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**The European Investment Bank:
Transport Project Financing and SEA**

*Axel Hörhager
European Investment Bank*



THE EUROPEAN INVESTMENT BANK (EIB): TRANSPORT PROJECT FINANCING AND STRATEGIC ENVIRONMENTAL ASSESSMENT (SEA)

**AXEL HÖRHAGER
EUROPEAN INVESTMENT BANK**

The European Investment Bank

Financial institutions, particularly if their mission is to represent the public interest, have a special responsibility in the investment process as regards the incorporation of environmental consideration at the earliest possible stages in an investment process and in a consistent a way as possible. The unique contribution that financial institutions can make in the process is a result of their relative independence in exercising their judgement on whether a venture satisfies certain sustainability criteria. Put in simple terms, competent banks, whether public or private, can distinguish themselves by taking a fully balanced view of a project.

The financing criteria of the European Investment Bank (EIB), the long term financial institution of the European Union, may illustrate this point. The Bank was set up in 1958 by the Treaty of Rome as one of the institutions of the European Communities. It is set up as a bank the share capital of which, currently amounting to 62 billion EURO, is owned by the 15 member states. The EIB has been successful for 40 years in directing substantial flows of capital to achieve the aims defined in its statute, which comprise balanced regional development in the European Union, modernisation and enhancement of competitiveness of European industry, and advancement of European integration by means of common policies in the sectors of transport, communications, energy and environment. In so doing, its has acquired significant project identification, appraisal and evaluation expertise. The EIB's activities have covered the European Union, countries in Central and Eastern Europe, the Mediterranean region, and the many overseas countries with which the European Union has co-operation agreements. As part of its transport sector financing, the Bank has lent over the period 1993-1997 some 50 billion EURO in support of Trans European Networks, as well as some 3.3 billion EURO toward transport projects in Central and Eastern Europe.

Strategic environmental assessment and the appraisal of transport projects

In line with criteria developed by the European Commission, SEA is becoming an integral part of the decision-making process for transport infrastructure policies. Particularly for issues involving several transport modes and the determination of optimal combinations of modes SEA is regarded as crucial. SEA can also be linked with socio-economic assessments of investment choices and project selection. However, as regards the actual details of the execution of such SEAs, these are perforce carried out by or in the name of the investing institutions and the promoters. International financial institutions such as the EIB cannot in general carry out work that needs essentially to be carried out by the countries and institutions involved in an investment process. This sometimes poses the problem that the application of full SEA is in practice still quite restricted. As has been shown in the CEMT/OECD Review of SEA, there are still numerous areas where SEA is only carried out incompletely or not at all. An example is mainstream transport sector

planning, which in many countries (not only in Eastern Europe) is still conducted without genuinely considering alternative visions and sets of scenarios from an environmental point of view. This leaves public decision-making in the hands of whatever environmental paradigm happens to be the dominant one in the eyes of the decision-makers.

A few basic principles of environmental assessment

Given the above shortcomings of existing SEA practices, the EIB must nevertheless strive to come to an informed environmental judgement on projects it has been asked to finance. A case in point here are the Trans European Networks, which specifically call for EIB intervention, but on which the Bank needs to be satisfied that basic environmental criteria are met. Among these criteria, that not only deal with direct environmental issues but also address the indirect effects on the environment of sub-optimal resource allocations, are the following: Legislation in the region and country in which the project is located must be satisfied, as must European Union legislation in the member states. The assessment, however, goes beyond the formal aspects, since its purpose is also to establish whether a project is indeed viable in a practical sense. The financial and business plan must be realistic, technical aspects in particular relating to the investment, its cost and implementation schedule must be satisfactory, the economic feasibility of the project must be confirmed on the basis of sound analyses of demand and profitability, including the analysis of externalities where possible. These aspects are particularly relevant in the cases of finance extended to railway companies. While the latter are frequently considered potentially attractive recipients of finance due to the significant contribution that the railway mode can make to lowering adverse environmental impacts of the transport sector, it is equally important to ensure that basic economic resource allocation criteria are satisfied, in other words, that the railways make a positive economic contribution. Another area where financial and economic analysis are crucial in the case of Public-Private-Partnerships, which have gained a lot of favour for certain types of transport projects, and with which the Bank is increasingly involved in many countries. There must be informed analysis and judgement on environmental issues, frequently necessitating specific impact studies. A critical aspect is the economic assessment and the analysis of the market and demand for the services offered by a project. All too often, promoters neglect the demand aspects or do not offer realistic forecasts. Investments which are premature or over-dimensioned, can be among the most undesirable features not least from an environmental point of view, causing great harm to future prospects of a sector, as well as constituting a drain on public resources. The involvement of the Bank, although of course no substitute for the roles of the promoter and the regulators, is maintained to the extent possible throughout the project cycle by regular project monitoring during disbursement of funds and the life of a loan.

Bank practice and some project examples

The Bank and similar financial institutions are thus essentially dependent on SEA carried out externally by the project promoters. What the Bank can and does do is to verify the assumptions and consistency of the objectives underlying a proposed project investment, to ensure that they meet basic criteria related to SEA. The Bank cannot, however, make up for deficiencies in the SEA or the EIA, or resolve basic policy contradictions. An example might be the current emphasis on Public Private Partnerships, which are much propagated as a solution to better management and as sources of finance for transport schemes. In certain respects, PPP objectives might conflict with SEA policies, and such conflict should be resolved at the level of the public authorities rather than the financing institutions. Examples are found in the financing of road schemes, such as the DBFO (Design Build Finance Operate) schemes in the UK, or Private Concession Motorways in Portugal, where the requirements of the PPP concept take centre stage. It is assumed that the new infrastructure will not cause unacceptable trends in private vehicle traffic, and that the effects of any increases have been duly considered on a policy level. The Bank cannot, in general, make good incomplete SEAs in such cases.

In some respects, the financing of very large schemes can be tackled in a more satisfactory way from the point of view of SEA policy consistency. Major transport schemes financed by the EIB were the crossing at the Öresund between Denmark and Sweden, and the Great Belt Crossing in Denmark, which received loans of 265 M EURO and 343 M EURO respectively. As part of the decision process leading to these projects, very comprehensive environmental and socio-economic analyses were carried out, including for instance consideration of the effects of generated traffic, the implications on traffic energy balances, and the effects on the Baltic Sea environment. Another example were EIB loans to the Swedish railway infrastructure company Banverket of several 100 M EURO, which were preceded by a comprehensive scenario analysis spanning a 10-15 year planning horizon and setting out the implications of alternative long term scenarios in qualitative and quantitative terms, which can be considered a good way of implementing SEA.

Practical conclusions for bank project analysis

Important conclusions from the Bank's work are that:

- careful *analysis and diagnosis* are key ingredients of project appraisal, to allow the identification and implementation of sustainable projects
- there is an *interdependence* between the various aspects of project analysis (*technical, economic, environmental, financial*) which is relevant for the stringent objectives of sustainable transport projects, and this delicate balance needs to be maintained throughout the project cycle
- environmental best practices, including legislative assessment, public participation procedures and impact analysis should be built into projects from the outset as a process and include *strategic environmental assessment* as appropriate.
- financing institutions can and should conduct their *independent assessments*, based on straightforward criteria, which should not substitute but complement studies by promoters.
- a *strategy of favouring sustainable transport development* needs to be formulated and nurtured, so that long term results can be achieved - a process that the Bank is still engaged in, and in which strategic environmental assessment will play a key role.