Italian Ministry of Infrastructure

Expert Working Group on EIB Loan Finance for Building Sustainable Cities and Communities

NATIONAL RESEARCH:
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Notes

The Expert Working Group on EIB loan Finance for Building Sustainable Cities and Communities was established after the Informal Meeting in Bristol (6-7 December 2005) to discuss how to enhance the impact of EIB loans in fostering sustainable communities and to share the benefit to all Member States of creating sustainable communities across Europe.

Weights and Measures

Metric System

Main sources

EIB, Cassa Depositi e Prestiti, Banca Intesa, Dexia Crediop, European Commission, Italian Ministry of Infrastructure, Banca OPI SpA, Banca d'Italia, Italian Ministry of Economy and Finance

Acronyms

BOC: Public bond issued by a Municipality

BOP: Public bond issued by a Province

BOR: Public bond issued by a Region

Cassa DD. PP.: *Cassa Depositi e Prestiti SpA* (Italian credit institution specialized in loans to public bodies, in the field of local utility infrastructure works and major public works of national interest)

CIPE: *Comitato Interministeriale per la Programmazione Economica* (Interministerial Commitee for the Economic Planning)

EIB: European Investment Bank

E.R.D.F.: European Regional Development Fund

M.D.: Ministerial Decree

M.E.F.: (Italian) Ministry of Economy and Finance

F.A.S.:*Fondo Aree Sottoutilizzate* (Depressed Areas Fund)

P.O.R.: Regional Operative Program

P.R.U.S.S.T.: *Programmi di Riqualificazione Urbana e di Sviluppo Sostenibile del Territorio* (Urban Regeneration and sustainable Regional Development Programme)

S.T.U.: *Società di Trasformazione Urbana* (Urban Transformation Enterprise)

Task Team

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1. INVESTMENT NEEDS

Cities provide one of the most important drives behind the economic development and the balanced growth of a territory: this is especially true in Italy, a Country where there are more than 100 Cities[1] and 8,102 Municipalities.

Italian cities have a significant artistic, enviromental and cultural heritage, as demonstrated by the 788 properties inscribed on the World Heritage List[2] National, Regional and Municipal areas can be considered as an inexhaustible source of development to be implemented through the constant improvement of local identities and the exploitation of the tourism industry. In fact, tourism is one of the most dynamic economic sectors in Italy. The historical and cultural heritage represented by monuments and museums and the urban and natural landscapes are extremely important as a direct source of economic activity in tourism and related industries, and their preservation enhances their arttractiveness in terms of investments and other assets.

However, the role of cities is growing in importance but at the same time is worsening a number of problems, such as inadequate housing and urban services (water, sanitation, transport and so on), spiraling land prices and construction costs, proliferation of slums, pollution and deterioration of the urban environment. Moreover, demographic trends[3] show thatEurope is in a phase of "demographic transition", characterized by low birth rate, population ageing[4] and high level of immigration[5].

All these problems set up questions on *Urban Sustainability*, intended as meeting the needs of the present without compromising those of future urban generations. The preservation of the endogenous heritage and the promotion of sustainable cities and communities must take into consideration all the abovementioned issues: the relevant artistic, enviromental, and cultural heritage and the tourist potential; the population ageing and the migratory flows.

In this context, the Italian Strategic Framework 2007-2013 *(Quadro Strategico Nazionale 2007-2013)* highlights the competitiveness of the cities as a priority for the new programming period. Cities must intensify their roles as engines of development and creators of wealth. Regarding this priority, the strategic document defines the following specific objectives:

- To implement the competitiveness and the attractiveness of cities and urban networks and to provide good-quality services for the territorial jurisdictions;
- To improve the standard of living contrasting discomfort and urban marginalization and strengthening local identities;
- To support cities' networks with tangible and intangible assets related to accessibility and knowledge.

In Italy, one of the most significant operational instruments aimed at redeveloping the urban environment is represented by the so-called "*Programmi Complessi"*, known also as *Progammi Integrati*, which initially introduced methods of intervention expressely focused on cities: the most popular examples are *Contratti di Quartiere*; *PRUSST; URBAN I, URBAN II* and *URBAN Italia*. These instrument will be described in detail in the following chapters.

[1]A *city* is an urban area that is differentiated from a town, village, or hamlet by size, population density, importance, or legal status

[2] Two examples: *Arena of Verona and Maschio Angioino of Napoli.*

[3] Source: ESPON project 3.2 - *Spatial Scenarios and Orientations in relation to the ESDP and Cohesion Policy (October 2006)*

[4] Italy is one of the countries with the highest level of population ageing (share of population over 65 in total population: 18.0%).

[5] Most immigrants are based in cities. In fact, cities have a higher percentage of foreign nationals, foreign-born and second and third generation immigrants than outlying rural areas.

1.1 PLAYERS AND INVESTMENT SECTORS

Provinces, Chief towns, Municipalities with approximately 20,000 inhabitants have been the most important recipients of public lending in 2004, as shown in the table below (*Table 1*).

Chief towns asked for the most significant quota of public lending in 2004 (€2,466 million) in order to fund their investments for public works and sundry projects, followed by Municipalities with less than 20,000 inhabitants (€2,399 million).

Primarly the investments of chief towns related to road and transport (€569 million) and public and social housing (€462 million). The same sectors attracted the largest part of investments of Municipalities with less than 20,000 inhabitants. Other sectors that show important percentages of investment are sports, recreational and lodging facilities and sanitation projects.

Table 1 – Players and investment sectors in 2004 (amount in € Million)

Sector	Provinces	Chief towns	Municipalities > 20,000 inhabitants	Municipalities < 20,000 inhabitants	Consortium of communes in mountain areas	Total
Public housing	47	220	224	225	2	717
Social housing	192	242	0	385	0	1,015
Sports, recreational and lodging facilities	25	136	137	308	4	610
Sanitation projects	2	69	80	241	1	393
Water projects	2	0	16	80	1	123
Sea projects	1	3	0	7	0	47
Roads and transport	457	1	320	1	4	1,935
Energy projects	2	0	28	0	0	160
Other public works	186	319	115	358	0	987
Total public works	**914**	**1,630**	**1,150**	**2,273**	**20**	**5,987**
Loans for sundry projec	104	837	80	0	7	1,154
Total loans	**1,018**	**2,467**	**1,230**	**2,399**	**27**	**7,141**

Source:Ernst & Young elaboration. Data from: "Report on lending to Local Authorities", State General Accounting Department, 2006

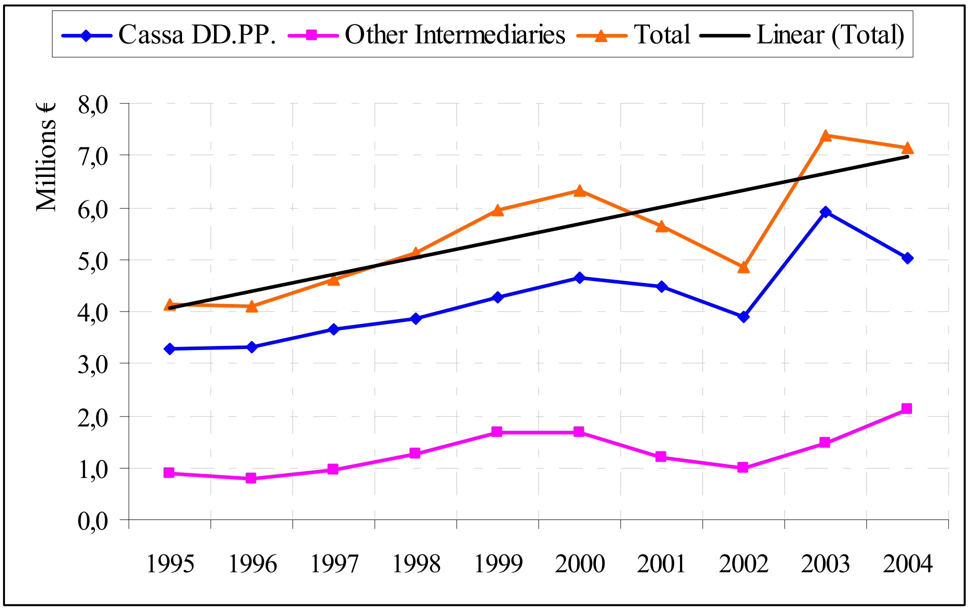
1.2 TRENDS

At the moment, collective data concerning the finance need of Local Public Authorities for funding urban development projects is not available. The assessment of the investment requirements of Italian Public Authorities has been calculated starting from the amount of financial resources borrowed by Public Authorities in order to fund urban investment.

In 2005, the financial debt for local public bodies was higher than the National debt, largely due to the growth of public expense in Health (especially for Regions) and investments. According to the available data, from 2003 to 2005 the National debt increased by 10%. The performance of Regions and Provinces (including Municipalities) was the worst, with an increase in debt of 31% and 37% respectively. On the basis of the different areas and levels, in the Northern part of the Country the debt was represented mainly by Municipalities and Provinces, while Regions had the most significant share of debt in the South. The debt rise was larger for local Municipalities, due to the increase of the expense of public investments, while the Health expense was the most relevant quota for Regional debt.

The figure below shows the trend of loans provided to Local Public Authorities, divided between Cassa DD. PP. and other financial intermediaries. The series includes a decay from 1995 to 2004 and concerns resources allocated to public and social housing, sports, recreational and lodging facilities, roads and transports, water projects; sanitation projects; energy projects, other public works; other sundry projects.

Figure 1 – Loans to Public authorities 1995-2004 (amount in € Million)



Source:Ernst & Young elaboration. Data from: "Report on lending to Local Authorities", State General Accounting Department, 2006

According to *Figure 1*, from 1995 to 2004 Local Public Authorities had steady recourse to loans, in a trend of growth at an average rate of **8% yearly**. This tendency was stronger for private intermediaries, whose expansion was assessed around **+14% per year**, and lower for Cassa DD. PP., whose increase was approximately assessed by **+6% per year**, with a significant decrease in 2004 (**-15%** from 2003 to 2004).

Loans do not represent the only source of funding for Local Public Authorities. Specifically this schemes does not include these instruments which are growing in importance such as bond issues, derivatives and securitizations, which currently represent a very relevant quota in public lending. This is true especially since recent reforms restrained the involvement of the central Government in local competences, whilst local administrations gained sovereignty in financial matters. Moreover, the progressive reduction of interest rates, due to a lower inflation rate determined by the acceptance of Euro, caused Local Public Authorities to try to re-negotiate the fixed rates of their loans, and this was made possible through the introduction of the so called "*Instruments of Innovative Finance*": government bond issues, financial engineering and structured financing instruments, securitizations.

However, the rising request for resources for public investment and the large amount of loans provided yearly to local administrations allows us to consider the situation in *Figure 1* as representative of the investment needs' trend in Italy. Nevertheless, we must take into account the significant changes which occurred within this market and the new challenges for the future, represented by the abovementioned instruments of Innovative Finance.

The following box presents an overview of the latest Italian urban development projects and related sources of financing.

Review of the main projects of urban land development

On 29 September 2006 Nomisma edited a survey of urban projects – "Italia in sviluppo (2006)" -, promoted by ASSOIMMOBILIARE in collaboration with ANCI, in order to offer a review of the main projects of urban land development in Italy.

The contents of this survey can be shortly described as follows:

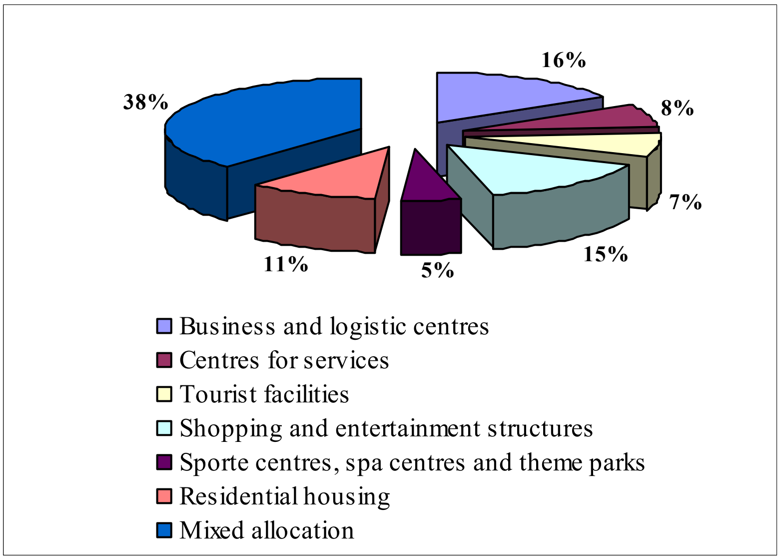
1. over the last few years, in the wake of positive trends in the real estate market, public and private initiatives have multiplied, themselves helping to sustain a virtuous circle which is changing not only the familiar appearance of cities, but also the way we live in and think about them;

2. the evolution of urban and territorial settlement systems, renewal and transformation of cities in the specific Italian case, require a particular planning commitment capable of simultaneously interpreting the expectations of contemporary society, tackling the morphology of places, epitomising innovative technologies and architectural expressions with the countless historical/archaeological examples of settling found nationwide.

In consequence of the need to carry out ambitious urban recovery projects for reinventing cities, recently, complex urban transformation projects (PTU) make up the majority of the projects registered and often have a rather high value, of up to several billion Euros (the average value is around 315 million euros, compared with 205 for innovative projects).

In all of the work planned (whether promoted by central State bodies or by community programmes, or even governed by regional and local regulations) the logic is no longer that of a single targeted piece of work, but of integrated multiple pieces of work. People talk about compatible development and urban environment sustainability. The physical work is not an end in itself, but is linked to the supply of services, creating jobs and businesses and governance of the transformation requires a growing number of forms of participation and partnership between the social and economic parties showing interest in the territory.

Analysis of the 304 projects implemented: distribution of projects by type of purpose



2. SOURCES OF FINANCE[6]

Until the Nineties, most of the financial resources for Local Public Authorities to finance their debt were represented by transfers from the central State. Public expense for investments was usually financed by loans coming from the Italian Cassa DD. PP. and other public lending institutions. Commercial loans represented the smallest share of public sources of financing, whilst bonds issued were completely absent. Starting from the second half of the Nineties, the financing system progressively changed, pushed by the reduction of public transfers (-26% from 1994 to 2003), the increase in local tributary income (+140% from 1999 to 2003) and the new financial competencies agreed to local bodies. The financial autonomy recently given to Regions, Provinces and Cities created new borrowing mechanisms and increased Local Authorities' discretionary powers in selecting the financing tools. Moreover, the acceptance of Euro as a single currency within Europe influenced inflation rates and turned interest rates down. As a consequence, many local administrations, who had previously subscribed fixed-rate mortgages, asked for the re-negotiation of their debt through government bond issues, structured financing instruments, securitizations. In this renewed context, many private banks started enhancing their role as an interlocutor to whom Italian local authorities turn for a wide range of financial and consultancy services[7], and and equity providers (Pirelli and Beni Stabili in Italy are but two examples) represent another important source of finance.

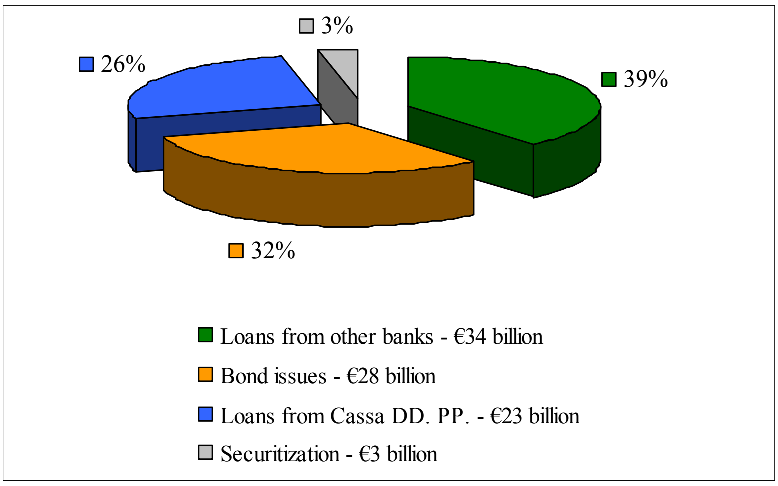
Nowadays Public Authorities have many tools to manage their debt, such as guarantees provided to citizens or enterprises, loans from private banks or public institutions, transfers from other Public Authorities, tax income. However, in opposition to previous years, the present strategies for financing the public debt are changing: from 2003 to 2005 the debt towards banks[8] decreased from 77.3% to 65.4% of the total debt, whilst the bonded debt increased by 105.5%, calculated as an average among North (+132%), South (+125%) and Center (+32%) of Italy. In terms of the impact of bond issues on the overall debt, in 2005 they represented 1/3 of the total debt in Central Italy, less than 1/3 in the South and ¼ in Northern Regions. Therefore, considering the great issue of bonds performed by the Municipality of Milan in 2005 (about 17,000 million Euros) and the low exploitation of bond issues in Central Regions from 2003 to 2005, we can state that Southern Italy is the largest user of bond issues.

This trend is shown in *Figure 2:* in 2005 the main financing sources for Regions, Provinces and Municipalities were:

- The banking system: mortgages and commercial loans represent 39% of the total public borrowing;
- Cassa DD. PP., which holds around 26% of the consolidated debt of Public Authorities;
- Structured Finance instruments, such as bond issues (BOR, BOP e BOC). In 1999 these instruments represented the 7% of the total public debt; today they represent 32% of the Local Bodies debt.

[6] This chapter has its main source in Banca Intesa - Finanza Locale Monitor. April 2006
[7] In fact, the utilization of new financial instruments requires new professional competencies within local administration and commercial banks represent an important interlocutor.
[8] Cassa DD. PP. included.

Figure 2 – Total lending to Public Authorities in 2005



Source: Banca d'Italia. Supplement to the Statistical Bulletin – Local Government Debt (2006). Ernst & Young elaboration

2.1 GRANTS AND LOANS

Public grants and loans are financial instruments intended to narrow the development disparities among regions; indeed, the scale of the aid granted generally depends on the extent to which the target-area is lagging behind.

Nowadays, the interest in the revitalization of inner cities and deprived neighbourhoods through public and private partnerships is growing. Available incentives and public assistance programs are often not enough to mitigate the disadvantages of inner-city areas. In this context, private actors can participate in public development policies, by financing the interventions. Unlike public grants, commercial loans are set not only according to a qualitative requisite, but also in relation to quantitative criteria such as the financial capability of the borrower or the rate of return on the investment.

The most common disadvantage of public grants and loans is that, since they do not have to be repaid, they can often lose their effect in terms of usefulness and success of the investment. On the other hand, commercial loans only focus on the financial rate of return on the investment, missing the focus on the socio-economic aspects.

EIB loans fill the gap between public grants and private loans, since they gather the principle of socio-economic cohesion with the idea of efficiency and effectiveness of the investment. Like public grants, EIB loans are interested in the social, economic and environmental aspects of the project; like private credit, EIB loans pay attention to the rates of return on the investment. Moreover, EIB loans require a strong appraisal focus on the ex-ante stage of the investment (technical skills and institutional strength of the project) and entail quite a high level of both socio-economic and financial return.

2.2 PUBLICLY FUNDED PROGRAMMES FOR URBAN REGENERATION IN ITALY

Competences and responsibilities in the field of urban policies are distributed among three different administrative levels: central State, Regions and Local Authorities (Provinces and Municipalities). All initiatives in this field are aimed at improving urban living conditions, with special reference to the infrastructural assets, transport, governance.

The National funding system for urban policies currently includes 4 main Programmes aimed at both filling the gap between depressed regions and developed areas and at promoting innovation in the context of integrated urban development. For their implementation these programmes often require the involvement of private partners and other public bodies.

The 4 programmes are: *Urban Italia, Piani Strategici – Piani della Mobilità (PS-PUM), Porti e Stazioni, S.I.S.Te.M.A.* On top of these, the hefty FAS (Fondo Aree Sottoutilizzate) provides public funding for the implementation of public projects in disadvantaged areas often strongly affecting the urban sector.

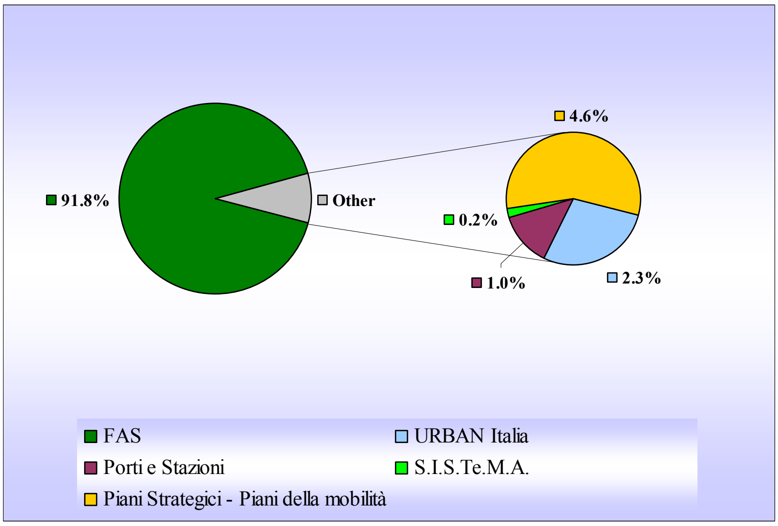
Table 2 - National resources for Urban Policies (amount in € Million)[9]

Programme	Amount
FAS	4,100
URBAN Italia	103
Porti e Stazioni	46
S.I.S.Te.M.A.	10
Piani Strategici - Piani della mobilità	207
Total amount	**4,466**

Source: Ministry of Infrastructure, 2006

The following figure highlights the share of financial impact of every national initiative in the field of urban policies.

Figure 3 - National resources for Urban Policies: percentages



Source: Ernst & Young elaboration

[9] As shown in *Table 1*, the Depressed Area Fund represents the most relevant quota in the national funding system: however, FAS resources are not dedicated to urban regeneration. The amount of €4,100 Maims to fund a) quality improvements of regional infrastructures and public services; b) national programs on research, innovation and broadband, from 2006 to 2009.

2.2.1 NATIONAL PROGRAMMES

FAS – Fondo Aree Sottoutilizzate (Depressed Areas Fund)

The FAS represents the most relevant quota in the national funding system: however, FAS resources are not specifically aimed at financing urban regeneration. The amount of € 4,100 M aims to fund a) improvements of regional infrastructures and public services; b) national programs on research, innovation and of broad band connections from 2006 to 2009. The following table describes the main characteristics of FAS

Table 3 - Fondo Aree Sottoutilizzate (FAS) - Depressed areas fund: characteristics and amounts (figures in Million €)

Classification	Trademarks	Amount	
		2006	2006-2009
*Contratti di Programma * (Programme Agreements)*	**Typology**: Benefits **Management**: Italian Ministry for the Economic Development	30	230
*Investment Attraction Programme **	**Objective**: Southern Italy **Management**: Sviluppo Italia S.p.A	25	250
*Self-entrepreneurship and self-employment **	**Objective**: funding start-up of new entrepreneurial activities in technological districts **Management**: Sviluppo Italia S.p.A.	150	350
Tax credit for investments	*N.A.*	1,064	1,064
Public Investments - Framework Agreements and National Programs	**Objectives**: a) direct funding to regions in order to improve the quality of infrastructures and public services; b) funding of national programs on research, innovation and broadband	220	4,100
TETRA Programme	**Objective**: Security System **Management**: Italian Ministry of Home Affairs	20	140
Calabria Programme	**Objective**: security operations - focus on social, educational and enviromental fields **Management**: Italian Ministry of Home Affairs	23	63
Funding to face toward emergency status in Sicilia region	**Management**: Department of Civil Defence	5	15
Allowance Account	*N.A.*	0	6
Total		**1,537**	**6,218**

** decree law n.35/2005*

Source: Ernst & Young elaboration on CIPE data 2004

Piani strategici – Piani della mobilità

This Central Government Initiative is aimed at encouraging the definition of future development scenarios for communities throughout the country. Alongside the now established practice of "strategic planning" the initiative promotes the definition of integrated transport strategies (Piani della Mobilità) introducing an holistic approach for the solution of endemic congestion problems on the one hand and to promote polycentric development at the local, metropolitan and regional scale.

- *Goals and targets*: integrate the metropolitan areas in the international system; to construct wide-spread and unitary metropolitan governments; to develop training and research and strategic resources; to promote enterprise and employment; to promote cities as centres of culture, tourism, commerce and sports; to improve urban quality.

  The Mobility Plan defines projects to optimize and make the urban and territorial mobility system sustainable: it's the first act finalized to enforce the Strategic Plan.

- *Beneficiaries and main players*: there are 26 territorial systems and 65 cities (of which 26 leader cities): 33 cities in northern and 32 in southern Italy. In order to enforce the Strategic Plan and the Mobility Plan in southern Italy, 11 leader cities are beneficiaries of additional grants from the Depressed Areas Fund (FAS).
- *Assigned contributions*: €207 M (CIPE Decision n. 20/2004, paragraph 1.1) as Urban Areas Reserve (R.A.U.) to promote interventions in metropolitan areas in southern Italy. These funds are conditional on the subscription of Framework Agreements.

URBAN Italia

URBAN - Italia National Programme was set up with M.D. of 7 August 2000 and is financed by Law n. 388/2000. It is inspired by the Community Initiatives Urban II Italy and supports innovative strategies to regenerate cities and declining urban areas. In particular, it concerns old centres, declining industrial areas, public housing, working-class suburbs.

- *Goals and targets*: physical and environmental regeneration measures; competitiveness and economic cohesion; social cohesion. Urban Italia finances programmes in 20 cities and national contribution consists of €101 M. Adding local co financing, including the private sector, this makes a total investment of €359 M.
- *Beneficiaries and main players*: the municipal governments of Aversa, Bagheria, Bitonto, Brindisi, Caltagirone, Campobasso, Catanzaro, Cava de'Tirreni, Cinisello Balsamo, Ercolano, Livorno, Messina, Rovigo, Savona, Seregno, Settimo Torinese, Trapani, Trieste, Venaria Reale, Venezia.
- *Assigned contributions*: €46 M (Act n.21 of 8 February 2001).

Innovative Programme for Urban Areas – Porti e Stazioni

The Innovative Programme for Urban Areas – Porti e Stazioni was established by the Ministerial Decree n. 2522 of 27 December 2001 published on the G.U. of 12 July 2002 n. 162.

- *Goals and targets*: Article 5 of the above Ministerial Decree establishes the funding of innovative regeneration programmes for urban areas adjacent to railway stations and/or large ports characterized by economic and environmental decline, social exclusion and residential buildings degrade. The Programme promotes models, procedures and innovative methods for the improvement of urban environments. The assumption is that railway stations and ports have the potential to become the new urban and territorial nodes, by fully exploiting the opportunities offered by interchange and exchange between networks and services of all types. Another objective is to improve access to the transport infrastructures and develop modal interchange, also in view of the future development of the Motorways of the Sea. The programme funds the following activities: design, construction, consultancy services.

- Beneficiaries and main players: 22 Municipal Councils: Savona, Genoa, La Spezia, Livorno, Carrara, Piombino, Civitavecchia, Naples, Salerno, Cagliari, Olbia, Palermo, Catania, Messina, Trapani, Taranto, Bari, Brindisi, Ancona, Ravenna, Venice, Trieste – and their respective Port Authorities and Regional Governments. Plus Ferrovie dello Stato Spa (the national railway company).
- Assigned contributions: €46 M (Act n.21 of 8 February 2001).

S.I.S.Te.M.A.: Sviluppo Integrato Sistemi Territoriali Multi Azione

S.I.S.Te.M.A. is a programme established by the Ministerial Decree n. 988 of 10 July 2003 and CIPE Decision n. 36/2002.

- Goals and targets: the main objective is to promote and animate innovative programmes capable of giving a new impulse to the polycentric and net-like developments, by reinforcing connections between major infrastructural networks and regional systems and cities that are secondary nodes of the infrastructure system, defined as "target areas". The initiative involves 21 "target areas" within 19 territorial systems/clusters. It finances activities such as: planning, feasibility studies , consultancy services.
- Beneficiaries and main players: provinces of :Gorizia, La Spezia, Varese, municipalities: Campobasso, Caserta, Catania, Catanzaro, Cuneo, Firenze, Fiumicino, Forlì, Jesi, L'Aquila, Lecce, Matera, Nuoro, Ragusa, Savona, Siracusa, Terni, Vicenza.
- Assigned contributions: €5.6 M (ex M.D. of 10 July 2003 n. 998) and €4.4 M (ex CIPE Decision n. 36/2002).

Other national financing instruments for urban development policies

Apart from the described funding programmes, the Italian funding system for urban development includes a series of financial instruments supported by the Italian Ministry of Infrastructure. These instruments are addressed to inner cities and depressed areas, with the objective of promoting their urban renewal. Moreover, some of these programmes are strongly based on Public-Private partnership, in order to enhance the partnership within the territory and better exploit each arealy heritage.

The following table lists the Italian instruments for urban renewal, describing their main objectives and functioning modalities.

Table 4 - List and description of the most important Italian instruments for financing public investments

Programme	Description and objectives	Functioning modality
P.R.U.S.S.T. - Urban Regeneration and Sustainable Regional Development Programme	Programme promoted in 1998 by the Italian Ministry of Public Works, with the strategic objective of urban regeneration and sustainable territorial development by means of: - Construction or upgrading of infrastructures; - Creation of an integrated system of activities aimed at the establishment or enlargement of industrial and commercial areas, the promotion of tourist facilities and the regeneration of urban run down areas.	The programme covers interventions concerning road, railway, port and airport systems, and other structures (i.e. large buildings, hospitals, universities). It also includes urban construction engineering, housing schemes, building redecoration. 48 Programmes were funded, for a total amount of around € 72 M, under specific rules: - Private investments for private interventions must be at least 1/3 of the overall investment; - Private investors actively participate at public interventions; - Promoters must present a funding plan that involves private funds, in a long-term perspective.
Società di Trasformazione Urbana (S.T.U.) - Urban Transformation Enterprise	Metropilitan areas and municipalities, together with Provinces and Regions and private investors, are allowed to establish public-private partnerships (PPP) to implement urban renewal projects. The main characteristic of these companies is the great involvement of private shareholders, which have to be chosen with procedures of public evidence. This institutionalized form of PPP is provided for in the city planning field and works as a private S.p.A. (joint-stock Company).	Companies of Urban Transformation carry out any kind of service on the basis of an analysis of the local needs and on their political evaluation respecting three specific limitations. Funded interventions concern urban renewal works, including social housing and related urban planning and feasibility studies. Total amount of funding = € 21.5 M.
CONTRATTI DI QUARTIERE - Area Agreements	This programme addresses to the the renewal of districts in off-center areas, characterized by urban blight and lack of social services. General objective is to promote those structural interventions (funded by public and private shareholders) able to endorse social development within the area.	Funded interventions regard: infrastructures, valorisation of local heritage, support to local SMEs, enhancing of local attractiveness. Agreements are strongly based on the local area and its inhabitants, who are considered as the most important factor in local development. The local community (inhabitants, political and economic shareholders) sets the targets, implements the programme, evaluates the outcome.
INTESE ISTITUZIONALI DI PROGRAMMA - Programme Institutional Agreements	Urban planning tool addressed to Regions and Authonomous Provinces, to let them participate in programming activities managed by the Central Administration in the field of local urban development and urban infrastructures.	Public investments addressed to local urban development. Each agreement is signed under the rules of a Framework Contract; specific details concerning the agreement (description of the interventions and the financing plan) are defined later.
ACCORDI DI PROGRAMMA QUADRO - Framework Programme Contracts	A Framework Programme Contract is set up to deliver a service with a number of suppliers. Suppliers are pre vetted for quality, technical ability and financial ability and agree contract conditions. Interventions under a Framework Contract are funded by European, National and private funds.	Contents are described in specific agreement forms that must be filled in and sent to the Italian Ministry of Economics, both via ordinary and electronic mail, according to modalities and timetables defined by CIPE (Interministerial Committee for the Economic Cooperation).

Source: Ernst & Young elaboration on information from the Italian Ministry of Infrastructure

2.2.2 EUROPEAN PROGRAMMES

In Italy a significant share of Structural Funds of the 2000-2006 programming period has been used to promote the urban sector. Within the overall budget, Italy received a total €29,656 M under the Community's regional policy for the 2000 to 2006 period, the four Structural Funds have provided financial support to both national and regional Operational Programmes . In the 2000 to 2006 period Italy had 6 (out of 20) Objective 1 regions (the whole of Southern Italy) and many Objective 2 areas in the remaining regions. Structural Funds also provided financial assistance between 2000 and 2006 through four Community Initiatives. One of them, CI Urban II, is expressly devoted to the economic and social regeneration of cities undergoing change with a view to promoting sustainable urban development.

URBAN II

Urban II, the Community Initiative of the European Regional Development Fund (ERDF), aims at promoting the design and implementation of innovative models of development for the economic and social regeneration of deprived urban areas. It finances 10 Italian programmes for a total amount of €268 M; the European contribution is €116 M.

The 10 programmes are related to the cities of Carrara, Caserta, Crotone, Genova, Milano, Misterbianco, Mola di Bari, Pescara, Taranto and Torino. They propose innovative development models for the economic and social regeneration of the areas concerned with financing projects to improve living conditions, for example by renovating buildings and creating green areas. This creates jobs and provides services to the population, integrates the less-favoured social classes into the education and training systems, develops environmentally friendly public transport systems, builds effective energy management systems and makes greater use of renewable energy, in addition to utilizing information technologies.

Regional Operational Programmes, Ob.1 Regions – Axis V "Cities"

This priority axis aims at promoting the role of urban centres in regional and local economic development through the improvement of the transport infrastructure, economic revitalization, environmental measures and (under specific conditions) tourism and cultural heritage projects. Between 2001 and 2006, Structural Funds allocation for Axis V was about €1 billion and the total public resource more than €2 billion. The Italian regions eligible under Objective 1 are Basilicata, Calabria, Campania, Puglia, Sardegna and Sicilia. The region Molise continues to receive support from the Funds under Objective 1 on a transitional basis (phasing out area).

The following table shows the Regional Operational Programmes, Ob.1 Regions – Axis V "Cities" (amount in € Million).

Table 5 - Regional Operational Programmes Ob.1 Regions – Axis V "Cities" (amount in € Million)

Region	Total amount	Public funding						Private funds
		Total Public Funding	Structural Funds			National grants total		
			Total	ERDF	ESF			
Basilicata	86	86	43	43	-	43		0
Calabria	314	314	157	157	-	157		0
Campania	437	437	221	211	11	215		0
Puglia	367	367	188	167	21	179		0
Sardegna	372	372	186	174	12	186		0
Sicilia	534	534	245	232	13	289		0
Total	**2,110**	**2,110**	**1,041**	**984**	**57**	**1,069**		**0**

Source: Regional Operational Programme - Regional links; DPS (Development Policies Dept. within the Ministry of Economics and Finance), 2006

2.3 MORTGAGES AND BANK LOANS

With reference to Public loans, many of the investments relate to transport, mobility and social housing. Most of the resources[10] were lent by the Italian Cassa DD.PP., whose contribution in 2004 was assessed at around 70% of the total amount of loans.

The following tables show the market quota owned by each different intermediary and the field of their investments. As shown, the Italian Cassa DD. PP. owns the most relevant quota in mortgages for public works, confirming its interest in fostering the development of public investment, local utility infrastructure works and major public works of national interest.

Table 6 - Lending to Public Authorities in 2004: areas of intervention (amount in € Million)

Sector	Cassa DD.PP.		Other intermediaries		Total	
	€	%	€	%	€	%
Public housing	463	9.2%	254	12.0%	717	10.0%
Social housing	885	17.6%	129	6.1%	1,015	14.2%
Sports, recreational and lodging facilities	412	8.2%	198	9.4%	610	8.5%
Sanitation projects	371	7.4%	22	1.0%	393	5.5%
Water projects	109	2.2%	15	0.7%	123	1.7%
Sea projects	46	0.9%	1	0.0%	47	0.7%
Roads and transports	1,617	32.2%	319	15.1%	1,935	27.1%
Energy projects	148	2.9%	12	0.6%	160	2.2%
Other public works	632	12.6%	355	16.8%	987	13.8%
Total public works	**4,683**	**93.2%**	**1,305**	**61.7%**	**5,987**	**83.8%**
Loans for sundry projects	344	6.8%	810	38.3%	1,154	16.2%
Total loans	**5,027**	**100.0%**	**2,115**	**100.0%**	**7,141**	**100.0%**

Source: "Report on lending to Local Authorities", State General Accounting Department, 2006

During the last years there was an enhancement of the role of private intermediaries as public lenders. In 2004 the main financial intermediaries were:

- Banca O.P.I. (9.4%);

[10] Mortgages and loans.

- Dexia Crediop S.P.A. (8.9%);
- Monte dei Paschi di Siena (2.9%).

Table 7 - Lending to Public Authorities in 2004: the most important players (amount in € Million)

Financial Intermediaries	Mortgages			
	Public works	Other purposes	Total	
	€	€	€	%
Cassa DD. PP.	4,683	344	5,027	70.4%
Banca O.P.I	259	410	669	9.4%
Dexia Crediop S.p.A.	332	306	638	8.9%
Monte dei Paschi di Siena	194	14	208	2.9%
Istituto Credito Sportivo	172	0	172	2.4%
Banca Nazionale del Lavoro	151	0	151	2.1%
Unicredit Banca d'impresa	88	47	135	1.9%
Cassa di risparmio di Bolzano	18	0	18	0.3%
Banca Intesa	9	7	16	0.2%
Other intermediaries	81	26	107	1.5%
TOTAL	**5,987**	**1,154**	**7,141**	100.0%

Source: "Report on lending to Local Authorities", State General Accounting Department, 2006

2.4 THE BOND ISSUES MARKET[11]

Recent data shows that the new milestone in public lending strategies is represented by Local Government bonds. They are debt securities issued by Regions (BOR), Provinces (BOP) or Cities (BOC), guaranteed by the referring local body, assessed for risk and rated accordingly.

The number of insured issues has grown astronomically and bond issues are progressively overcoming bank loans (both Cassa Depositi e Prestiti and other Monetary Institutions included): as related to the total amount of regional debt, bond issue represents 1/3 of the total debt in the Centre of Italy, less than 1/3 in the South, only 1/4 in the North (the only one exception in Northern Italy is represented by the Municipality of Milan, with a great bond issue in 2005). From 1996 to 2005, according to Bloomberg data, Italian local administrations dealt out n.604 bond issues, for a total amount assessed around €26,800 Million. Regions were leaders in terms of amounts, whilst Municipalities realized the highest number of bond issues[12].

In 2005, 71 Italian local bodies issued bonds for a total amount of €4,032 million divided between Regions (5 bond issues for €1,240 million), Provinces (15 bond issues for €478 million), Municipalities (51 bond issues for €2,314 million). The following tables list the largest bond issuers in 2005: the total number of issuers was 65, of which 45 were

[11] "*BOC, BOP, BOR. I prestiti obbligazionari degli enti locali (Municipal Bond)*", by Antonio Meola e Roberto Antonelli, 2004

[12] In terms of amount issued, Regions were leaders (67% of the total), followed by Cities (25%) and Provinces (8%). In terms of number of bond issues, Municipalities realized n. 477 bond issues, followed by Provinces (95) and Regions (62).

Municipalities (including 18 Provincial Capital Cities), 15 Provinces, 5 Regions. During the same year, the average amount of domestic bond issues was assessed around € 44.3 Million, as an middling among Regional issues (€ 289.5 Million), Provincial issues (€ 21.1 Million) and Municipal issues (€ 15.2 Million).

Table 8 - Bond issued by public bodies in Italy in 2005 (amount in € Million)

	N. issues	Total amount	Average amount	N. issuers
Municipalities	51	2,314	45	45
Provinces	15	478	332	15
Regions	5	1,240	248	5
Total	**71**	**4,032**	**625**	**65**

Source: Banca Intesa, 2006

Table 9 - Principal Public bond issuers in 2005 (amount in Million €)

Bond issuer	N. issues	Total amount
Municipality of Milano	1	16,853
Sardegna Region	1	5,000
F.V.-Giulia Region	1	3,870
Municipality of Firenze	2	2,038
Province of Torino	1	1,731
Emilia-Romagna Region	1	1,593
Umbria Region	1	1,132
Municipality of Lecce	1	922
Molise Region	1	806
Province of Salerno	1	689
Province of Genova	1	675
Municipality of Genova	2	594

Source: Banca Intesa, 2006

According to the area of intervention, most of the issuers were located in the North (Lombardia, Piemonte and Friuli Venezia Giulia), followed by the South (Sardegna) and the Centre (Toscana). Concerning the length of the Municipal, Provincial and Regional bonds, the 50.7% of the issues has a length of 16 to 20 years, the 16.9% of 11 to 15 years and 16.9% 26 to 30 years.

The following table shows the distribution of bond issues all over Italy.

Table 10 – Bond issues according to the geographic area in 2005 (amount in € Million)

	BOC		BOP		BOR		TOTAL	
	N°	Amount	N°	Amount	N°	Amount	N°	Amount
Emilia-Romagna	29	93	2	9	1	159	32	261
Friuli V.G.	1	2			1	387	2	389
Liguria	2	59	2	83			4	142
Lombardia	3	1,703	3	43			6	1,746
Piemonte	1	1	2	216			3	217
Trento + Bolzano			1	12			1	12
Veneto	4	3	3	32			7	35
NORTH	**40**	**1,861**	**13**	**394**	**2**	**546**	**55**	**2,801**
Lazio	2	59					2	59
Marche	3	26					3	26
Toscana	3	206	1	16			4	222
Umbria					1	113	1	113
CENTER	**8**	**291**	**1**	**16**	**1**	**113**	**10**	**420**
Campania			1	69			1	69
Molise					1	81	1	81
Puglia	1	92					1	92
Sardegna	2	70			1	500	3	570
SOUTH	**3**	**162**	**1**	**69**	**2**	**581**	**6**	**812**
TOTAL	**51**	**2,314**	**15**	**478**	**5**	**1,240**	**71**	**4,032**

Source: Ernst & Young elaboration from Banca Intesa, 2006

Public Bonds can be issued according to different modalities:

- **"a fermo"**, bonds are issued by a Credit Institution (that acts as an intermediary) or they are sold directly to the investors by way of a public offer;
- **"a garanzia"**, after a public offer, those bonds that have not been sold are bought by a Credit Institution, which successively place them on the market.

Bonds bear interest at either a fixed or variable rate of interest: the first have a fixed interest rate, while the second have a variable coupon, equal to a money market reference rate. For example, bonds issued in 2005 had the highest rating and this was extremely attractive for low risk investors.

The special status of Local Government bonds[13] makes them appealing to investors, and their issue represents a significant source of financing for many municipalities because the Law states that the liquidity provided by Municipal bonds can be used only to finance investments in public works and utilities.

[13] In fact, the financial difficulty of Local Authorities is governed by a special regulatory framework and their issues are guaranteed even in the case of bankruptcy.

However bond issues have some relevant disadvantages, that can be listed as follow:

- Not-quoted bonds can not be considered as liquid assets;
- According to the re-payment mechanism, at each reimbursement deadline they provide the investor with new resource to be allocated;
- They have low risk but also low rates of return

Furthermore, most of the bond issued in Italy in 2005 were issued on the international market, whilst domestic issues were low in amount.

In conclusion, bond issues represent an important and very profitable alternative to bank loans. Their utilization exploited during the second half of the Nineties and is currently enhanced thanks to the high rating of the Italian local administration (some Local Public Authorities have ratings higher than the Italian State). However new instruments are spreading over the financial market for local administration, especially derivatives and securitizations.

2.5 SECURITIZATION

Under Structured Finance, **securitization** is another recent instrument which is growing in importance. It allows Local Authorities to separate credit origination and funding activities, by combining different financial instruments into a new flexible one and converting non-liquid assets into liquid assets. It has evolved from an inception phase and it is currently one of the most common financing instruments used by Municipalities.

Regions, Provinces and Municipalities can establish companies (s.r.l.) to provide securitization services on the proceeds raised by the merchandising of real estate assets. The transactions involving real estate assets are the largest share of the securitization market because of the low results that these assets can bring in terms of profit.

Securitizations provide active administration and enrichment of real estate assets, they are an efficient alternative source of funding and guarantee clear praxis. However there are some disadvantages, such as heterogeneous and restricted porfolios; insufficient documentation on real estate assets; urban constrains; lack of an ex-ante exploitation.

Concerning the Italian market, securitizations often regard *health credit*[14]: Health expenses represent a very significan quota of local administrations' budgets (this is true especially for Regions) and local administrations usually pay their suppliers in late (with high grace rates up to 10% per year). According to the *health credit mechanism*, the debt versus suppliers is moved to the securitization market, in order to make local administrations gather liquid resources and pay the debt. This mechanism was recently used by Lazio, Abruzzo, Campania and Sicilia Regions.

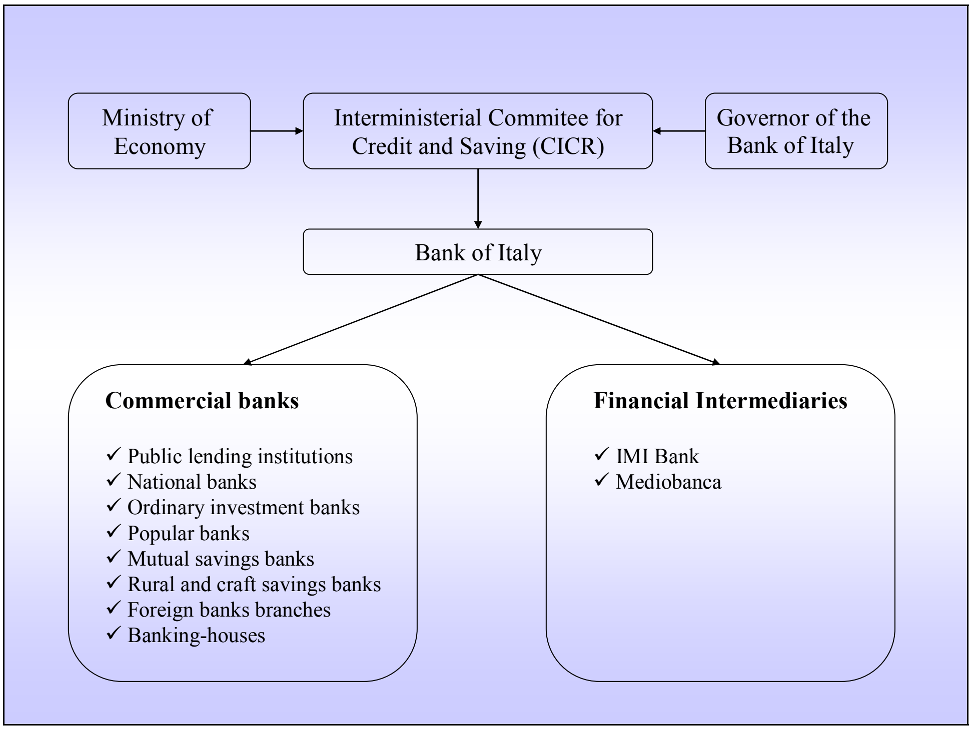
[14] Health credits are credits suppliers have versus health companies.

3. OVERALL ASSESSMENT OF THE ITALIAN MARKET OF URBAN DEVELOPMENT

3.1 THE ITALIAN BANKING SYSTEM

The following figure gives an overview of the capital market in Italy focusing on commercial banks and financial intermediaries. It aims at introducing some of the most important players in the urban renewal funding starting from the structure of the financial system.

Figure 4 - The Italian Banking System

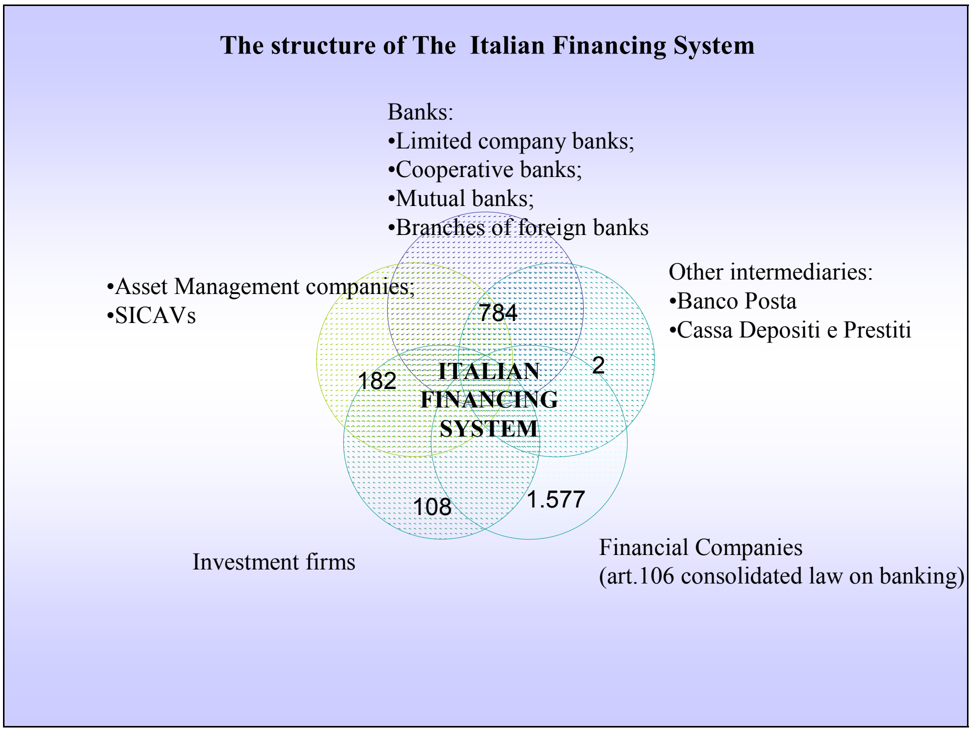


Source: "I Finanziamenti per lo sviluppo urbano in Italia – Italian Ministry of Infrastructure, 2006

During 2005 in Italy, banks and other supervised intermediaries administered respectively €1,780 billion and €760 billion of financial assets (belonging to non-financial customers), and held claims on the private sector in the form of loans (€1,600 billion) and in securities (€430 billion). At the end of 2005, Bancoposta held € 34 billion as current accounts and €238 billion as saving books and saving certificates (Cassa Depositi e Prestiti used €123 billion of these resources, together with € 4 billion raised on the market, within the separate fund for the financing of public bodies and other eligible entities).

At the end of 2005, banking groups numbered 85, compared with 83 in 2004. Their domestic branches included 230 banks, 23 investment firms, 61 asset management companies, 27 financial holding companies and 215 other financial companies. The foreign component consisted of 278 intermediaries, 68 of which were banks.

Figure 5 - The structure of the Italian financing system (number of players)



Source: "Annual Report 2005", Banca d'Italia, 2006

3.2 CASSA DEPOSITI E PRESTITI

This paragraph draws on information gathered during an interview with Paola Menale, Director for the Research and Statistical Studies for Cassa DD. PP..

Cassa DD. PP. S.p.A. is the result of the transformation of the Cassa DD. PP. from an agency part of general government into a joint-stock company pursuant to Article 5 of Law Decree n. 269 of 30 September 2003.

The decree outlines the main areas of activity, which are as follows:

- financing for National and Regional Governments, local authorities, public bodies and public-law entities, using repayable funds raised from postal savings bonds and passbook savings accounts, and other forms of funding that may benefit from state guarantees;
- financing of works, plant, networks, and other infrastructures intended for the delivery of public services and for betterment works. To this aim, Cassa DD. PP. may raise funds through securities issues, borrowing and other structured finance operations.

Cassa DD. PP is divided into four Divisions, ten Departments (reporting directly to the Top management) and three Units (reporting directly to the Chairman and Board of Directors). The decree also established an organizational and accounting separation between the activities of general economic interest and other activities performed by the Company. This division is intended to avoid the indiscriminate transfer of resources between the different levels of governance. Another peculiarity of this executive system is the establishment of three operating units: the Separate Account, the Ordinary Account and Joint Services. The **Separate Account** is responsible for government financing activity, management of equity investments, management of functions transferred to Ministry of the Economy and Finance and provision of advisory services to government bodies. The **Ordinary Account** provides financing for public infrastructure, feasibility studies and research activities. **Joint Services** manages and coordinates the activities of Cassa DD. PP..

The Separate Account manages two categories of loans:

- **Ordinary specific-purpose Loans**, maturity from 5 to 30 years. The disbursement is made at each stage of completion of the investment. The reimbursement usually begins on the 1st of January of the year following the date the loan is approved. The interest rate can be fixed or variable, in the first case rate is defined in line with the 6 months Euribor, in the second case fluctuations on rate are defined according to the 6 months Euribor. Both rate and fluctuations on rate change according to the ammortization period;
- **Flexible Loans**, maturity from 5 to 30 years. Borrowers may switch from a variable rate to a fixed-rate according to the deadlines defined during the pre-repayment period (1-to-6 years), with a spread defined at the time of drawing up of the contract.

Loans under the Ordinary Account are used to fund works, industrial plant, networks and other assets concerning the provision of public services.

Within the activities of the Separate Account, the management of the Revolving Fund supports government bodies in planning public works. Local Governments in Southern Italy are the main beneficiaries of the grants. As regards Separate Account Assets the interest rate for fixed-rate ordinary loans and increases for variable-rate ordinary loans are updated weekly.

On the asset side of the Ordinary Account, the *rate policy* is in line with that of the market and it takes into account the financial structure of the transaction, the type of borrower and the characteristics of the project to be financed.

In the following table there is a description of the most important private financial intermediaries dealing with loans to Public Authorities. Apart from Cassa DD. PP., the most important Italian player in financing Local Authorities for infrastructures projects, are Banca Intesa, which has a specific unit (Banca Intesa Infrastrutture e Sviluppo S.p.A.) whose core business is focused on financing for public infrastructures and works, and Dexia Crediop, another leader in project financing and loans for public investments with special reference to infrastructures. A comparison is provided, also with public bond issues.

Table 12 - A comparison between the most important Italian financial intermediaries and the carachteristics of a bond issue

Name	Shareholders	Organization	Main products addressed to PAs	Rate	Lenght of procedures	Threshold	Financing Programs or Projects	Branches
Banca Intesa	Banca Intesa was founded in 1998 as a merger of two Banks: Cariplo e Ambroveneto. Joint stock: € 3,6 billion, undersigned by: - Credit Agricole S.A.: 17.8%; - Fondazione Cariplo: 9.2%; - Gruppo Generali: 7.5%; - Fondazione Cariparma: 4.3%; - Gruppo Lombardo: 4.7%; - Mondrian Invest.Partn.Ltd.: 2.9%; - Capitalia SpA: 2.0%; - Other shareholders: 51.3%.	Banca Intesa SpA is a group leader divided into 5 business areas. One of them (Banca Intesa Infrastrutture e Sviluppo) is expressly devoted to public projects connected with infrastructures and urban development: project financing, financing of public works, public bond issues, etc.	The main products devoted to PA needs are: 1. Credit for investment projects in the field of infrastructure and urban development; 2. Financial support to health services public services; 3. Securitization; 4. Participation in urban development projects; 5. Help desk services addressed to Public Administrations.	It depends on the lending period	Around 1 week	There is not a specified threshold (maximum/minimum) to have the loan.	Projects	There are around 3,000 branches of the leader bank (Banca Intesa) all over Italy. Banca Intesa Infrastrutture e Sviluppo works through these branches.
Dexia Crediop	Dexia Crediop Italia is a parent bank of the Dexia Crediop Banking Group. Shareholders: - Dexia Crédit Local (70%) - Banca Popolare di Milano Soc. Coop a.r.l. (10%) - Banca Popolare di Verona e Novara Soc. Coop a.r.l. (10%) - Em. Ro. Popolare S.p.A. (10%)	Dexia has five main divisions: - Administration; - Finance; - Public finance and Project Finance (public finance; Acquisition Finance; Structured finance and Advisory)	The main products devoted to PA needs are: 1. Securitizations; 2. Bond issues; 3. Mortgage loans	It is possible to combine periods with flat rates and periods with variable rates, choosing the the best conditions between: - a variable rate based both on the 6 months EURIBOR and a spread; - a flat rate of 1, 2 or three years (matching the Interest Rate Swap Euro Lettera - IRS).	Around 1 week	There is not a specified threshold (maximum/minimum) to have the loan.	Projects *(infrastructure and public basic services)*	There are four locations: - Torino - Milano - Bologna - Roma
Cassa DD.PP.	Shareholders: - Ministry for the Economy and Finance (70%) - Bank Foundation (30%)	Four Divisions: - Finance; - Public Investment; - Development Policies Management and Support; - Infrastructure and Strategic Projects	The main services devoted to PA needs are: 1. Ordinary loans; 2. Flexible loans; 3. Revolving Found for Project Development.	As regards Separate Account assets (including units responsible for government financing activity) the interest rate for fixed-rate ordinary loans and increases for variable-rate ordinary loans are updated weekly. On the asset side of the Ordinary Account (including units responsible for founding activities regarding infrastructure for the delivery of public services), the rate policy applied is in the line with that of the reference market and takes account of the financial structure of the transaction, as well as the type of borrower and the characteristics of the project to be financed.	From 1 to 3 weeks	*N.A.*	Government financing activities; founding activities regarding infrastructure for the delivery of public services.	Rome
Bond issues	Enlargement and diversification of shareholders	Bonds issued by Local Bodies have the same characteristics of both State and private securities. Local Bonds can be issued in different modalities: "a garanzia" or "a fermo"; issue and placement of securities are managed by a financial intermediary.	The debt securities can be issued by a Region (BOR), a Province (BOP) or a City (BOC).	Coupons have quarterly, six-monthly or yearly frequency; fixed or variable rates; parameter according to BOT (Bonds issued by the Ministry of Finance), Euribor (3, 6 or 12 months) or Libor (3, 6 or 12 months).	*N.A.*	The issue can not overcome the investment value (Local Authorities can issue bonds only if strictly related to public investments).	Project/Only public investments	*N.A.*

Source: Ernst & Young elaboration on data from Banca Intesa, Banca Intesa Infrastrutture e Sviluppo, Dexia Crediop, Cassa DD. PP., 2006

3.3 PRIVATE INVESTORS

Even though public promoters (Municipal, Provincial and Regional Authorities) of urban development projects represent more than one third of the total, recently private promoters have enhanced their contribution in urban regeneration investments[15]. In fact, the presence of qualified private investors has had a positive impact both on the number of projects started and on the methods used to implement them. A widely used instrument for the implementation of urban regeneration projects is the so called "*project financing*", a funding mechanism by wich a public authority selects a private partner through an open bid for the realization of a public facility, in a way that is very similar to what is known as PPI (Public Private Initiative) in the UK. In recent years, many private Companies, such as Pirelli RE SGR, Beni Stabili SGR, Investire immobiliare SGR, SAI Investmenti SGR, Aedes, funded urban regeneration projects, with positive effects on the urban environment and the market value of the areas involved.

Private actors and urban transformation

There were several large urban transformation initiatives launched in 2006[16] using "project financing" type arrangements, among these were three important estate operations in Bologna and the operation concerning the eight Leader areas in Marche and Umbria.

Table 13 - The most significant project for urban transformation launched in Italy in 2006 (amount in € Million)

Public Body	Area covered	Project	Amount
Municipality of Bologna	Navile-ex Mercato	Social housing intervention on 128,362 square metres	540
	Old Italian Raylways Company area	The old area owned by the Italian Railways Company will be transformed by interventions of social housing (135,000 square metres) and commercial buildings (120,000 ssquare metres)	*Not Assessed*
	Bertalia-Lazzaretto	Building of around 900 social dwelling houses on 70,000 square metres	*Not Assessed*
Quadrilatero SpA	Leader areas (according to the *Legge Obiettivo*)	Promotion of tourism, services for local enterprises, creation of a Fair Area	267
STU Pescara	Waterfront	Creation of a tourism and trade hub	89
STU Piombino	Old industrial areas (350,000 square metres)	Requalification of an old industrial area of 350,000 square metres (regeneration of the old steel mill)	130
Municipality of Salerno	Public buildings in the historic city-centre	The Municipality is looking for private investors to restore old cloisters	*Not Assessed*

Source: "Edilizia e Territorio", weekly magazine published by "Il Sole 24 Ore", 6-11 November 2006

[15] Source: "*Italia in Sviluppo – Review of the main projects of urban land development*", by Assoimmobiliare and ANCI (the Italian Association of Municipalities), edited by Nomisma, September 29th 2006.

[16] All the projects were presented at *URBANPROMO 2006*, Third Fair on urban regeneration and marketing strategies for cities. The Fair was organized under the patronage of the Italian Ministry for Infrastructure, the Italian Ministry for Economic Development, the Municipality of Venezia, ANCI (the Italian Association of Municipalities).

The Municipality of Bologna is going to construct 1,600 dwellings in the old *Mercato-Navile* area, with the help of private investors, for a total amount of € 270 million, including social housing and commercial facilities in an area of around 255,000 square metres and other public and private dwellings in the Ravone area. Concerning the Leader areas, they were approved at the end of October[17]; the bid should be published very soon and private investments are expected to be around € 267 million.

Pirelli Real Estate

Pirelli RE, part of Pirelli & C. SpA, is one of the most important players in the Italian Real Estate market, that offers specialized Real Estate services and manages other Real Estate subsidiaries through a network of franchised agencies. The activities are implemented through two business units for the management of real estate *Funds* and *Assets*.

The *Fund Management Unit* manages real estate investments for both private and institutional investors. This business unit includes Pirelli RE SGR, which manages long-term closed real estate funds (core/core plus portfolio) and Pirelli RE Opportunities SGR, the first savings management company specialised in the real estate sector. The *Asset Management Unit* supervises the entire real estate cycle (valuation, acquisition, management, enhancement and ultimate disposal of assets) according to three product lines: *residential*, *commercial* and *non performing loans* (financial transactions connected to the acquisition and management of non performing loan portfolios originating from banks, i.e. receivables stemming from loans secured by mortgages on real estate under dispute.

The Company's working policy is based on the idea of regenerating the "metropolitan city", which consist of the contemporary *metropolis* as a system with different identities that have to be integrated. The following box presents some of the most important urban transformation projects realized by Pirelli RE in Italy: "*Sedici*" and "*Riva di Roma*".

THE "SEDICI" PROJECT IN THE BICOCCA AREA OF MILAN

The "Sedici" project is located in the Bicocca area of Milan. Work on the project for the development of Sedici, a former manufacturing plant used by the Ansaldo Group in the early 20th century, began in early 2006. The regeneration project involves the building of some 60 units distributed on two levels above ground. The space is to be used as workshops, ateliers and factory-lofts. Within each unit the creation of large lofts will be permitted and the individual lay-out will be adapted to meet the customer's needs.

"RIVA DI ROMA"

Another example of an ambitious urban regeneration project is called "Riva di Roma". The area is part of the XIII municipality of the City of Rome and is complex and varied in terms of both its environmental and historical value as it contains natural reserves (Malafede, Litorale Romano) and parks (Castel Porziano, Castel Fusano and around 40 kilometres of coastline), but also areas disfigured by the unregulated building that has taken place over the last sixty years. Such is the enormous potential for development in this area that the City of Rome has earmarked it in its Master Plan for the construction of an urban centre that is to be characterised by the presence of uncommon services and as a focus of social aggregation and cultural comparison and exchange, effectively becoming one of the new "Suburban Centres". The process of redevelopment has the ultimate objective of giving rise to an Urban Plan that develops social cohesion, opening the area to tourist activities, new inhabitants and young people attracted by the cultural and environmental amenities. The project developed by Studio Gregotti includes the establishment of an urban core (one of the most important for the City of Rome) featuring high quality public and private open spaces, public green, new infrastructure, archeological sites and environment conservation areas.

[17] CIPE Decision 29 March 2006.

3.4 THE SOCIAL HOUSING SECTOR IN ITALY

Public housing or social housing is a form of housing tenure in which the property is owned by a government authority, which may be central or local. Although the principles are common, the details of the arrangements differ between countries, and so does the terminology. The following table introduces the most relevant aspects of the Social Housing sector in Italy.

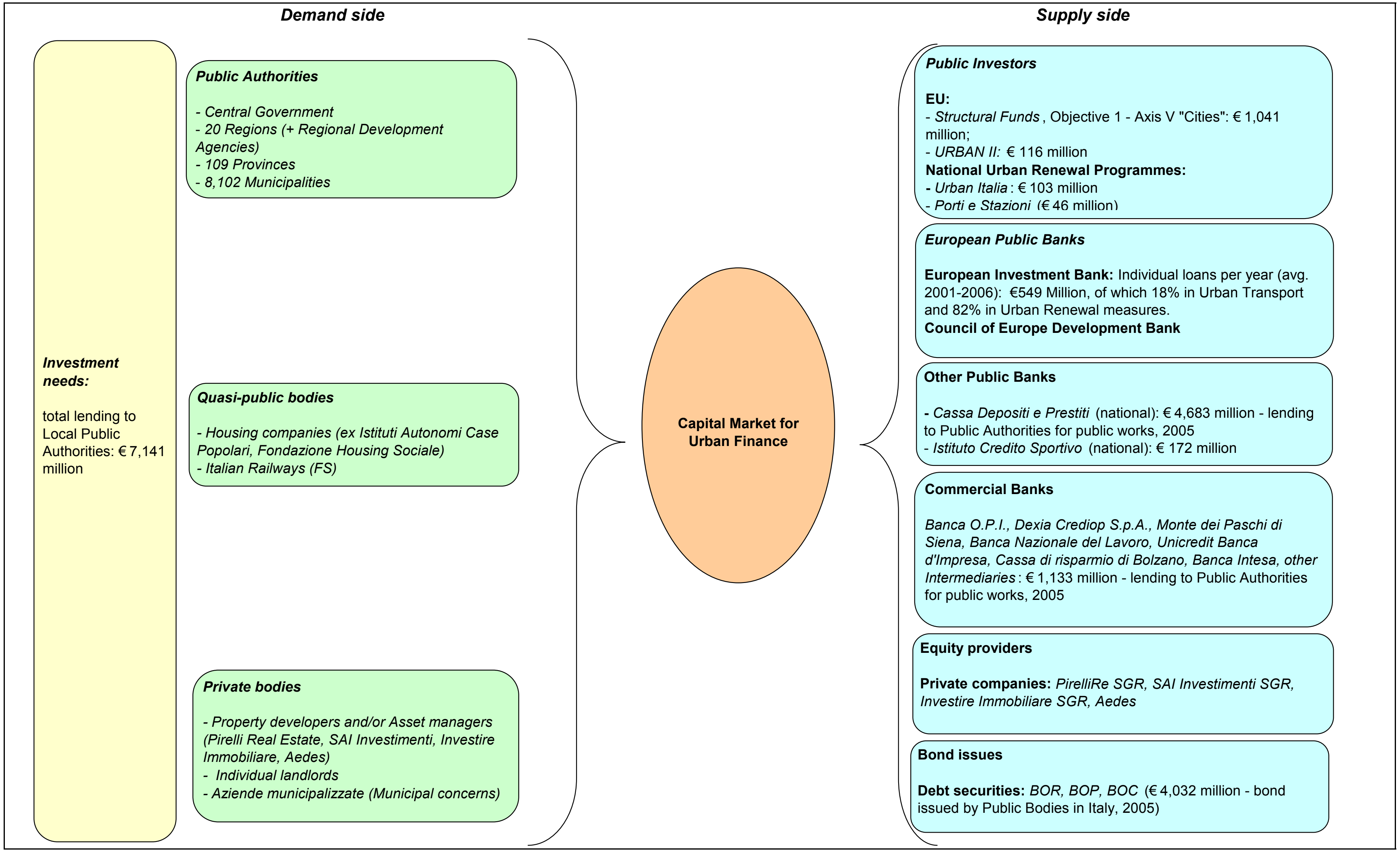
Table 14 - The Social Housing sector in Italy: an overview

Regulary framework	Law n. 179/1992 and Law n. 560/1993. As part of public administration, state-owned property portfolios were transferred to local governments, which also became responsible for the definition and implementation of social housing policies in their constituencies.
Main national players	ex – IACP (Istituti Autonomi Case Popolari). Nowadays they are housing companies with different legal structures (S.p.A., public and non profit governments). Usually they manage their own asset and some local government resources. Income: management deliverables and contributions from territorial bodies (Regions) and central government. Fondazione Housing Sociale. This Foundation was established in 2004 to create the conditions for building new dwellings which Social Managers will let at an equitable rent to elderly people, students, immigrants or single-income families. The objective of the new Foundation is to create the conditions for the construction of new dwellings on land obtained at favorable conditions, and managed by non profit organizations
Functions	ex - IACP: Traditional functions - housing funding, asset recovering, asset management. Innovative functions - consultancy, planning, technical assistance and design of residential development projects toward public or private subjects
Best Practice	Cariplo Foundation, Fondazione Housing Sociale and Municipality of Milano have established an “ethical real estate found” specialized in social housing in order to meet housing needs in Milano. The objective is to gather €50 million: (the Cariplo Foundation and the Lombardia regional Administration contribute €10 million each) with the partecipation of other institutional investors (Cassa DD. PP., Banca Intesa, Banca Popolare di Milano, Pirelli Real Estate). That amount should enable the construction of about one thousand dwellings in Lombardia

Source: “Perspectives of intervention in the social housing field”, by Cariplo Foundation, 2005; Press release n. 29/2006 by Cassa DD. PP..

The Figure on the following page details the Italian capital market for Urban Finance, with reference both to the demand and offer sides.

Figure 6 - National Model for financing Urban Development: Italy



Source: Ernst & Young elaboration

4. EIB LOANS IN ITALY

Italy is one of the 3 main investors [18] of the European Investment Bank, holding 16.3% of the bank's corporation stock.

The EIB has had offices in Italy since 1958 and supports projects that promote European integration in sectors such as regional development, trans-European transport, energy and telecommunication networks, competitiveness and industrial integration. In the last few years the EIB funded investments addressed to Local Governments to help them in their regional development and to promote urban regeneration programmes. In collaboration with the Italian borrowing system, the Bank supported small to medium sized projects with special reference to urban infrastructures and sustainable urban development. Indeed, EIB intermediaries in Italy - banks or financial institutions which use the funds to support investment projects - represent the largest part of the total EU network.

This section draws on information acquired during an interview with Martine Fritz, EIB Area Infrastructure and Public Sector in Italy, and Gennaro Ramazio, EIB Department for Operations in Italy, Greece, Cyprus, Malta.

4.1 EIB LENDING CONDITIONS

In general, the European Investment Bank provides cheap money and long-term credits, both as Individual Loans or Global Loans. A peculiarity is that the Bank is not directly involved in individual investment or credit decisions, but it agrees with the partner banks on what type of investment may be financed from the credit facility and what category of investor is eligible for the finance. The partner institutions examine the projects and grant loans on their own account and at their own risk, and thus also on their own terms and conditions.

Once financed, the investment is regularly monitored: the Bank verifies regular servicing of the loan, checks that the funds are used in line with corresponding objectives and forecasts and keeps abreast of developments concerning the promoter and his partners. Finally, the Bank ensures that the project is implemented in accordance with the contract and evaluates its results.

The following table shows the most relevant characteristics of the two types of loans provided by the European Investment Bank. :

- *Individual loans*: credit for public and private operators (including banks) to invest in the fields of infrastructure and public utilities, energy, environment, R&D.
- *Global loans*: credit lines lower than €25 million, provided to banks, leasing companies or other financial intermediaries who, in turn, finance SMEs and Local Governments to implement both infrastructural and entrepreneurial projects.

Whilst individual loans may be requested directly from the EIB without any particular formalities, applications for financing under global loans should be addressed directly to the financial institutions or commercial banks with which the EIB has concluded global loans.

[18] France, Germany and Italy hold each 16.3% of the European Investment Bank corporate stock, equal to € 26,649 Million.

Table 15 - Individual loans and global loans: characteristics and conditions

	Individual loans For investments exceeding €25 million	**Global loans** For investments of less than €25 million
Type of investment	Infrastructures, power generation and transmission, environmental protection, industrial and service companies, R&D.	Corporate investment for industrial and services SMEs, investment in advanced technologies, R&D, energy, environment, water supply and sanitation, infrastructure
Beneficiaries	Local authorities, special-purpose groupings and similar, solvent borrowers, public and private companies, banks.	SMEs (larger companies may be considered in exceptional cases). Local authorities and other public agencies or special-purpose groupings
Financing framework	Normally up to 50% of the total cost of new projects. No upper limit. Where combined with EU funds, these and EIB funds together may not exceed 70% of project costs (90% in European Regional Development Fund Objective 1 areas)	Up to 50% of total project cost. Maximun threshold: € 12.5 million
Loan period	Usually from 5 to 12 years for industrial projects, 15 to 25 years for infrastructure and energy projects, bespoke terms for very large projects	Determined by the respective EIB partner bank (usually from 5 to 12 years)
Interest rate	Fixed rate (with or without review clause) or variable rate. The interest rate consists of the Bank's cost of funds, plus a small mark-up to cover its administrative costs. The cost of funds is in line with the rates for AAA government bonds	Determined by the respective EIB partner bank
Repayment	Usually equal annual or semi-annual instalments. Bespoke repayment schedules, including grace periods and repayment in a single instalment, are possible	Determined by the respective EIB partner bank
Guarantees	Guarantees are negotiated individually and typically involve a bank guarantee or other first-class security	Determined by the respective EIB partner bank

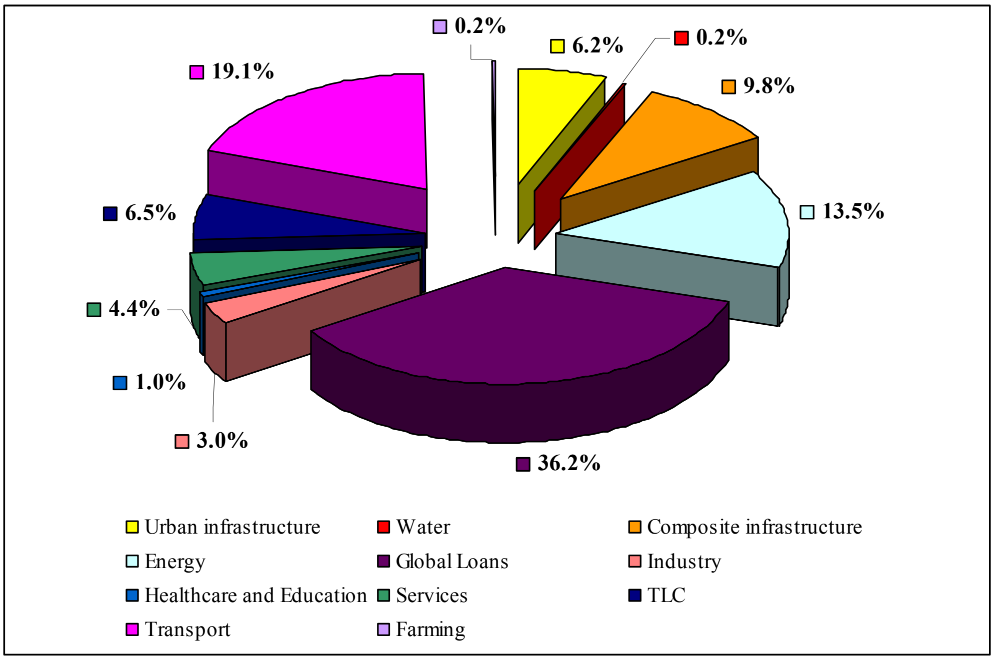
Source: Ernst & Young elaboration on "European Investment Bank loans in Italy", EIB publication, 2005

Apart from global loans and individual loans, EIB also provided *Structured Finance Facility* (guarantee for project risk, mezzanine finance, subordinated debt, etc.) and venture capital. From 2000 these two activities are managed by the European Investment Fund.

4.2 Volume of EIB loans in Italy

The EIB makes long-term loans for capital investment projects (mainly fixed assets). From 2000 to 2006 in Italy it funded investments for €37,974 million. Most of them were Global Loans (36%), followed by projects in the field of Transports (19%), Composite and Urban infrastructures (16%), Energy (14%). The situation is shown in the following figure. During the same period, the Italian field of Infrastructures moved around €20,943 million financing 186 projects. Some of the most important investments, in terms of amount lent, were "TIM Rete mobile A" (€400 million), "Trenitalia materiale rotabile A" (€640 million) and "Trenitalia materiale rotabile II" (€1,000 million), "Trenitalia High Speed 3rd phase" (€400 million), "Wind Telecommunication" (€570 million) and the €360 million loan to the Subway of Rome, which represents the highest investment for any other Metro projects financed by the Bank.

Figure 7 - The EIB loan activity in Italy, 2000-2006



Source: Ernst & Young elaboration from EIB data, 2006

Focusing on year 2006, at the end of October 2006 the European Investment Bank lent a total of €2,635 million to finance Italian operations, in the field of Composite and Urban infrastructure (22%), TLC (13%), Transport (6%), Industry (4%), Health and Education (3%). 51% of total resources being lent for Global Loans. In the urban sector, the most relevant projects were two €200 million loans for the co-financing of Sicily's multi-sector regional investment programme under the 2000 to 2006 Community Support Framework, and a €100 million loan for improvements to the urban infrastructure of the Municipality of Firenze.

Ambiente Urbano and Sviluppo Urbano

There are two types of *framework loans* provided by the European Investment Bank in Italy, which are intended to finance a set of small and medium-scale infrastructure projects presented by a single promoter, generally in the public sector: *Ambiente Urbano* and *Sviluppo Urbano*. The Municipalities of Firenze and Bologna are the most active borrowers, with two loans procedures successfully completed.

Specifically, in August 2006, the EIB approved[19] the third framework loan for the municipality of Bologna (*Ambiente Urbano Bologna III*, € 150 million loan, € 350 million the total cost). The project concerns the funding of European interest schemes included in the city's medium-term public works programme (*Programma triennale dei lavori pubblici 2006-2008*), in the field of Composite infrastructure. In September 2006 the city of Firenze signed[20] the fourth framework loan[21] named "*Ambiente Urbano Firenze IV*", which concerns the

[19] "*Approved*" means that the Board of Directors approved the loan and the negotiation phase, concerning the number of installments to be drawn down, starts.
[20] "*Signed*" means that the EIB and the borrower reached an agreement and the loan facility can be drawn down in a number of instalments, according to the borrower's requirements.
[21] *Ambiente Urbano Firenze II and III* were estinguished without the complete disboursement of the resources made available by the EIB.

financing of the European interest components of the investment programmes 2006 to2008; priority objectives will include local infrastructure, the urban environment and cultural heritage.

Concerning the South of Italy, the most relevant case is represented by the Municipality of Lecce, that in 2001 signed a framework loan called *Sviluppo Urbano Lecce*. The investment concerned the financing of various urban infrastructure schemes in the municipality of Lecce (in the transport, water and education sectors), but the most interesting aspect is that the Municipality combined those financial resources (€ 25 million) with other funds coming from the Structural Funds Programming Period 2000 to 2006.

Last April the EIB approved "*Sviluppo Urbano Bari*", a framework facility in favour of the City of Bari that consists of the financing of investment schemes included in the City's three-year investment programme (2005 to 2007), which is intended to upgrade the local infrastructure.

The Bank has a work-in-progress database on project identification and appraisal. At this date, there are 46 projects which have been introduced to the Bank for financing, of which 10 "*Under appraisal*", 24 "*Approved*" and 12 "*Signed*". However, the signature of the contract does not represent a bind for the borrower, who can terminate or even breach the contract without paying any fine. During the past years it was the case of some Italian cities, such as Torino and Genova, that asked and obtained a EIB loan, but did not use the money.

The following *Table 16* lists the EIB loan contracts signed by Italian Institutions in 2006.

Following *Figure 8* shows the Italian banks which operate as EIB's intermediaries for Global loans.

Table 16 - EIB loan activity in Italy 2006. Last update 31/10/2006 (amount in Million €)

Sector	Beneficiary	Amount
Composite infrastructure	Ambiente urbano Firenze IV, Municipality of Firenze	50.0
Composite infrastructure	Sviluppo integrato Reggio Emilia, Province of Reggio Emilia	5.0
Composite infrastructure	Regional Operational Programme Sicilia 2000-2006	200.0
Composite infrastructure	Sviluppo Province della Basilicata - Provinces of Potenza and Matera (Basilicata Region)	30.0
Composite infrastructure	Sviluppo integrato Reggio Emilia, Province of Reggio Emilia	6.0
Composite infrastructure	Regional Operational Programme Sicilia 2000-2006	200.0
Energy	Dexia Crediop (Southern EU Infrastructure Fund)	1.6
Global loans	Capitalia Group - SME	200.0
Global loans	Dexia Crediop - Environment	150.0
Global loans	Venetobanca	220.0
Global loans	SPIMI Group - SME	100.0
Global loans	Mediocredito del Friuli-Venezia Giulia S.p.A. - SME	50.0
Global loans	BNL Group - SME	200.0
Global loans	CR Firenze Bank S.p.A. - SME	25.0
Global loans	Carige Bank SpA - SME	100.0
Global loans	Banca Intesa - Infrastructure	200.0
Global loans	Banche Popolari Unite (Popular Banks) – BPU Bank Scpa	100.0
Health and education	University of Venezia	12.5
Health and education	Sviluppo integrato Reggio Emilia, Province of Reggio Emilia	5.0
Health and education	General Hospital "San Matteo" of Pavia	50.0
Health and education	Sviluppo integrato Reggio Emilia, Province of Reggio Emilia	6.0
Health and education	University of Bologna	12.0
Health and education	Dexia Crediop (Southern EU Infrastructure Fund)	3.1
Industry	Pirelli - R&D	100.0
Services	University of Venice	5.0
Services	University of Bologna	30.0
TLC	Telecom Italia - Broadband in Southern Italy	350.0
Transports	Sviluppo integrato Reggio Emilia, Province of Reggio Emilia	15.0
Transports	SEA Aereoporti Milano (the Company that manages the airports of Linate and Malpensa)	35.0
Transports	Sviluppo integrato Reggio Emilia, Province of Reggio Emilia	18.0
Transports	SEA Aereoporti Milano (the Company that manages the airports of Linate and Malpensa)	22.0
Transports	SEA Aereoporti Milano (the Company that manages the airports of Linate and Malpensa)	57.0
Urban infrastructure	University of Venezia	7.5
Urban infrastructure	Ambiente urbano Firenze IV, Municipality of Firenze	50.0
Urban infrastructure	University of Bologna	18.0

Source: Ernst & Young elaboration on European Investment Bank data, 2006

Figure 8 - Italian banks which operate as BEI's intermediaries for Global Loans

Bank	Sector
SANPAOLO IMI GROUP	R&S
Banca OPI	INFRA
Banco di Napoli	MULTI
Cassa di Risparmio di Bologna	MULTI
Cassa di Risparmio di Padova e Rovigo	MULTI
Leasint/Cardine Leasing	LEASING
UNICREDITO ITALIANO GROUP	PMI/INFRA
UniCredit Banca d'impresa	PMI
UniCredito Banca	PMI
Locat	PMI
BANCA INTESA GROUP	
Banca Intesa	PMI/R&D
Intesa Mediocredito	PMI
Banca Intesa Infrastrutture e Sviluppo	INFRA
Cassa di Risparmio di Parma e Piacenza	PMI
Banca Popolare Friuladria	PMI
Intesa Leasig	LEASING
MONTE DEI PASCHI DI SIENA GROUP	
MPS Banca per l'impresa	PMI
Banca Toscana	PMI
Banca Agricola Mantovana	PMI
BANCO POPOLARE DI VERONA & NOVARA GROUP	
Banco popolare di Verona & Novara	MULTI
Credito Bergamasco	MULTI
Banca popolare di Novara	MULTI
Italease	LEASING
BANCHE POPOLARI UNITE GROUP	
Banca popolare di Bergamo	MULTI
BPB Leasing	LEASING
BANCA NAZIONALE DEL LAVORO	
BNL	PMI/AUDIOVISUAL
Artigiancassa	PMI
Locafit	LEASING
BANCA POPOLARE DELL'EMILIA ROMAGNA	MULTI/LEASING
BANCA LOMBARDA & PIEMONTESE GROUP	
Banca Regionale Europea	
Banca di Valle Camonica	
Banco di Brescia	
BANCA POPOLARE DI SONDRIO	MULTI
BANCA CARIGE	MULTI
MEDIOBANCA	
Selmabipiemme Leasing	LEASING
Palladio Leassing	LEASING
CREDEM LEASING	LEASING

(following page)

Bank	Sector
BANCA POPOLARE DI MILANO GROUP	
Banca Popolare di Milano	MULTI
Banca di Legnano	MULTI
CASSA DI RISPARMIO DI FERRARA	MULTI
Commercio e finanza	LEASING
CASSA DI RISPARMIO DI FIRENZE	PMI
DEXIA CREDIOP	INFRA
BANCA DELLE MARCHE	MULTI
CASSA DI RISPARMIO DI RAVENNA	MULTI
BANCA SELLA	MULTI
MEDIOCREDITO TRENTINO ALTO ADIGE	MULTI
CREVAL - GRUPPO BANCARIO GREDITO VALTELLINESE	
Credito artigiano	MULTI
Credito siciliano	MULTI
BAI - Banca dell'artigianato e dell'Industria	MULTI

Source: European Investment Bank, 2006

Acronyms: Multi = PMI, infrastructures, energy, environment; Leasing = leasing for PMI; Infra = public infrastructures; R&S, R&D = research and technological development

Dictionary: *Cassa di Risparmio* (Mutual savings bank)

5. CONCLUSIONS AND RECOMMENDATIONS

According to the situation described in the previous chapters, Municipalities can be considered as the most important level of government dealing with local development. In fact, Municipalities are largely involved in providing services to population (except for health care services) and they will likely enhance their role as drive behind the economic development. In this context, source of financing Municipalities are very important.

In order to evaluate the current impact of the European Investment Bank on the Italian financing system, this work team has formulated a questionnaire addressed to the Municipalities that have taken part to the most important National and European programmes for urban development.

The results of this survey are explained in the following SWOT analysis, which describes both the most successful aspects of the EIB activity (which should inspire future action) and the less profitable features that represent a risk for the future.

Figure 9 - SWOT analysis

Strengths	Weaknesses
S1: Solid financial structure, which determines an excellent AAA credit reputation and the possibility to raise resources on the financial and capital markets at the best conditions **S2**: Non-profit policy that enables EIB to offer relatively cheap loans (interest rates are based on EIB's borrowing cost with a small margin to cover administrative expenses) **S3**: Loan payments are referred to each credit request, not to the individual project's effective progress **S4**: Control procedures after the disbursement are easier than procedures under the Structural Funds	**W1**: Lack of knowledge of the EIB activities all over Italy and a need for a strong information campaingning **W2**: Criticism of extensive red tape (very elaborate questionnaires and contracts) **W3**: The internal rule concerning limits to the number of disbursements can create problems in terms of the Stability and Growth Pact parameters (the greater the mortgage, the greater the amount of each payment) **W4**: Lack of connection between the project planners and the financing department of the Local Authority
Opportunities	**Threats**
O1: Only one working office in Italy: same presence in the territory as other important banks (Cassa DD. PP.) **O2:** Correct EIB communication policies: overcome the political level in order to reach the administrative staff **O3**: Delocalization of working offices and stronger collaboration with National Ministeries. **O4**: Need for implementing a strong marketing strategy to make the EIB closest to its potential customers	**T1**: The EIB is wrongly considered as a European Institution, it is not clear its role as a bank **T2**: The EIB presence is not perceptible enough in small territorial realities nor in those areas more interested in urban development financing (i.e. the city of Genova). **T3:** Due to AAA rating, interest advantage is relatively low and has fallen over the last years **T4**: Strong connection between Local Administrations and local banks, that keep the EIB out of local markets

Source: Ernst & Young elaboration, 2006

According to the analysis, we can state EIB loans are advantageous for Local Bodies not only in financial terms[22] (competitive rates, suitable repayment rules that are not easy to find in Italy), but also socio-economically: the Bank pays attention not only to the financial rate of return of its investment but also to the socio-economic rate of return, and this approach ensures stronger coherence between the project and its territorial context. Moreover, according to the survey, it is demonstrated the EIB is the only financial player that provides financing for both single projects (provided they are sufficiently large) and whole programmes, as opposed to all the other banks, Cassa DD. PP. included.

[22] Relatively cheap loans and long-term credit (up to 30 years in duration and long grace periods), which is not easy to find in Italy (apart from Cassa DD.PP.).

Another higlight is that EIB provides loans in Eur or other major Currencies, according to the borrower's demand[23]. EIB funds investments both in the European Union and abroad, thus supporting the European policies. Actually, the bank set its strategies according to the EU political priorities and collaborates with other European Institutions[24] in order to be able to offer relatively cheap loans at very competitive conditions.

The EIB finances up to 50% of the total project cost, and financing may be combined with EU grants or with loans from other banks The involvement of the EIB can act as a catalyst, encouraging other banks, financial institutions and the private sector to participate in an investment.

Finally, among the 3 levels of local government, Municipalities are those whose organization and approach is closest to the EIB one.

However, the lack of knowledge of the European Investment Bank and the misunderstanding concerning its role as a funding bank represent the most important obstacle to an effective expansion of the Bank's activities in Italy. In reality, the European Investment Bank is both a *bank*, since it is an active player on International financial markets, and an *institution*, because it was established by the Treaty of Rome and EU Member States are its main shareholders (Monti, 2003). According to the questionnaire, even though Italian Municipalities use public lending as a source of financing, most of them ask for a Cassa DD. PP. mortgage; only a few applied to private banks. The EIB is known, but not well enough to convince Municipalities to apply to it for loans.

However, the survey highlighted that the financial advantages given by the competitive rates applied to an EIB loan do not compensate for the lack of a system of EIB branches operating at local level. Moreover, when the EIB lends through other banks, the price of the loan is above the original cost because the intermediary bank applies a sort of mark-up. In this situation the borrower does not have the benefits from the easy-terms rates.

At a first glance this difficulty of communication could be ascribed to the insufficient presence within the territory (there is only one working office outside Luxembourg, placed in Rome and the number of people working in Local Authorities is very low). As regards the localisation of offices it is true that, other important players in financing public bodies operate under the same conditions: Cassa DD. PP. has only one working office, placed in Rome, and Dexia Crediop has four offices in Italy. For this reason, we consider the need to implement a strong marketing strategy and an information campaign as a priority action for the future: the Bank should explain its role as financing bank, close to the territory and financially competitive.

Concerning the repayment mechanisms, two important aspects should be stressed:

1. Loan payments are referred to each credit request, not to the project's effective progress, whilst other loans bind payments to the project's effective steps.
2. Whatever the amount lent, limits on the number of disbursements the EIB can make (this is an internal rule can be quoted as an info obtained by Italian local authorities not as an EIB rule) determine that the greater the amount is, the greater each payment will be. The largest amount of money in a Municipality balance sheet could be a problem in terms of the Stability and Growth Pact.

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[23] About 89% of EIB financing goes to projects located within the European Union.

[24] The European Investment Bank works in partnership with more than 180 banks and financial institutions within the European Union. This allows EIB to maximize fund-raising, to finance wide-ranging projects and to keep local banks in connection with their territories.

Another weak point is represented by the lack of agreement between the planning office and the financial department of each Local Body: indeed, whilst the project planners are more sensitive to the EIB concern with sustainable development policies and to EIB quality of managing the loan, the financial departments often pay more attention to the ease in which loan procedures are managed or to personal relationships with other local banks. In this context, criticism of too much red tape (elaborate questionnaires, difficult communication with EIB in comparison to local banks, long waiting-times to sign the contract) may cause the financial department to prefer local banks to EIB.

In this framework, the most dangerous threats are represented by the confusion of the EIB role (is it a bank or a European Institution?) and by the strong relation between Local Administrations and local banks, that keep the EIB out of local markets.

For the future, it will be important for the EIB to better address its communication policies. This approach needs the implementation of a strong marketing strategy, to make the EIB closer to its potential customers. Delocalization of working offices with subsequent increase in staff dedicated to Italian Local Authorities in Italy and stronger collaboration with National Ministries can represent a first step in this direction.

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Annex 2: List of interviewees

Interview with Mrs Paola Menale, Director for the Research and Statistical Studies within Cassa DD.PP. S.p.A.

Ministry of Infrastructure, November 2006

Interview with Mr Martin Fritz, EIB Area Infrastructure and Public Sector in Italy, and with Mr Gennaro Ramazio, EIB Department for Operations in Italy, Greece, Cyprus, Malta.

EIB's Italy Department, November 2006

Annex 3: Additional information

In order to evaluate the current impact the EIB has on the Italian financing system, has been elaborated a questionnaire addressed to the Municipalities that have taken part to the most important National and European programmes for urban development.

Addressees: Aversa, Bagheria, Bitonto, Brindisi, Caltagirone, Campobasso, Catanzaro, Cava dei Tirreni, Cinisello Balsamo, Ercolano, Livorno, Messina, Rovigo, Savona, Seregno, Settimo Torinese, Trapani, Trieste, Venaria Reale, Venezia, Carrara, Caserta, Crotone, Genova, Milano, Misterbianco, Mola di Bari, Pescara, Taranto, Torino, Bari, Cagliari, Catania, Cosenza, Foggia, Lecce, Napoli, Palermo, Roma, Reggio Calabria, Salerno, Siracusa, (URBAN Italia, URBAN II, URBAN I)