects **above EUR 50m** need a full separate stand-alone appraisal and approval by the EIB Board; generally the framework loan is not used for investments over EUR 50m but it is possible.
- There are two key **financial thresholds** which the EIB applies:

1. EIB's loan **cannot finance more than 50%** of the overall investment programme (though EIB funds can finance more than 50% of a single project provided there are other projects with a lower share to make the average share less than 50%)
  2. **EIB+EU financing cannot together exceed 90% of the total investment programme in transition and less developed regions** (though, again, they can exceed this for a single project provided that the average across the whole investment programme remains below 90%). Regarding the latter ratio, it is **70% for developed regions**
- **Timing** aspects are important. The individual projects financed under the loan cannot be more than 50% physically complete by the time of the EIB's appraisal of the overall framework loans – ie. already implemented or nearly complete projects cannot be included. Projects can however be proposed any time up to the end of the period specified in the finance contract – typically 3-5 years.

## What are the steps leading to the signature of a framework loan?

In order to prepare and sign a framework loan, the typical project cycle for EIB projects is followed, including the following steps:

- City or region approaches the EIB and there is an initial exchange of information to confirm interest on both sides
- EIB prepares internal first stage approval
- EIB sends a questionnaire comprising questions to ask for information to support the EIB with its appraisal, supplementing information EIB can obtain from the internet and in-house sources
- An appraisal mission of typically 1.5 days takes place, during which the EIB sends a loan officer plus two technical urban specialists. The appraisal mission is a key step and typically comprises discussion of issues flagged by EIB specialists during their review of the answers to



the questionnaire, meetings with the different departments involved in the projects and the city or region's administration, and site visits to a selection of projects which are expected to be covered under the framework loan

- There is some correspondence following the appraisal mission to discuss any outstanding points
- The EIB approval is sought from the EIB's Management Committee and Board of Directors; in parallel the city or region seeks approval from the Council
- The finance contract is negotiated on the basis of a draft provided by the EIB
- The finance contract is signed

The whole process typically takes 6 months to 1 year depending mainly on the availability of information. A summary of how the specific city/region framework loan aspects fit into the regular EIB project cycle is shown in the figure below.

EIB project cycle – how specific framework loan aspects fit in

ther “allocated” to the loan, or have actually been physically implemented on the ground.

“Allocation” here refers to the process through which a project intended for financing under the framework loan is formally submitted to EIB by the city or region, the EIB reviews its soundness and eligibility for inclusion in the framework loan, and then the EIB issues a formal “allocation letter” confirming that the project has been included among the projects financed under the framework loan. Depending on the size of the project, the level of information which the city or region needs to send to the EIB varies – for projects below EUR 25m the projects can be listed in a pre-defined table; for projects above EUR 25m a project fiche is submitted for each project, also on a pre-defined format; and for projects above EUR 50m a full feasibility study and separate appraisal is normally required. The process is illustrated in the figure below.

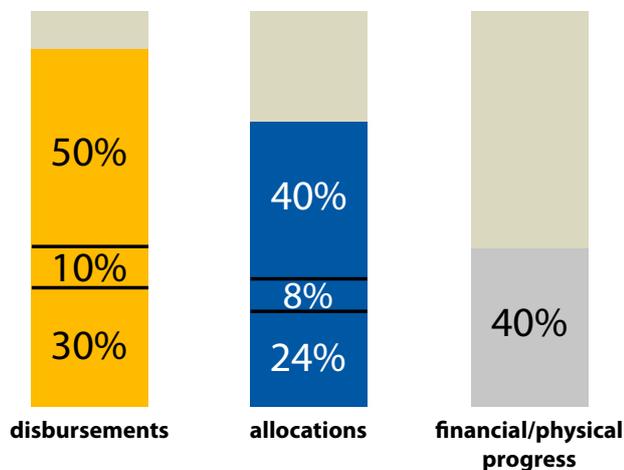
## How is the loan funding disbursed?

During the implementation of a framework loan, the city or region prepares projects for funding under the loan and submits them to EIB for funding in batches. For the **first tranche of the loan, there is typically a 30% upfront disbursement** and then the next disbursement can only follow once a sufficient number of projects have been ei-

As can be seen from the stylized figure on the next page, which shows a snapshot of a framework loan under implementation, the disbursements normally come first, but gradually more and more projects are allocated to the framework loan and progress through financial and physical implementation on the ground in terms of construction.



### Snapshot of a typical framework loan under implementation



### What are the monitoring and reporting requirements?

The EIB normally asks cities or regions to **report annually on the progress of the framework loan**. The format and content of the report is specified in the finance contract, and typically comprises:

- an **overview of progress** in terms of disbursement, allocations and construction, as well as any particular issues or risks which have arisen
- a **table of the allocated projects** showing changes in scope, delays, changes in cost, environmental and procurement aspects, or other relevant issues

The EIB may arrange with the city or region to carry out a monitoring visit – these are typically every 1-2 years, but could be more frequent in case of particular issues to address.

Once all the projects are allocated, and normally 1 year after all schemes are physically implemented, a completion report must be submitted. The aim is to review how the overall framework loan has been implemented in comparison to what was expected at the time of appraisal, and to review what has been achieved in terms of investment and projects actually under operation contributing to the life of the city or region. The EIB normally carries out a visit to the city or region to

discuss the results of the project at completion, and to prepare its own internal completion report reviewing lessons learned which can be fed into future projects if appropriate.

### Ingredients for success

Experience has shown that framework loans work most effectively when the following key ingredients are present:

- The city or region has a **good medium term capital investment planning process** linking investment to its overall and sector-specific strategies – a well-defined set of projects which have wide-spread support among citizens and political parties and will be robust even in case of new elections. If the investment programme is more a “wish-list” subject to constant change, it can become difficult to prepare and implement a framework loan.
- As with any loan, it is the working arrangements between the Bank and the city or region which are critical. The key is for a city or region to have a **framework loan coordinator** who can interface with the EIB as well as with the various city or region departments from which information is needed. This person can be a senior investment officer or a junior official with backing and support from their hierarchy. This does not need to be a full time job but it should be specifically tasked, with adequate time provided for carrying it out.
- Shared experience also helps – EIB encourages cities and regions to **contact other cities and regions** which already have EIB framework loans so that they can directly share their experience of how to make this versatile tool work best (see list of cities and regions here).

### Frequently asked questions

- Are municipal framework loans on-budget?  
*Yes, they count as municipal debt.*



- Can they be used to finance municipal or regional company investments (eg. buses/trams)?

*Yes, but the EIB loan is with the municipality or region – the municipality or region can on-lend, build assets and transfer, recover fees etc., but it is the municipality/region that repays to EIB.*

- Can they be combined with EU grant funds?

*Yes, as long as the total of EIB+EU is not more than 90% of the total investment programme (70% for developed regions).*

- Are they very bureaucratic?

*The EIB has to ensure its funds are invested in projects which benefit society, so it does need information; experience shows that with a good project coordinator appointed by the city or region, the reporting is easier to manage.*

- Is EIB funding counted as “state aid”?

*No, but the EIB does review whether state aid aspects have been adequately handled for the non-EIB public funding.*

- Can FLs be used to finance projects which are already under construction?

*Yes, provided they are not >50% physically complete by the time of EIB appraisal.*

- Does the whole investment programme have to be defined at the start?

*No, just the sectors to be covered, plus an indicative investment programme.*

- What if the municipal investment plan changes?

*No problem, this is what framework loans are for: eligible investment sectors are kept wide to handle change.*

- What are the typical loan terms?

- o Loan maturity typically 20-25 years matching economic life of infrastructure
- o Grace period during construction 3-5 years
- o Pricing based on EIB cost of funds backed by its AAA rating, plus a margin
- o Up front disbursement up to 30% of the loan amount
- o Loan can be drawn in tranches with no fees/penalties for undrawn tranches
- o EIB loan can fund up to 50% of total cost of investment programme (but can go >50% on individual projects under the framework provided the average remains below 50%)

## Urban multisector framework loan\*

### Questionnaire to the relevant authorities involved in the coordination and implementation of the proposed investment plan

*This questionnaire is generic, for information purposes. For actual EIB appraisals this template may be adjusted depending on information already gathered by the EIB project team or the specifics of the investment programme.*

*\*for regional framework loans, a similar questionnaire is used*

## SECTION A: GENERAL INFORMATION

### A.1. Context and background data

- (a) Please provide an update on the socio-economic background data, if possible vis-à-vis the City and comparison at national level (population level and trends, economic indicators such as local GDP and share of regional

GDP, key industries and economic drivers, unemployment levels and trends);

- (b) Please provide a Map showing the location of the main investments planned for financing under this Framework Loan (FL). Please locate at least the projects above EUR 50 million.



## A.2. Development strategy, land use planning and investment planning

- (a) Key development problems, issues and challenges of the City;
- (b) Update of the Development Strategy under which the investments of this project (EIB Framework Loan) are included. Priorities of the Strategy and their link to the proposed investment plan and other programmes of the City – structure/hierarchy of documents and their mutual relation;
- (c) Please provide an update on the spatial planning process of the City (Municipal Masterplan); application of principles of integrated urban development plans; procedures of the revision/update. Describe the current coverage of the territory, various areas/zones, planned changes;
- (d) Do the Strategies or Programmes implemented currently by the City require a Strategic Environmental Assessment (SEA) in line with the SEA EU Directive 2001/42/EC? If so, please provide a copy or link to the document and correspondent Non-Technical summary (NTS);
- (e) Please explain how specific investments are identified and prioritized for inclusion in the proposed investment plan. What selection criteria are applied, particularly with regard to the economic sustainability/justification?
- (f) Please discuss the most important lessons learnt from the implementation in recent years of schemes of similar nature to the ones being proposed for financing under the current operation.

## A.3. Investment programme to be financed by the EIB

- (a) What is the implementation time frame for all the schemes included in this project? (The EIB cannot finance schemes implemented more than 50% at the time of start of appraisal).
- (b) Please explain how the proposed Investment Programme has been defined, particularly the selection criteria used for the different sectors. Please provide available list of schemes to be

included in the EIB project (this list could be updated during the course of the implementation period).

- (c) Please provide the estimated total and annual investment cost per sector (e.g. urban infrastructure, sustainable mobility, etc.) for the construction period considered. Please indicate if VAT is or not included and if is recoverable by the public administration.
- (d) Please indicate the financial sources of this project (EIB loan, municipal, EU grants, other).
- (e) Please explain and how mature the project pipeline is, and how stable the programme is.
- (f) Are any specific technical and/or technological problems and issues anticipated in the construction process of any of the sub-projects (e.g. ongoing sea level rise, soil decontamination requirements, etc.)? What mitigation measures are expected to be taken?
- (g) What is the status of the schemes indicated with cost above EUR 50M? Please provide the key impacts expected, including feasibility studies, cost-benefit analysis and financial/economic rate of return, if available/calculated. Please provide also copy of the EU application for EU Funds, if applicable.

## A.4. Employment

- (a) How is the investment programme expected to contribute to the creation of jobs and the reduction of unemployment?
- (b) Are there any estimates of the likely permanent employment impact of the programme? Are figures per sector available?

## A.5. Administration, implementation and operation

- (a) Please provide an organisation chart indicating which units will be involved in the implementation, maintenance and operation of the schemes included in this project. For investments in each sector, please indicate:
  - Which entity is responsible for implementing and operation/end use of the infra-



- structure developed or redeveloped sites/facilities.
- Implementation arrangements and support units (legal department, procurement department, etc.)
  - How are maintenance and operational costs to be covered
  - To what extent are user charges applied, cost recovery assured, pricing/tariff policy, as relevant.
- (b) Please provide an overview of the IT/Monitoring system used by the City and/or municipal companies for the follow-up of investments. If available, please provide information on sector indicators that your monitoring/IT system may use (e.g.: km of roads, area of renewed or regenerated brownfield sites (ha), number of users of renewed or new facilities (number of persons), energy savings (MWh/year), etc.).
- A.6. Environmental and social impact**
- (a) Arrangements in place to ensure application of relevant environmental law? – EIA (Environmental Impact Assessment), SEA (Strategic Environmental Assessment) and protection and conservation of Habitats and Birds. Please describe competence, capacity and procedures for environmental and social impact assessment of investment projects.
- (b) What is the form of public consultation, in the event a full EIA? How is the Non-Technical Summary of an EIA made publicly available?
- (c) Are there any protected sites (e.g. Natura 2000) in the City? Are any of them expected to be affected by any of the projects (if so please explain)?
- (d) Please describe social impacts of the investment programme to be financed. Will there be any negative impacts (e.g. from compulsory purchase of property) or positive impacts (e.g. from improvement in housing stock, improved access to municipal services, improvement on quality of life, integration of vulnerable groups, etc.)? How are these quantified / analysed by the City?
- (e) Does the project implementation include the resettlement of people? If so, please indicate which schemes are associated to resettlement (e.g. social housing, urban roads, etc.) and the number of people/families affected. Please explain the measures/plans put in place by the City to guarantee that resettlement is done in line with current applicable Laws and compensating measures.
- (f) Are there any of the schemes likely to be used in the context of the integration of reception/integration of refugees? If so, please indicate what are the measures put in place to guarantee the compliance with the requirements of Directive 2003/9/EC laying down minimum standards for the reception of asylum seekers as well as Directive 2013/33/EU laying down standards for the reception of applicants for international protection (recast).
- (g) Does the City have a gender strategy or policy? If so kindly provide a copy.
- (h) Which sectors of investment are considered by the City to have specific importance for gender issues? How are gender issues addressed during the public consultations relating to the planning and implementation of city investments? How have gender considerations been incorporated into the preparation of the investment programme?
- (i) Please indicate the investments that are anticipated to have positive or negative impacts on gender by virtue of their selection, design, implementation or operation (e.g. education, security, access to the market, employment, etc.).
- A.7. Climate action and resilience**
- (a) Is the City a signatory of the Covenant of Mayors and the Mayors Adapt?
- (b) What climate action (adaptation and mitigation) policies, strategies and action plans does the municipality have in place?
- (c) What type of investment priorities of the City will be affected by climate risks?



- (d) What tools and methods does the municipality have to measure the climate action (adaptation and mitigation) outcomes of its projects (e.g. MWh saved per year)?
- (e) Does the City have an Energy Management Plan or Energy Efficiency strategy, and if so how is it relevant to the investments foreseen under the Framework Loan?
- (f) What proportion of this project will be dedicated to climate action? Where possible please split this consideration into Climate Change Adaptation and Climate Change Mitigation.
- (g) What is the approach to seismic protection and its reinforcement, notably for the new or refurbished fire stations, the drainage tunnels and the housing components of the investment programme? (if applicable).

### A.8. Procurement

- (a) Who will be the contracting authority (which department, entity)? Please provide an overview of its experience with public procurement in the last three years (provide a statistic summary of procurements each year including the type of procurement's procedure and its value).
- (b) For the schemes already tendered, please provide information about the procurement details.

### A.9. State aid

- (a) Please indicate if there are any state aid aspects associated to any of the sectors or investments planned for financing under the framework loan and how these have been / will be handled.

## SECTION B: SECTORIAL ISSUES

Please focus on the sectors included in the project (e.g. Water/Drainage, Public Infrastructure (streets/urban roads, schools, sport centres, cultural facilities, smart cities' components, etc.), Mobility, Social Housing, etc.

### For all sectors included in the project:

#### B.1. Background

- (a) The latest sector strategies (e.g. mobility/parking, Sustainable Urban Mobility Plan, SUMP), specific data, if relevant.

#### B.2. Market and demand

- (a) Please describe (quantitative if available, otherwise qualitative) the demand forecasts for the relevant infrastructure / service to be provided or regenerated space / facilities to be made available.
- (b) Please explain how market / demand aspects are taken into account in the investment planning.

#### B.3. Economic and financial justification

- (a) Please explain the main economic and financial (IRR, ERR, NPV, ENPV if available) justification for the approval/selection of the investments in the different sectors. In the particular case of the drainage/tunnel element of the investment, a Cost-Benefit Analysis, CBA, will be required.

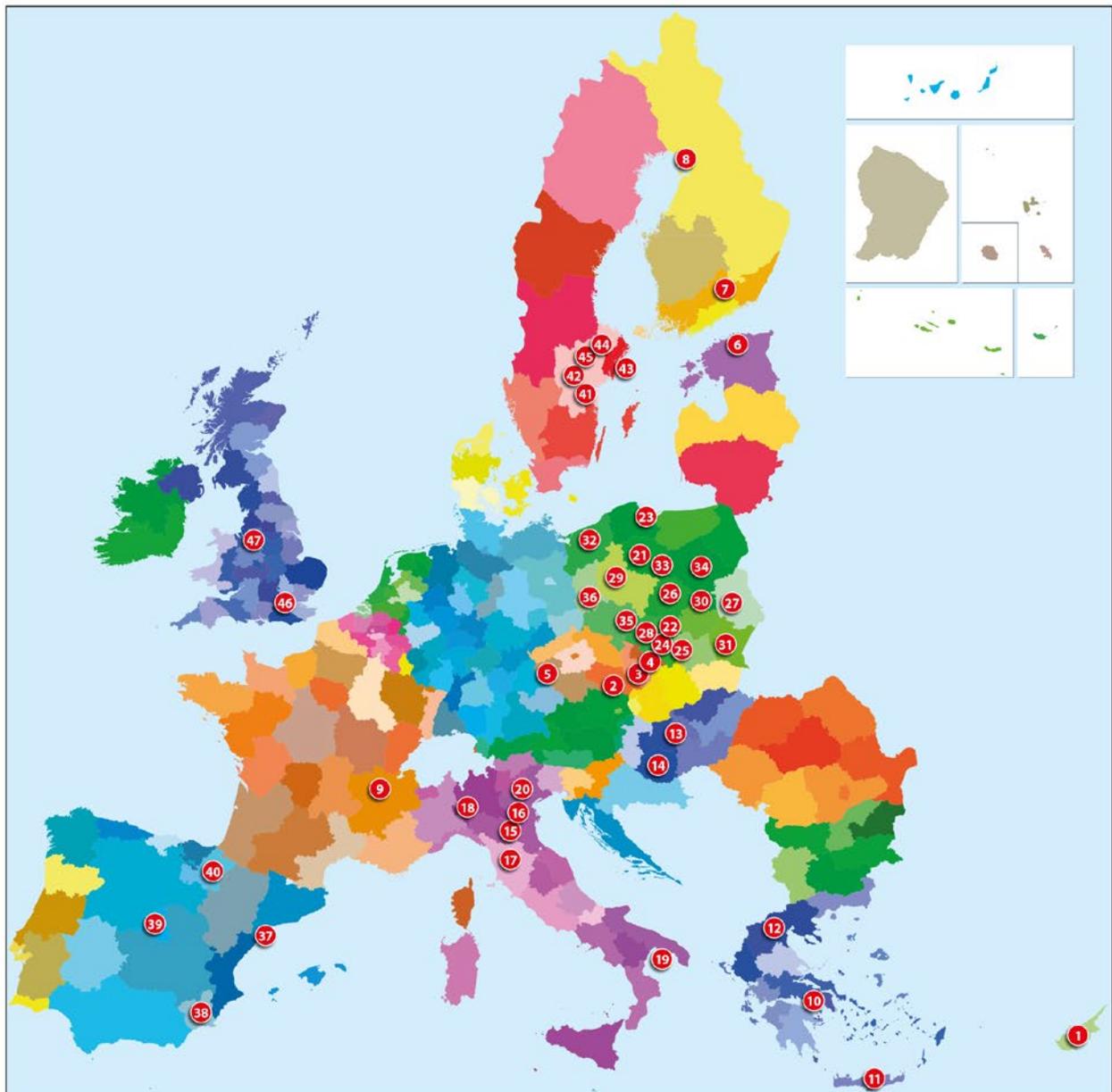
#### B.4. Monitoring

- (a) Please validate/comment on proposed allocation tables (enclosed below):

#### B.5. Additional specific question per sector might be added



EU cities with EIB multisector framework loans (2005-2015)



- Cyprus**
- 1 Nicosia
- Czech Republic**
- 2 Brno
  - 3 Olomouc
  - 4 Ostrava
  - 5 Plzen
- Estonia**
- 6 Tallinn
- Finland**
- 7 Lahti
  - 8 Oulu

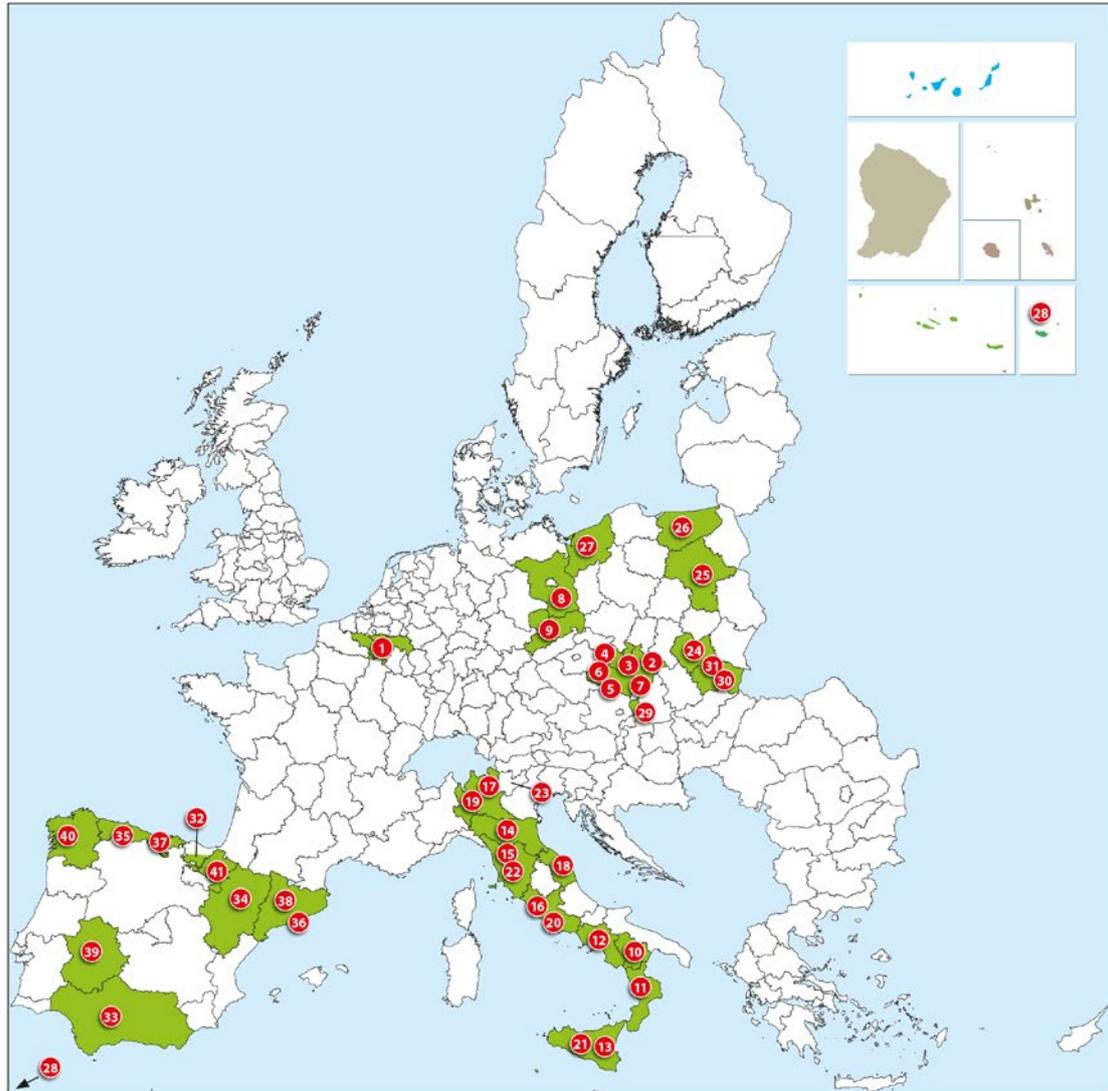
- France**
- 9 Lyon
- Greece**
- 10 Athens
  - 11 Heraklion
  - 12 Kozani
- Hungary**
- 13 Budapest
  - 14 Pecs
- Italy**
- 15 Bologna
  - 16 Ferrara
  - 17 Firenze
  - 18 Milano
  - 19 Taranto
  - 20 Venezia

- Poland**
- 21 Bydgoszcz
  - 22 Czestochowa
  - 23 Gdansk
  - 24 Gliwice
  - 25 Krakow
  - 26 Lodz
  - 27 Lublin
  - 28 Opole
  - 29 Poznan
  - 30 Radom
  - 31 Rzeszow
  - 32 Szczecin
  - 33 Torun
  - 34 Warsaw
  - 35 Wroclaw
  - 36 Zielona Gora

- Spain**
- 37 Barcelona
  - 38 Lorca
  - 39 Madrid
  - 40 Pamplona
- Sweden**
- 41 Norkoping
  - 42 Orebro
  - 43 Stockholm
  - 44 Uppsala
  - 45 Vasteras
- UK**
- 46 London
  - 47 Manchester



EU regions with EIB multisector framework loans (2005-2015)



- Belgium**
- 1 Wallonia
- Czech Republic**
- 2 Moravia-Silesia
  - 3 Olomouc
  - 4 Pardubice
  - 5 South Moravia
  - 6 Vysočina
  - 7 Zlín
- Germany**
- 8 Brandenburg
  - 9 Sachsen

- Italy**
- 10 Basilicata
  - 11 Calabria
  - 12 Campania
  - 13 Catania
  - 14 Emilia Romagna
  - 15 Firenze
  - 16 Lazio
  - 17 Lombardia
  - 18 Marche
  - 19 Milano
  - 20 Roma
  - 21 Sicilia
  - 22 Toscana
  - 23 Trento

- Poland**
- 24 Małopolska
  - 25 Mazovia
  - 26 Warmińsko Mazurskie
  - 27 Zachodno-Pomorskie
- Portugal**
- 28 Madeira
- Slovakia**
- 29 Bratislava
  - 30 Kosice
  - 31 Presov

- Spain**
- 32 Alava
  - 33 Andalucía
  - 34 Aragón
  - 35 Asturias
  - 36 Barcelona
  - 37 Cantabria
  - 38 Catalunya
  - 39 Extremadura
  - 40 Galicia
  - 41 Navarra

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European Committee of the Regions | Directorate for Communication  
Rue Belliard/Belliardstraat 99-101 | 1040 Bruxelles/Brussel | Belgium

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