

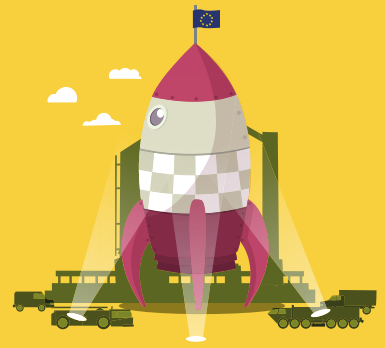


Making financial instruments  
work for cities

# CSI EUROPE

## FINANCIAL INSTRUMENTS AND URBAN DEVELOPMENT

THEME PAPER: INTRODUCTION



The CSI Europe network was established under the URBACT programme with a mission to make financial instruments work for cities. This series of Theme Papers introduces the key issues for successful implementation of financial instruments to support urban development through loans and other investments instead of grants.

## KEY MESSAGE

- Financial Instruments (FIs) are funds that invest in projects by providing loans, equity investments (including subordinated loans) or guarantees. They can be effective tools for cities and Managing Authorities to use to fund Integrated Sustainable Urban Development.
- The long term advantage to using FIs in place of grant is that the investments will be repaid and the money will be available for reinvestment in further projects in the future.
- A well implemented FI will have a robust and streamlined governance framework that ensures professional led investment decisions within an Investment Strategy that reflects the local context.
- To successfully implement a FI, Cities and Managing Authorities need to undertake an ex-ante assessment to establish the case for the FI and its investment strategy. The final investment strategy should identify where FIs will be used instead of grant so that project promoters understand what type of support is available.

## FINANCIAL INSTRUMENTS

FIs are an alternative to grant funding, which has traditionally been the main way European Regional Development Fund (ERDF) and other public funding has been provided to projects. Typically, under a FI, the ESIF or other public funding will be managed by a private sector fund manager who will be responsible for the appraisal of investments, pricing of the loan and monitoring of the delivery of the project. The advantages of FIs go beyond recycling investment funds.

The requirement for professional led investment decisions imposes a positive discipline that means FIs will only invest in financially viable projects. This should increase the likelihood that FI resources are invested in deliverable schemes which will achieve the outcomes of the FI's Investment Strategy. It also creates a platform of success which has the potential to attract additional investment from private or public funders.

## MAKING FINANCIAL INSTRUMENTS WORK

Cities that want to make FIs work for them must develop their understanding of the subject to enable them to take advantage of FIs established with ESIF funds in the 2014-2020 programme period and more generally to develop

funding models to support projects in their area. CSI Europe has produced a short animation called "How to Build a Rocket" and accompanying Theme Papers to provide a starting point for practitioners seeking to develop their understanding of FIs.

# HOW TO BUILD A ROCKET

## 3. GOVERNANCE

Cities need to work in partnership with their Managing Authority to get the most out of Financial Instruments. A city can participate in the governance of a Financial Instrument to ensure alignment between the FI's investment strategy and the city's integrated plan for sustainable urban development. A city should also work with its local project promoters to develop a pipeline of investment ready projects. The CSI Europe Route Map shows the steps a city can take to make FIs work to support its future development.



## 1. REGULATION

The CSI Europe Route Map shows the key steps that need to be taken under the new regulations to implement Financial Instruments. A key stage in the process is the ex-ante assessment which considers both the investment need and the market failure the FI is intended to address. The 2014–2020 regulations provide a clear framework for implementing FIs that reflects the learning of the JESSICA initiative and should enable FIs to be established more quickly than in the past. Local regulations are also important to the implementation of FIs as they can support or constrain project delivery,



3

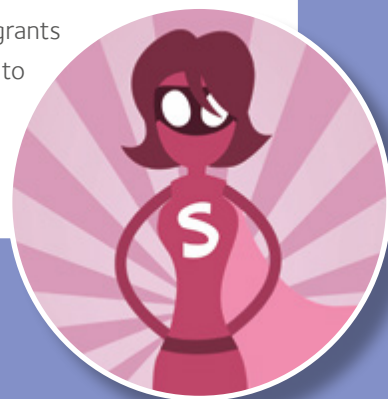
1



4.

## 4. TECHNICAL ASSISTANCE

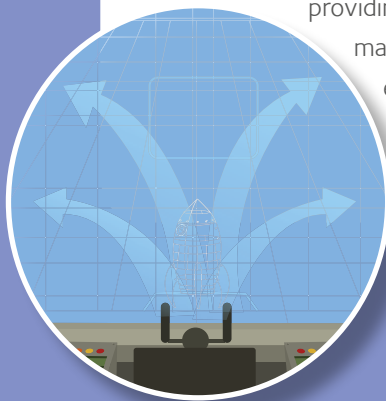
Working with Financial Instruments needs new skills in addition to those traditionally found within a city's workforce. A "New Kind of Public Servant" is needed who can combine development expertise with knowledge of financing investments. Technical Assistance is available to help cities build capacity and the fi-compass advisory platform will support this work. Financial Instruments are also able to provide small grants to fund project promoters to work up projects that will receive investment from the FI in the future.



2.

## 2. STATE AID

There are four pathways to compliance with the State aid rules: no aid, de-minimis, the General Block Exemption Regulation (GBER) and Notification. As State aid is a complex, technical subject it can often be a constraint in the approval process for projects. A city that has the expertise and knowledge to identify the appropriate State aid pathway will be able to help its project promoters to bring forward investment ready projects. Cities should recognise that they are in the business of providing State aid and so should make sure they have the expertise to make best use of the flexibilities in GBER and the other rules.



# FREQUENTLY ASKED QUESTIONS

## Q: How long does it take to implement a Financial Instrument to support Urban Development?

**A:** In the last programme period, the experience of JESSICA funds was that it took up to three years to establish a fund. In the 2014-2020 period, however, lessons have been learnt meaning that a fund should be established within about 12 months of commencing an ex-ante assessment.

## Q: What help is available for cities and their partners who want to implement FIs?

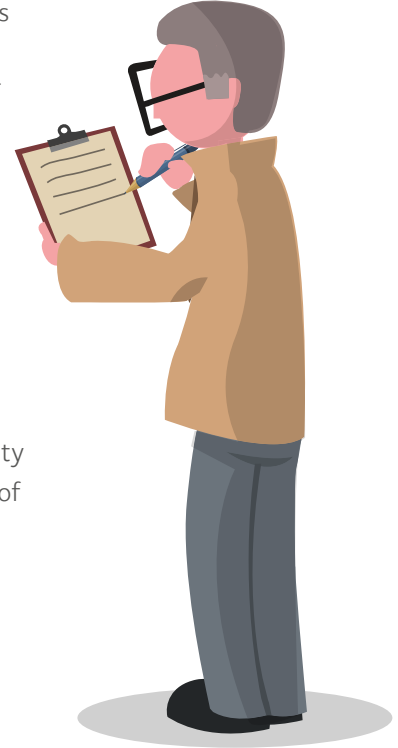
**A:** There now exists considerable knowledge within institutions and professional organisations about how to tackle governance and technical issues affecting FIs. The fi-compass advisory platform will allow the expertise to be pooled and lessons learned from successful FIs.

## Q How can private investment be attracted into FIs?

**A:** There are examples of (and the regulations are supportive of) fund managers investing some of their own funds alongside ESIF monies as part of a single FI. It may often be easier to secure private investment at project level, such as where an FI provides a loan to unlock private debt and equity investments to allow a project to proceed. State aid flexibilities can be used to give preferential returns or asymmetric risk sharing arrangements to help attract investment.

## Q: Who are the key stakeholders and how can cities engage them?

**A:** Important stakeholders include: Managing Authorities, fund managers, city planners, project promoters, investors and the wider community. This is a key activity where cities can add value, using their local knowledge to promote and explain FIs to project promoters and to develop an Integrated Plan for Sustainable Urban Development that responds to the opportunities and constraints of FIs. URBACT provides a good tool to map stakeholders in its Local Support Group Toolkit ([http://urbact.eu/fileadmin/general\\_library/URBACT\\_Toolkit\\_online\\_4.pdf](http://urbact.eu/fileadmin/general_library/URBACT_Toolkit_online_4.pdf)) and cities are encouraged to identify resources to lead this activity to secure a robust pipeline of investment ready projects.



## THEME PAPERS

Four CSI Europe Theme Papers have been produced which look in more detail at the four key areas that need to be addressed when implementing FIs: Regulation, State aid, Governance and Technical Assistance. A Case Study for each theme is also

available at the CSI Europe URBACT website, along with other supporting papers that have been prepared by the network during the project.

## FURTHER INFORMATION

Further information on Governance can be obtained from the Commission's web [http://ec.europa.eu/regional\\_policy/thefunds/fin\\_inst/index\\_en.cfm](http://ec.europa.eu/regional_policy/thefunds/fin_inst/index_en.cfm)

For further information on CSI Europe project, including the Theme Papers please visit: <http://urbact.eu/en/projects/metropolitan-governance/csi-europe/homepage/>