

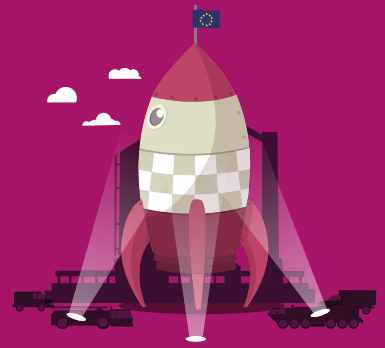


Making financial instruments
work for cities

CSI EUROPE

TECHNICAL ASSISTANCE AND FINANCIAL INSTRUMENTS

THEME PAPER 4



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.

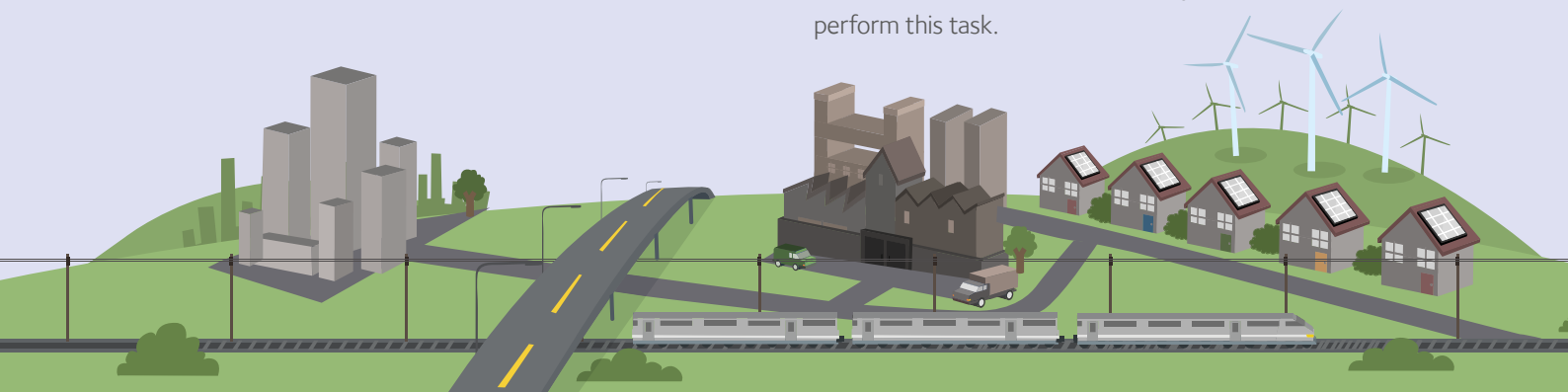
KEY MESSAGE

- Technical Assistance is needed to help build capacity within cities to make the best use of financial instruments. Funding and resources need to be mobilised so that public servants and their private sector stakeholders understand financial instruments and how to use them to fund their priority projects
- A new kind of public servant is needed who can engage with fund managers and project promoters in an informed way. Cities should look to their existing staff to identify individuals with the skills appropriate for this work such as staff with banking or finance experience or experience of working with property developers
- Cities should work with project promoters to bring forward a strong pipeline of “Investment Ready Projects” in their area. Financial Instruments may under Art 5 of the Delegated Regulation (No.480/2014) make small grants to promoters for the technical preparation of projects that will receive investment from the fund in the future.
- The European Investment Bank is to establish, manage and maintain a Technical Assistance platform to be known as fi-compass to facilitate the use of financial instruments supported by ESIF resources. This will provide a valuable resource that cities, Managing Authorities and their partners can access to help implementation of financial instruments.

WELCOME TO THE FUTURE

Financial instruments are a new and different way of using public funding to achieve sustainable urban development. A city and its partners will still require the same level of urban development expertise, in areas such as planning, community engagement and ESIF compliance. These skills should be used to deliver an integrated sustainable urban development strategy for the city that is widely available and understood.

The implementation of financial instruments require these public sector skills to be blended with the skills traditionally found in banks and other financial institutions that govern project appraisal and underwriting of investments. Financial instruments use Fund Managers with this expertise who will often not have a background in urban development. Therefore cities need to bridge that gap and must understand what Fund Managers require to enable them to effectively perform this task.



A NEW KIND OF PUBLIC SERVANT

EU Know-how: a knowledge of the ESIF Regulations and State aid rules. Project promoters and fund managers will not always be familiar with these rules. An expert public servant can help develop compliant projects and give guidance on tricky issues that builds confidence so projects can progress.

Reach: the expert public servant can reach out to fund managers and Managing Authorities building strong partnerships by adding value to the implementation of financial instruments. Through this work cities can seek to engage in the governance of funds finding ways to align the fund's investment strategy with its own integrated plan for sustainable urban development.

Development support: small amounts of funding to help project promoters may make all the difference to bringing forward investment ready projects. The expert public servant can help promoters access funding from sources such as the financial instrument or the city's own resources. Providing links to enable early engagement with the City planning department and other local approval processes can also be important.

Financing Instruments: knowledge of the factors that a fund manager will consider as part of their appraisal of a funding application is essential. The financial viability of a scheme requires a project to generate financial returns in the future. Other considerations such as a promoter's credit rating, loan/value ratio, security/collateral available and end user demand for the development will also determine whether a financial instrument can support the scheme.





Vision: understanding the local context and the potential for bringing forward viable projects is a crucial contribution public servants can make. Using their expertise in both urban development and financial instruments they can help identify potentially viable schemes and bring together key actors to help bring forward proposals to fund managers.

Leadership: a critical success factor for financial instruments is the understanding amongst public servants and private partners that grants are no longer available for urban development in the way they used to be. Cities can play a leadership role in their local areas promoting this message, helping to drive the cultural change needed to make financial instruments work.

Strength: getting a financial instrument off the ground is not easy as until the first investments are made, the demand for investments can be slow to grow. This means in the early stages an expert public servant must be relentless in their pursuit of their goals to align investment strategies and use forward investment ready projects.

Urban Development: the expert public servant will put financial instruments at the heart of the City's integrated sustainable urban development strategy and use all their traditional skills to help bring forward projects that meet the social and economic priorities of the City.

BUILDING CAPACITY

Every city will have its own solution to building capacity to make best use of financial instruments. Some of the options include:

- **Learning by doing** – experience can be a great teacher so cities should ensure they secure the involvement of their key members of staff in the development of financial instruments. This may include building links with Managing Authorities during the ex-ante assessment process and working on the early engagement with project promoters. Where external expertise is used cities should ensure the transfer of learning and skills to its own team is achieved as part of the work.
- **Finding professionals in the organisation with relevant skills** – cities should seek to identify “unusual suspects” in their organisation who may have relevant experience to contribute to the new financial instruments team. Departments such as finance and legal may have professionals who have previously worked in financial institutions who can help bridge the gap
- **Recruitment of new expertise** – cities should consider recruiting new members of staff with relevant skills

to work alongside the existing development teams to broaden the skills base in the organisation. Cities should also seek to influence the recruitment by the fund manager of professionals with urban development experience to complement their financing know-how;

- **Secondment of staff from outside agencies** – a short term secondment from outside agencies may benefit both parties in increasing knowledge in relation to the implementation of financial instruments. This could include an exchange programme with the fund manager which would allow an exchange of knowledge and increase understanding of each other’s priorities ; and
- **External experts** – financial instruments are complex and external expertise will often be the best way to progress quickly to securing investment into priority projects. Cities should seek to identify professional advisory firms that are active in their area that can support this work. In addition to engaging advisers directly, cities should encourage its project promoters to secure expert advice early in the development of proposals.

fi-compass

The EIB will set up and provide a technical assistance platform for financial instruments with the aim of facilitating the use of FIs in ESI Funds. Under the platform, the EIB will provide guidance, in the form of handbooks and manuals, and capacity building services through classroom training or

e-learning.. Cities and their partners should seek to use this platform to develop their own knowledge and experience and to make links with other cities to facilitate the exchange of learning and support.

FURTHER INFORMATION

This paper is intended to be a guide to some of the relevant issues arising in connection with financial instruments. As it is a highly technical and complex area it is essential that Cities and Managing Authorities seeking to promote an FI obtain their own expert advice.

Further information on FIs can be obtained from the Commission’s web site at: http://ec.europa.eu/regional_policy/thefunds/fin_inst/index_en.cfm

Further information on CSI Europe project, please visit: <http://urbact.eu/en/projects/metropolitan-governance/csi-europe/homepage/>

CASE STUDY

The use of ELENA to support the JESSICA initiative in London is described in our Case Study which can be found on our website.