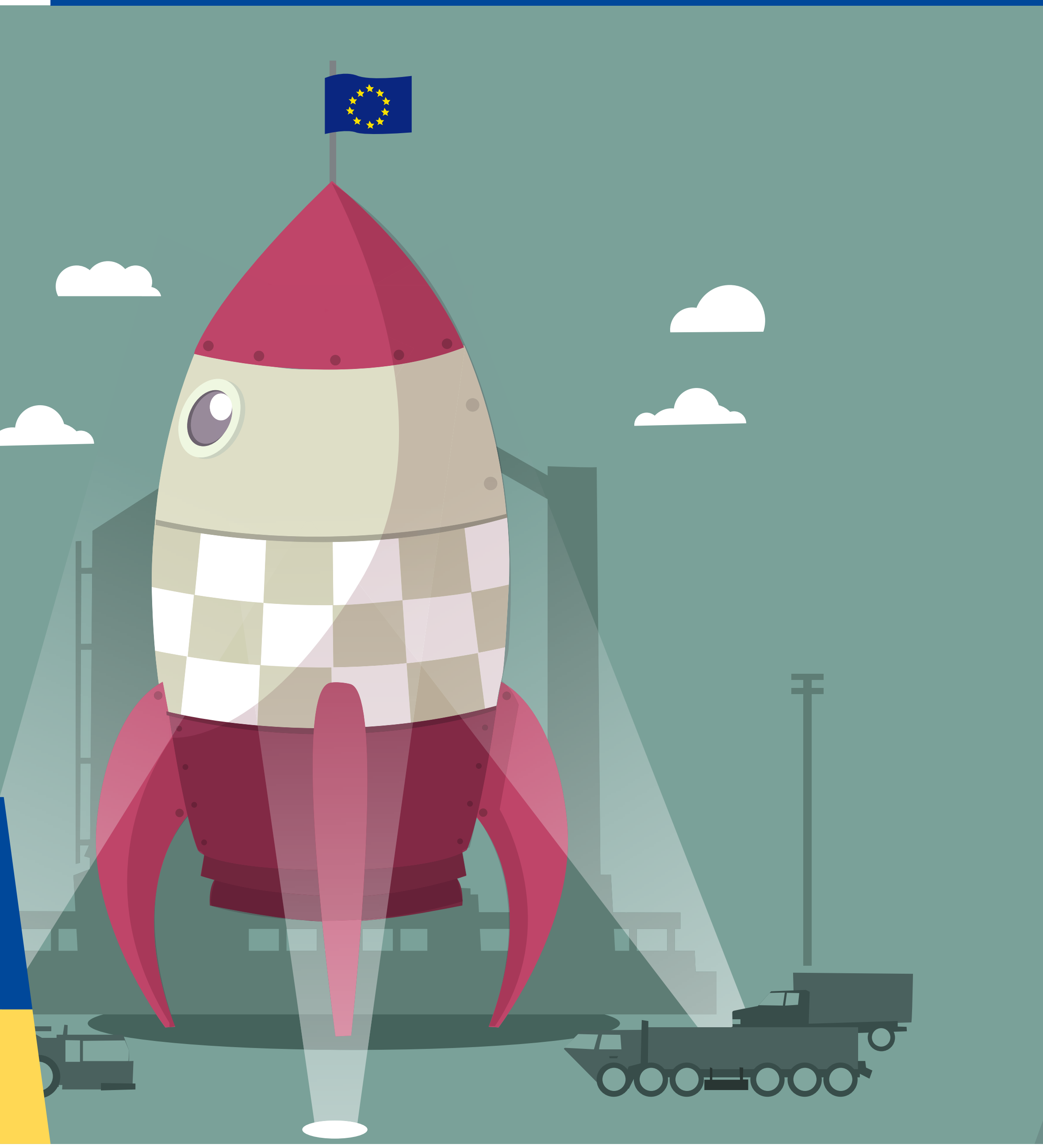
Making financial instruments work for cities

CSI EUROPE FINAL REPORT

FINAL REPORT OF THE CSI EUROPE URBACT NETWORK | APRIL 2015



URBACT II

European Union

Connecting cities
Building successes

CONTENTS

European Union
European Regional Development Fund

FOREWORD

MARK DUNCAN
– LEAD PARTNER, MANCHESTER CITY COUNCIL

The CSI Network has been working for three years with the support of the URBACT II programme to develop a toolkit designed to share the knowledge and expertise that exists across Europe to show cities how they can work with their Managing Authorities to establish and successfully implement urban development loan funds (Financial Instruments).

At a time when public budgets are under increasing pressure, using these Financial Instrument loan funds allows us to make investments into projects that drive economic growth and job creation, which would otherwise have failed to raise the required finance. They then allow us to recoup our investment and recycle the funding into other projects. Where once grants would fund one project, these loan funds can now be used multiple times to fund multiple projects.

The CSI Network has shown how European cities can come together, share their experiences and learn from each other to effectively develop tools and strategies that can help to deliver replicable guidance and tools that can be used to support the delivery of common aims and objectives across the EU.

Establishing these funds is not without its challenges but the rewards are worth it. I hope that you will find this Final Report and our CSI Toolkit a helpful guide in assisting you in establishing these Funds in your area.

CHAPTER 1

INTRODUCTION

European Union
European Regional Development Fund

INTRODUCTION

The CSI Europe cities came together because they shared the mission to make financial instruments work for cities in particular to support sustainable urban development.

As a network the CSI Europe partners believe that:

- financial instruments offer a more sustainable model for funding urban development in the future;
- that if the right governance arrangements are in place, they should provide better value for money and improved results, when compared with grant; and
- cities can add value to the implementation and operation of financial instruments, ensuring that the investments support priority projects that will maximise the impact of the funding.

This report describes the work we have done to understand and explore the potential of financial instruments using the URBACT method. As a result of our work, we believe we have developed a clear and distinctive message that can help shape how Financial Instruments are used by cities and the parties in the future.

THE CSI EUROPE NETWORK

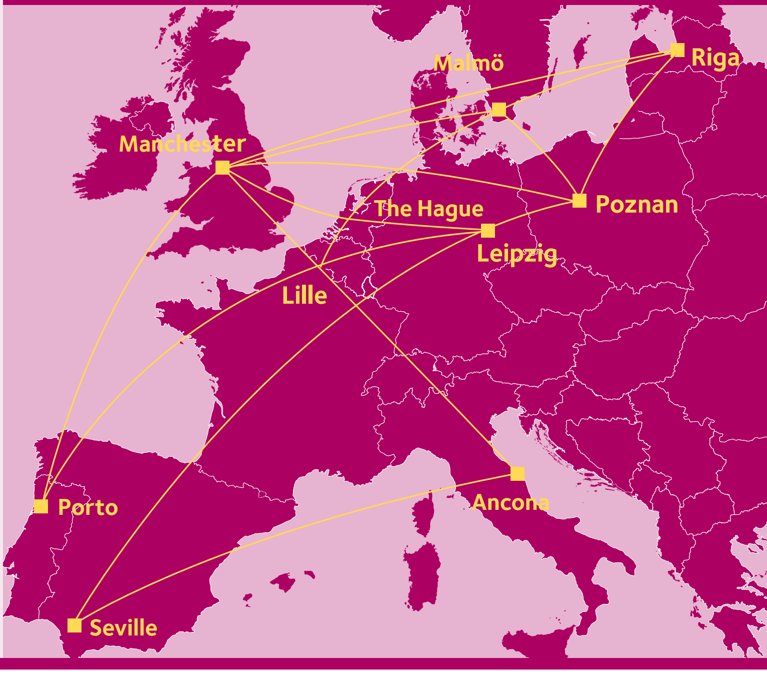
The partner cities are drawn from all different parts of Europe from the north to the south, east to the west. As well as being geographically distributed, there are a range of different experiences with financial instruments within the network. Some of the cities have direct experience of implementing their own financial instruments; others have been working closely with instruments established by managing authorities in their areas, whilst a third group of cities continue to to try to implement financial instruments in their area for the first time.

The profile of the partner cities is as follows:

- Manchester (Lead Partner): a city with a population of over 500,000, Manchester is at the heart of the Greater Manchester City Region. In 2011, Manchester established the financial instrument, The North West Evergreen Fund (Evergreen) which has committed over €60 million of loan finance towards urban development projects in the North West of England.;
- Ancona: located on the Adriatic Coast in the Marche Region of Italy, Ancona has just over 100,000 inhabitants. Its strategic priorities include the integration of port and city and the development of its surrounding landscape to develop the "Green" economy in the city and promote the ecological network in the area. The City is seeking partnerships to help promote a financial instrument that can support its priorities;

- Leipzig: part of the "Central Germany" region, Leipzig has a population of more than 500,000. It is a thriving centre for service and manufacturing industries and is seeking to support the continued growth and development of the area through financial instruments. Priorities include the refurbishment and re-use of building stock from the Grunderzeit period at the turn of the 19th Century and the development of new housing at the Lindenau Harbour development.
- Lille Metropole: comprising 85 municipalities, Lille Metropole is the 4th largest urban conurbation in France with a population of over 1 million people. At its heart is the City of Lille which is a retail and finance centre seeking to secure further growth through the redevelopment of many brownfield sites. Lille Metropole is working closely with colleagues in the Nord pas de Calais region on the establishment of a financial instrument for urban development in the 2014-2020 European Structural Investment Fund (ESIF) programme.
- Malmo: with a population of over 300,000, the Swedish city of Malmo has enjoyed strong growth as a result of the construction of the rail link and bridge connecting it to Copenhagen and the surrounding area. It is seeking to utilise financial instruments to support the refurbishment of its housing stock, in particular the buildings constructed during the "million homes programme" in the 1960s and 1970s.
- Porto: its historic centre is a UNESCO World Heritage Site and the city has become a popular tourist destination. Porto is seeking to grow the population in the City from its currently low base of approximately 250,000, reversing the trend that has seen successive generations of residents move to surrounding suburbs. Porto Vivo, SRU is a body established by the National Government and the City to promote the renewal of its historic centre and is seeking to utilise financial instruments to fund this work, especially in terms of private housing refurbishing and energy efficiency. Two regional urban development funds, created under the JESSICA initiative, have already supported a significant number of projects in the city.
- Poznan: an important junction in the European East-West corridor, Poznan is the largest city in the Wielkopolska region of Poland with a population of approximately 550,000. Poznan already benefits from an active financial instrument that has been established by its Managing Authority for the Wielkopolska region and is seeking to ensure that this funding can be harnessed for its priority projects.
- Riga: the capital city of Latvia with more than 1 million inhabitants, Riga benefits from good transport connectivity through its airport, port and roads. The Riga Planning Region joined the network to increase its knowledge and capability in relation to financial instruments and urban development.
- Seville: the capital of Andalucía, Seville has a population of over 700,000. Its regional managing authority establish a financial instrument under the JESSICA initiative and the City is keen to utilise the funding for the revitalisation of the City. In addition the partner municipal company Emasesa is exploring whether it might establish its own financial instrument outside the ESIF programme.
- The Hague: the "City of Peace and Justice" is located on the North Sea and is the seat of the government of the Netherlands. It has approximately 500,000 residents and hosts over 300 international companies. In 2011, at the same time as it joined the Network, the Hague established its own financial instrument which has been successful in committing all its funds to support energy efficiency and other urban development projects. The city is looking to build on this success in the 2014-2020 programmes.

THE PARTNERS IN THE CSI EUROPE NETWORK



FINANCIAL INSTRUMENTS

The focus of the work of the network was how to utilise financial instruments to support urban regeneration.

In the past, European and national funding has typically been used by managing authorities and cities to support development projects by way of grant. The use of financial instruments represents an entirely new way of using public resources to fund projects which is more sustainable due to the way it recycles resources.

Unlike grant agreements, where the money can only be invested once to support a single project, financial instruments will make an investment which will be repaid at a later date allowing it to be reinvested in further projects in the future.

Financial Instruments established under the 2014-2020 ESIF programmes can make investments in three ways:

1. LOANS

This will account for the majority of investments and involves the provision of repayable finance secured either by a charge over assets or a guarantee;

2. EQUITY

An equity investment where greater risk is taken for a higher return. In the context of ESIF financial instruments, this can include quasi-equity products such as subordinated loans where the security is lower in return for a higher rate of interest; or

3. GUARANTEE

A financial instrument may provide a guarantee, to support a project promoter raising borrowings from the private sector.

In addition to their revolving nature, financial instruments are established with an independent fund manager appointed following a procurement process with responsibility to manage the instrument. The independent fund manager is critical to the governance of the financial instrument as their role ensures that professional led investment decisions are taken, further enhancing their long term sustainability. In its publication entitled "Financial instruments in ESIF programmes 2014-2020. A short reference guide for Managing Authorities", the European Commission state: "Both the MFF and ESIF policy frameworks emphasise the need for more use of financial instruments in 2014-2020". The same publication also describes at paragraph 5.2 the benefits of financial instruments as follows:

- "Leverage resources and increased impact of ESIF programmes;
- Efficiency and effectiveness gains due to revolving nature of funds, which stay in the programme area for future use for similar objectives;
- Better quality products as investment must be repaid;
- Access to a wider spectrum of financial tools for policy delivery & private sector involvement and expertise;
- Move away from grant dependency culture; and
- Attract private sector support (and financing) to public policy objectives."

There are, however, challenges as well as benefits in using financial instruments. These include the fact that financial instruments are less flexible than grant in terms of the types of project they can support due to their requirement for repayment. Projects must be able to deliver value which will ultimately enable the project promoter to repay the investment.

This means that in future public policy objectives for urban development must be delivered through "bankable" projects that are financially viable as well as being policy priorities. From the perspective of a city, this means it needs to work with its local promoters to help them understand how financial instruments work so that they can be made to work for the city.

The CSI Europe network has sought to build its understanding of financial instruments to develop a suite of products using the style "How to Build a Rocket". We hope that our products can be used by cities in their work to deliver their integrated sustainable urban development strategy to include measures that ensure financial instruments are utilised to their maximum potential.

CHAPTER 2

BASELINE STUDY

European Union

BASELINE STUDY

When the CSI Europe project started in 2012, the challenges associated with implementing financial instruments were clear. At the end of August 2012, around €1.8 billion had been committed to financial instruments under the JESSICA initiative by 55 European regions. Despite this progress in establishing financial instruments, at the time, very little of the finance had been invested into development projects by the funds.

This gave the network a focus for its learning and exchange programme which was to try to understand what the barriers were for the implementation of financial instruments and to identify ways of addressing them by cities.

THE JESSICA INITIATIVE

The Joint European Support for Sustainable Investment in City Areas (or JESSICA) was an initiative developed by the European Commission in partnership with the European Investment Bank and the Council of Europe Development Bank. The aim of JESSICA was to develop financial instruments that could support urban development. It formed one of a number of initiatives for financial instruments promoted by the Commission which also included JEREMIE, which looked at financial instruments to support SMEs and JASMINE, which targeted micro finance. The Baseline Study highlighted the progress that had been made by 2012 in relation to the JESSICA initiative across the member states of Europe. With the assistance of the EIB, the study was able to provide a detailed picture of the number of Holding Funds and Urban Development Funds (UDFs) established under the initiative.

The conclusion of the review was that, whilst a significant amount of knowledge and experience had been gathered, at the time of the report the vast majority of the work had only been in relation to the establishment of Holding Funds and UDFs. The next challenge, which was to be the focus of the work of the network, was for the UDFs to deliver investment into eligible projects, developing experience and best practice in relation to the identification and appraisal of projects, pricing of loans, state aid compliance and monitoring.

TERMS OF REFERENCE

The baseline study identified five themes that represented the key challenges experienced by promoters of financial instruments which were adopted as the terms of reference for the network.

The themes were as follows:

1. UDF/CITY ALIGNMENT

a. How can Investment Strategies be best aligned?

b. How can cities be most effectively involved in fund structures, project identification and decision-making?

c. How can UDFs be most effectively embedded within the delivery of city urban development?

d. How can the delivery of priority urban projects be improved ensuring alignment with economic priorities and delivering high-quality urban environments?

e. What are the most appropriate types of projects for these types of financing mechanism?

f. What are the possible forms of financing for the mechanism?

2. TECHNICAL ASSISTANCE

a. How can cities better stimulate and more effectively support project pipeline development?

b. Is there a need for a linked city staff training programme to support staff development in using these kinds of instruments?

c. Is there a need for a Cities/UDF TA programme to support city urban development priority development?

3. STATE AID AND PRIVATE INVESTMENT

a. How applicable is the NWUIF state aid decision to other cities?

b. To what extent is there a need for an EU-wide exemption (linked to off-the shelf theme)?

c. What are the requirements for private investors and how can private investment is best secured?

d. How would greater investment flexibilities encourage greater city involvement?

4. REGULATORY FRAMEWORK

a. The lack of clarity in the current regulations dissuades participants

b. There is also a lack of clarity on the ERDF risks a city may be exposed to in participating in such structures

c. What is the potential of the mechanism to combine ESF, ERDF and other relevant sources of funding under a more integrated, multi-fund approach, and what are the regulatory implications?

d. Learning from current implementation experience among partners will be collected and shared

e. Findings relevant for the next Programming Period.

5. STANDARDISED FUND MODELS

a. This theme would follow the earlier themes and reflect findings and conclusions

b. It will build on the learning and best practice established through the themes and LSGs and make recommendations for off-the-shelf models for implementation in the next programming period

c. The five themes were assigned lead partners (called Theme Leads) from within the network who would take responsibility for progressing the work and hosting a transnational conference that would focus on the topic. Either two or three partners were assigned to act as Theme Leads with the Lead Partner retaining an involvement in all of the partnerships.

WORK PLAN

The network divided its programme of work into three stages:

PHASE 1 – RESEARCH (FEBRUARY 2013 – APRIL 2013)

Theme leads were asked initially build upon the information provided in the baseline study to further research their respective theme. This was to ensure that each partner city and their supporting LSG had the opportunity to develop their own learning base in the chosen topic, recognising of course that five of the partners were relatively new to the project and have not had direct experience of the topic in question.

This period was also intended to allow partners the opportunity to reacquaint themselves with the project and energise the LSGs, given the three-month time lag between the submission of the final application and the decision of the URBACT PMC. During this period the partners, through their LSG, were each asked to develop their Local Action Plan, to identify the local priorities for action, in addition to embedding the key themes in the LSG's work.

PHASE 2 – ANALYSIS (MAY 2013 – JUNE 2014)

The second phase of the theme work programme commenced immediately following the first transnational meeting. The second phase was the longest of the three phases and eventually ran until the Seville conference in October 2014. The focus of this phase was on the development of proposals/model approaches to address the issues raised in each theme as well as further developing the Local Action Plans. During this period, partners were expected to continue to hold quarterly LSGs to analyse the issues and develop and test proposals.

The partnership as a whole came together six times during this phase, with each meeting focusing on one theme and the implications of the findings and proposals on the final theme – standardised fund models. By allowing the partnership to collectively focus on one theme at a time, in this way, the partnership had the opportunity to develop a much greater understanding of the specific detail of each theme. It also allowed the theme leads to benefit from peer review of the findings and recommendations to help further refine their thinking.

PHASE 3 – DISSEMINATION (JULY 2014 – MARCH 2015)

The final phase of the work programme focused on building on the findings of each theme with the original intention of developing standardised fund models for the future 2014–2020 Programming Period and then disseminating and publicising the findings, conclusions and recommendations of the project. This objective was modified during the course of the project to reflect the emerging findings of the thematic work.

A Final Seminar was held in Lille to launch the findings. Following this seminar, partners will then organise a local conference to present the conclusions of the project and the recommendations of their Local Action Plans.

CHAPTER 3

TRANSNATIONAL WORKING

TRANSNATIONAL WORKING

The CSI Europe themes provided a framework for the transnational working. In total, 8 conferences were held, during which the network matured and the CSI Europe outputs refined. Highlights of each event are described below.

MANCHESTER KICK OFF MEETING

Road Maps, Deliverables and the URBACT Method

The Kick Off meeting was held in Manchester in April 2013, following confirmation that the project had been selected to proceed to the Implementation phase. Nine of the partner cities gathered for two days which provided the network with an opportunity to reacquaint themselves with each other and the subject.

The meeting began with a feedback session which allowed each partner to update the group on the progress made in relation to their early Local Action Plan (LAP) objectives. In line with the Baseline study that preceded it, the experience was mixed although there were already positive signs of some progress being made in the cities with funds established with Poznan, the Hague and Manchester all reporting early progress.

The group was joined by Sally Kneeshaw who had joined the network as Thematic Pole Manager. Sally used the session to introduce herself and provided a number of useful insights on the URBACT method that were to shape some of our future work. The key presentation at the event was given by Frank Lee, Head of the EIB's Financial Instruments unit. Frank gave the group an account of the current thinking in relation to the implementation of Financial Instruments in the 2014-2020 programme periods.

The group then divided into its Thematic Partnerships to enable an outline work programme to be developed for each theme. This was followed by a presentation from colleagues from the Hague about their proposed agenda and outputs for the first thematic conference they were to host on the topic of Regulation. It was proposed to use the conference to develop a "road map" to guide future cities' work to set up Financial Instruments.

THE HAGUE – REGULATION CONFERENCE

Ex Ante Assessments, Managing Authorities and a letter to the Commission

On the 11th and 12th of June 2013 the CSI Europe Partner meeting took place in The Hague, the city of Peace and Justice. The first day of the meeting was dedicated to a conference to consider 'The Regulatory Framework'. Day two was used by the partners to develop their thematic partnerships and discuss their experience to date in relation to their local Support Groups.

Ruud van Raak, from the Managing Authority, Kansen voor West – Rotterdam, spoke at the meeting and described the devolved arrangements for managing the Operational Programme in the Netherlands. This helped the development of their JESSICA fund that has just been established by the city of the Hague. The presentation highlighted the strong working relationship and high level of openness and respect between MA and city which can be seen as an example for other member states, because of the direct involvement of major cities in the strategic decision making.

Frank Lee from the EIB was again able to speak at the conference and this time provided an insight into two key new proposals that will form part of the next regulations: ex-ante assessments and the "off the shelf" models. Regarding the ex-ante assessments Frank gave an insight about what is required in an assessment, what must be covered, the early stage considerations, timetable and available guidance in the future.

Concerning the "off the shelf" models Frank presented the potential draft models which are being built at the moment and the objectives and coverage of these models, including the ambition to cover the state-aid rules with the off-the shelf instruments and to provide a minimum set of technical and legal requirements.

There followed significant debate about issues including the potential extensiveness of the ex-ante assessment, the cost of the assessments and whether the ex-ante assessment would be acceptable to DG Competition as well as the MA to demonstrate market failure. The goal is to avoid having to undertake the work twice.

The timescale for implementing a financial instrument was also highlighted as a concern, as the satisfactory completion of the assessment needs to be followed by a procurement of a fund manager. This process can take up to twelve months and the ex-ante process should reflect this by allowing enough time and flexibility to conclude a procurement process without having to seek further approval. Other questions were unanswered like the need for a simple process revising the ex-ante assessment after changing the investment strategy or enlarging the fund size. Overall, both the ex-ante assessment and "off the shelf" models have the potential to add value for cities seeking to establish Financial Instruments although there remains a risk that they will develop into unduly restrictive frameworks that will inhibit rather than stimulate innovation in the development of Financial Instruments in the future. If this imports further risks, it will act as a barrier to private sector entrants to the market and therefore it is important to bring the concerns expressed by the network partners to the attention of the Commission.

As a result, day two was spent drafting on a white board a letter from the network to the Commission's Financial Instruments Unit. The exercise provided a positive early opportunity to collaborate between the group and delivered a strong output in the form of the letter which was sent by the Lead Expert to the Commission on behalf of the network. A copy of the letter is shown below:

Dear Virgilio

CSI Europe – Regulation Conference

As you know, the CSI Europe network of cities has been established under the URBACT programme to consider how financial instruments can work for cities to deliver integrated sustainable urban development. One of the key themes for our network is the regulatory framework for the establishment and operation of Financial Instruments.

We considered this issue at a conference in The Hague on the 11th June which was attended by our partner cities and other stakeholders including two fund managers, a representative from the Managing Authority of the Netherlands and the EIB. We had hoped you might be able to join us, following the useful briefing session held at your offices earlier this year, but understand that you are very busy developing the new legislative framework at the moment.

Our work identified a number of positive features of the new proposals including the widening of the scope of Financial Instruments to all strategic themes, the inclusion of Financial Instrument specific regulations in the CSF Regulations and the provision of very helpful clear guidance in the form of the factsheets on the inforegio website.

European Union

We also identified some areas which we feel would be useful for further consideration by the Commission as it develops the supporting legislation to implement the proposals. These include:

- The importance of the partnership between Managing Authorities and cities.

The Partnership Agreement emphasises the importance of local and regional partners in the development and delivery of the operational programme. We welcome the Commission's positive view of the role cities should play in this work, which reflects the central role cities will play in achieving the Europe 2020 objectives. Through our network our partner cities will seek to engage our MAs in constructive dialogue to develop a Local Action Plan that reflects our shared priorities. We would ask that the Commission continues to encourage MAs to engage with their partner cities and consider measures that have sufficient flexibility to enable cities to bring forward proposals for Financial Instruments when supported by an ex-ante assessment.

- The ex-ante assessment.

We recognise that an ex-ante assessment will provide a helpful framework for the establishment of funds. We would be keen, however to ensure that the process does not become a barrier to establishing funds due to the cost of the exercise and/or the time and resource requirement becoming excessive. It is also is important to ensure that the process allows sufficient time for the procurement of a fund manager, which in our experience can take up to a year, without requiring a further assessment to be undertaken afterwards. As the assessment of market failure is not likely to expire over a period of months there should be scope to provide a realistic timescale (and stable platform) for the subsequent procurement of a Fund Manager.

- Technical Assistance

Linked to the issue of the ex-ante assessment is the issue of Technical Assistance. The availability of TA to support the development of Financial Instruments by both MAs and cities will be important to secure the capacity to address market failure for sustainable development in urban areas.

- State aid.

The development of the "off the shelf" models is welcome as they will provide a helpful starting point to establishing funds whether using the model or a similar, but tailored, model. It is important that these models, and the implementing legislation as a whole, reflects the progress that has been made in developing State aid approaches such as the Northwest JESSICA model. The "off the shelf" models, and the ex-ante assessment process, should both be developed to help secure early approvals from DG Comp. to the proposed State aid approach. We would welcome some leadership from the Commission on this issue as part of the legislation.

- Private Sector Fund Managers.

It is essential that we build the market of private sector fund managers who are familiar with ERDF Financial Instruments and can bring their skills to developing this area of work. We must recognise that some of the risks that arise in connection with an ERDF fund are unfamiliar to potential private sector partners and, therefore, we need sufficient flexibility to attract new entrants to the market. Therefore, although we agree that the terms of appointment of fund managers should include incentivisation in the fee structure, there is a very real risk that if the balance between risk and reward is not reasonable we will fail to secure the necessary fund management expertise to make Financial Instruments a success. Similarly, in the absence of a robust track record of success we must be reasonable in our expectations about how far we can attract private sector investment into funds, whether from private sector investors or fund managers themselves, at this stage.

I hope the above comments provide you with a useful insight of the views and experience within our network. URBACT is a programme which focuses on the urban agenda and we would hope that we can continue to engage with you as a voice that represents a City perspective in relation to Financial Instruments.

My colleague Paul Evans is attending your stakeholder event on Thursday 20th June 2013 on behalf of EUROCITIES and will be available to discuss these matters further at the conference.

Please contact me if you wish to discuss further.
Yours sincerely

Des Gardner

Lead Expert, CSI Europe | www.urbact.eu/csieurope

LEIPZIG TECHNICAL ASSISTANCE CONFERENCE

Integrated Sustainable Urban Development and Bridging the Skills Gap

The CSI Europe Technical Assistance Conference held in Leipzig on the 3rd and 4th of December 2013. The event was enhanced by the joint sessions held with the EPOUrban Project that Leipzig was hosting at the same time. The EPOUrban project is a network of Central European cities that are looking at the privately owned housing market, with the aim of bring forward innovative schemes to renew and improve the housing as part of an integrated urban development programme.

The Leipzig Charter had previously highlighted the importance of an Integrated Sustainable Urban Development Strategy to a City's successful development. This provided the backdrop for the work of the conference which looked in particular how to bridge the skills gap to allow cities to play a leading role in the implementation of Financial Instruments in their area.

The independent consultancy Quaestio, Bonn presented the findings of a study that had been commissioned by the City of Leipzig using their CSI Europe funding. The aim of the study was to identify where TA is needed within cities and how this need might be met in the future.

Through a series of slides, the role of the City as an intermediate in the development of Financial Instruments and projects that might access Financial Instruments was explored. The study highlighted the need for cities to retain at the heart of their work the delivery of their urban development plans (UDPs). This has been the basis for cities success in the past and should remain the case in the future. The need for robust UDPs that inform investment strategies of Financial Instruments is one theme that might be explored further in the Governance conference.

We then went on to consider how this "skills gap" can be addressed and the following were identified:

- "Learning by doing" – identifying urban development professionals with the capacity to develop through experience as projects are promoted. Urban development professionals often have to adapt to new circumstances and funding models and no doubt will continue to do so in the future;
- Identifying experts from other parts of the City's administration. For example professionals from the finance department may have relevant skills and experience that could be used as part of a multi-disciplinary project team working with Financial Instruments;
- Recruitment of professionals with relevant skills and experiencing to the urban development teams;
- Secondment of experts from private sector stakeholders such as banks, consultancy and development companies; and
- Commissioning external experts to support the work.

The presentation was followed by a group discussion which confirmed the findings of the study broadly reflected the experience of the partner cities. In addition, a sixth measure was identified which was to secure training for the city's professional teams to enable them to develop their own expertise, which would provide a valuable additional resource to support the development of Financial Instruments and projects to access Financial Instruments.

The conference concluded with a Panel discussion which was joined by Barbara Crome, a National Expert based at the Commission, who provided a good early link with the Financial Instruments and Urban units in DG Regio. The conclusion of the event saw the drafting of a set of conclusions in a statement as follows:

1. People still don't know and understand how financial instruments (Financial Instruments) can be used and bridges need to be built between the different actors that can benefit from Financial Instruments such as entrepreneurs, home owners and public bodies;

2. Cities can and should play a vital role in implementing effective Financial Instruments and it is essential that engagement with Managing Authorities is secured to develop an active dialogue about the use of ESIF funds for Financial Instruments; and

3. Cities need help to maximise their effectiveness, identifying and filling skills gaps. Technical assistance in the form of resources and advice is needed to allow cities to get the independent advice and support they need to bring forward projects and develop and utilise Financial Instruments.

LUXEMBOURG EIB CONFERENCE

The Common Provisions Regulations and Managing Authorities

On the 30th and 31st January 2014, the European Investment Bank hosted a two day event under the title "CSI Europe towards 2014 – 2020, Financial Instruments for Cities".

In addition to the Network partners, the event was attended by a number of representatives from the Commission, EIB Directors and experts and representatives from other European cities and regions also interested in the Network theme of "Making Financial Instruments Work for Cities."

The event was hosted by Thomas Barrett, Director of EIB and Gianni Carbonaro, EIB's Head of Municipal and Regional Unit. The first day featured a strong line-up of speakers including Ricardo Pinheiro of the Commission's Financial Instrument Unit and Barbara Crome of the commision, who had previously attended the CSI Europe conference in Leipzig.

The Commission representatives were able to give an extremely helpful insight into the current position in relation to the development of the regulatory framework for Financial Instruments for 2014-2020. The Common Provisions Regulation had been made in December 2013 (ref 1303/2013) and amongst other things Ricardo was able to describe how the "off the shelf model" for an urban development Financial Instrument is likely to be published to align with the new General Block Exemption Regulation.

Another point clarified at the event included how grants will only be included in the same measure as an Financial Instrument to the extent that they would be used to fund technical support for projects to be funded by the Financial Instrument. In response to comments from the floor, it was acknowledged that this would limit the application of this flexibility although it will still be possible for a project to receive a grant towards part of the development costs alongside Financial Instrument investment as long as they came from separate measures.

The proposed urban platform was also considered at the meeting, including the possible synergy of such a platform with URBACT. At present the basis for selection of cities to participate in the platform has not been finalised. One possibility is that MAs will be asked to nominate cities which may lead to a less representative mix of cities than if the platform was open to all. This is an issue cities are encouraged to explore with their MAs.

The conference reached the following conclusions:

- Financial Instruments are powerful tools – old ways won't open new doors
- The innovations and increased flexibility of the new regulatory framework for 2014-2020 were welcomed.
- Managing Authorities still need convincing of the merits of implementing Financial Instruments.
- Advisory Services/Technical Assistance is needed
- Cities/MAs need to adapt successful models for the local context
- Knowledge/Best Practice networks remain important

RIGA STATE AID CONFERENCE

Pathways to Compliance and Animation

The CSI Europe partners gathered in Riga for the third of its themed conferences which was looking at the challenging subject of State aid. The CSI team were joined by approximately 12 members of the Riga ULSG and representatives of its local and national government as well as the CSI Europe partner the Riga Planning Region.

Ieva Alhasova, Head of Entrepreneurship and Innovations Programming Unit at the Riga Ministry of Finance gave a presentation on State Supported Financial Instruments in Latvia. She outlined the Financial Instruments established to date, their size and structure, as well as thinking in relation to Financial Instruments in the 2014-20 Operational Programme.

Ieva demonstrated how Latvia have successfully implemented several Financial Instruments to date, primarily targeted at SMEs and enterprises under the JEREMIE model. The proposals for 2014-20 are based on an ex-ante market gap analysis that has identified several market failures both in relation to the availability of equity investors and, in particular finance for energy efficiency projects. Under the proposals for 2014-20 Latvia propose a range of measures including an energy efficiency model targeting privately owned housing, along the Lithuanian model that will form the basis of one of the "off the shelf" State aid models to be published by the Commission.

The main event of the conference was a workshop designed to enable the partners and the Riga ULSG to work with the concepts that underpin State aid and Financial Instruments for the next programme period. The format of the workshop was the Dragons' Den format borrowed from the Urbact Summer University in Dublin. Before the workshop began three experts gave presentations on the main State aid compliant models for Financial Instruments.

Following the informative presentations, network partners were given the opportunity to put the information provided in the presentations to practical use via a task set to them. The network split into three groups, each concentrating on one of the 3 State Aid frameworks presented. The groups were requested to design a Financial Instrument using one of the State aid models and demonstrating how it fits with State Aid rules. Each group then presented their Financial Instrument to a panel of judges with the aid of a poster they had produced.

The day ended with a network session looking at project deliverables and some thinking around the future model.

A proposal was made to create a CSI Europe Financial Instrument on-line archive which would host the future model and a proposal outlined for an animation which could be used to demonstrate the model. Translation options were being looked at and all partners could have links to the site as well as URBACT. This would provide a simple method of getting the complex subject of Financial Instrument in an easily to follow format which could be used by cities to make the case for Financial Instruments. The site would have links to all other documentation that has fed into the future model. It was agreed to produce a mock-up for further discussion in Poznan in June and once produced could open the final conference in Lille.

In addition to the digital deliverables the Theme Policy Papers and Case Studies would also be produced as hard copy documents, which can be collated into a single volume to provide a complete set of documents.

POZNAN GOVERNANCE CONFERENCE

Projects, Success Stories and CSI Route Map

The CSI Europe Governance Conference was held in Poznan on the 16th and 17th June 2014. The aim of the event was to consider how a city's governance can be aligned with that of Financial Instruments active in their area; how the investment strategy of a UDF can reflect a city's own strategic plan; and how cities can participate in the governance of a UDF. The event also saw the launch of the CSI Route Map, first suggested at the Manchester Kick Off event which showed both the route through the Regulations and the steps a city can take to ensure the alignment of governance.

The highlight of the event was a presentation by Aleksandra Kapusta from the Marshal Office of the Wielkopolska Region who is based in Poznan and is responsible for the implementation of the Regional Operation Programme for the region. In her presentation, Aleksandra outlined how the 2007-13 programme allocated €66 million to JESSICA funds to support three measures: Innovation, Business Environment Institutions in Urban Areas and Revitalisation in Urban Areas. Of the sums committed to the fund, €51 million is ERDF with the €15 million co-financing being funded from State resources.

After a slow start, however, the fund has taken off in a big way. The Wielkoposlka Fund is now fully committed, with the €66 million now under contract to projects. Further, the experience is that the demand for the funding has far exceeded the amount available with applications having been received of a value of €245 million. In this respect Poland are leading the way and demonstrating that once Financial Instruments are established, the market will respond and demand for the types of support they can offer will grow.

Recipients of funding from the Wielkoposlka fund include local government entities; municipal companies; public private partnerships; private investors and other entities engaged in business activities. The fund provides loans based on the Reference Rate with a tenor of up to 20 years. It allows a grace period of up to a year following completion of the project before capital repayments commence. Further the interest rate can be reduced by up to 80% where the project passes a "social indicator" test which additional support would fall within the GBER criteria.

The group engaged in an active discussion about the examples of successful schemes, focussing in particular on how projects are structured to ensure they are bankable. Representatives from the Fund Manager were also present to join the discussion.

The afternoon was spent with the partners engaged in a Workshop to consider the Governance implications of different funding models using two URBACT tools: Stakeholder analysis and problems and solutions table. The exercise aimed to identify and analyse the key stakeholders and solutions that a City needs to secure effective Governance that ensures financial instruments work in its area.

The partners formed three groups to look at Governance from the perspective of the following three fund models: an ESIF fund established by a Managing Authority; an ESIF fund established by a City; and a non-ESIF fund established by a City. The conclusions of the workshop included:

WORKSHOP SUMMARY

Where the MA is leading the implementation of the fund, cities need to build links with the people within the MA and UDF who are leading the work. The City should identify a "Champion" who can lead engagement with the fund and promote FIs with project promoters. Technical Assistance should be deployed to support the development of Business Cases for priority projects and maintaining dialogue so the City's Strategic Plan and UDF Investment Strategy develop together.

A City led fund can be closer to local communities. For example, the primary stakeholders were identified as the City, residents, Housing Associations and Energy Companies. However, a challenge for a City led fund is securing the expertise from Banks and other financial institutions. Cities need to build their capacity to deal with Financial Instruments if they are to lead this work. However, where this can be done, City led funds have the advantage of being able to be tailored to meet local needs. Model 3 has similar challenges to Model 2 but the non-ESIF character of the fund gives greater flexibility to develop the fund to suit local needs. The process for establishing a fund under the ESIF Regulations remain a good starting point as steps such as undertaking an ex-ante assessment and procuring an external fund manager will often be appropriate for funds in any event. Consideration should also be given to other issues such as the use of GBER as whilst the Financial Instrument specific exemption at Art 16 GBER requires ESIF funds, the other sectoral flexibilities can be used. The workshop also highlighted the importance of getting the right skills within the City to lead the work and identifying how both the establishment and investments will be financed without ESIF TA and Capital funds, recognising that there may be conditions attached by the alternative funding sources.

SEVILLE FUTURE MODELS FOR INVESTMENT CONFERENCE

How to Build a Rocket and Finalising the Theme Papers

The sixth CSI Europe Conference was held in Seville on the 2nd and 3rd of October 2014 and presented the network partners with an opportunity to take stock and reflect on the learning and research from the previous five conferences. This was the moment the network moved from "learning" into "doing" with the members of the team leading the dissemination of the learning through their Local Support Groups, National bodies and transnational networks.

The main item of the agenda for the conference was the development of the CSI Europe Deliverables. One of the key features of the network's message was that Financial Instruments Work. The recent conferences in Poznan and Seville had each had very positive presentations by the local JESSICA funds. The funds in the Hague, Porto and Manchester were also on track to be fully committed and are looking to continuing that success into the new programme period. The focus of the project was, therefore to develop CSI Europe resources to provide an entry point into the subject of Financial Instruments for urban development practitioners.

The animation "How to Build a Rocket" was shown for the first time at the event. The concept for the film had been discussed at length at the conference in Riga but this was the first time the network had seen the finished product. The film picks up a number of other key messages that have emerged from the network activity including:

- The CSI Europe Route Map
- Investment Ready Projects
- Pathways to State aid compliance and
- A New Kind of Public Servant

There followed a series of workshops which allowed the participants to provide further direct input into the Theme Papers being developed. In addition, the OPERA method was used to capture further unanswered questions from the group which will form the basis of a final Introduction Theme Paper.

Finally, the event received a presentation on Future Models for Investment. The key conclusion from the work of the network is that "one size does not fit all" and rather than being able to develop a single model, it is more important for cities to be able to tailor Financial Instruments to suit their local needs.

PORTO CONFERENCE

Preparing the Final Conference and Deliverables

The network met in Porto in December 2014 to finalise its outputs and prepare for the final conference. The meeting was a working network meeting that also allowed the partners to share their experiences with their ULSGs and development of Local Action Plans.

During this occasion, there was held a international conference in the City Hall of Porto, with the presence of the Mayor of Porto, the Chairman of Porto Vivo, SRU, and the international CSI Europe partners, along with the Local Support Group of Porto; a real opportunity to liaise and to learn from the experience of JESSICA implementation in the cities of Manchester and The Hague.

During the network meeting, there were also visits arranged to several important projects in the city, some of which benefited from JESSICA investment.

CHAPTER 4

HOW TO BUILD A ROCKET

HOW TO BUILD A ROCKET

CSI EUROPE OUTPUTS

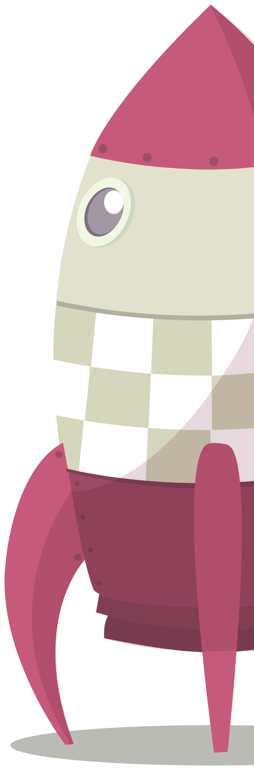
The CSI Europe Outputs were developed under the brand "How to Build a Rocket". During the life of the network the partners have been able to track the development of funds in its network and during that time significant progress has been made in relation to the implementation of funds. At the same time, the level of understanding of Financial Instruments across public and private institutions has grown significantly.

There still remains much to do however, as the knowledge is not widely held beyond the initial cities and regions that have had active Financial Instruments and this has guided the refinement CSI Europe's mission "to make financial instruments work for cities" during the Implementation Phase.

The network identified the need to reach out and explain the subject to those cities who are looking to work with Financial Instruments for the first time. There is also learning to be disseminated about how cities can add value to Financial Instrument operations in their area whether through participating in the formal governance of the fund or as an active partner.

The CSI Europe Outputs have, therefore been developed with the aim to provide an entry point into the subject of Financial Instruments for urban development practitioners. They will seek to inform readers about the key features of the products and also develop ideas about how cities can specifically get involved and use Financial Instruments to achieve their policy objectives for sustainable urban development.

The CSI Europe Outputs have, therefore been designed to provide an accessible attractive set of papers introducing the key themes the network has explored in relation to Financial Instruments. The centrepiece of the outputs is a short animated film entitled "How to Build a Rocket" which uses the stages of a rocket to represent the four themes considered by the partners in their transnational working.



The outputs also provide links to the more detailed information and guidance being produced by the Commission and EIB for the implementation of Financial Instruments in the 2014-2020 programme period, which will enable practitioners deepen their understanding as required.

The Theme Papers are set out at the Appendix and are summarised below.

REGULATION

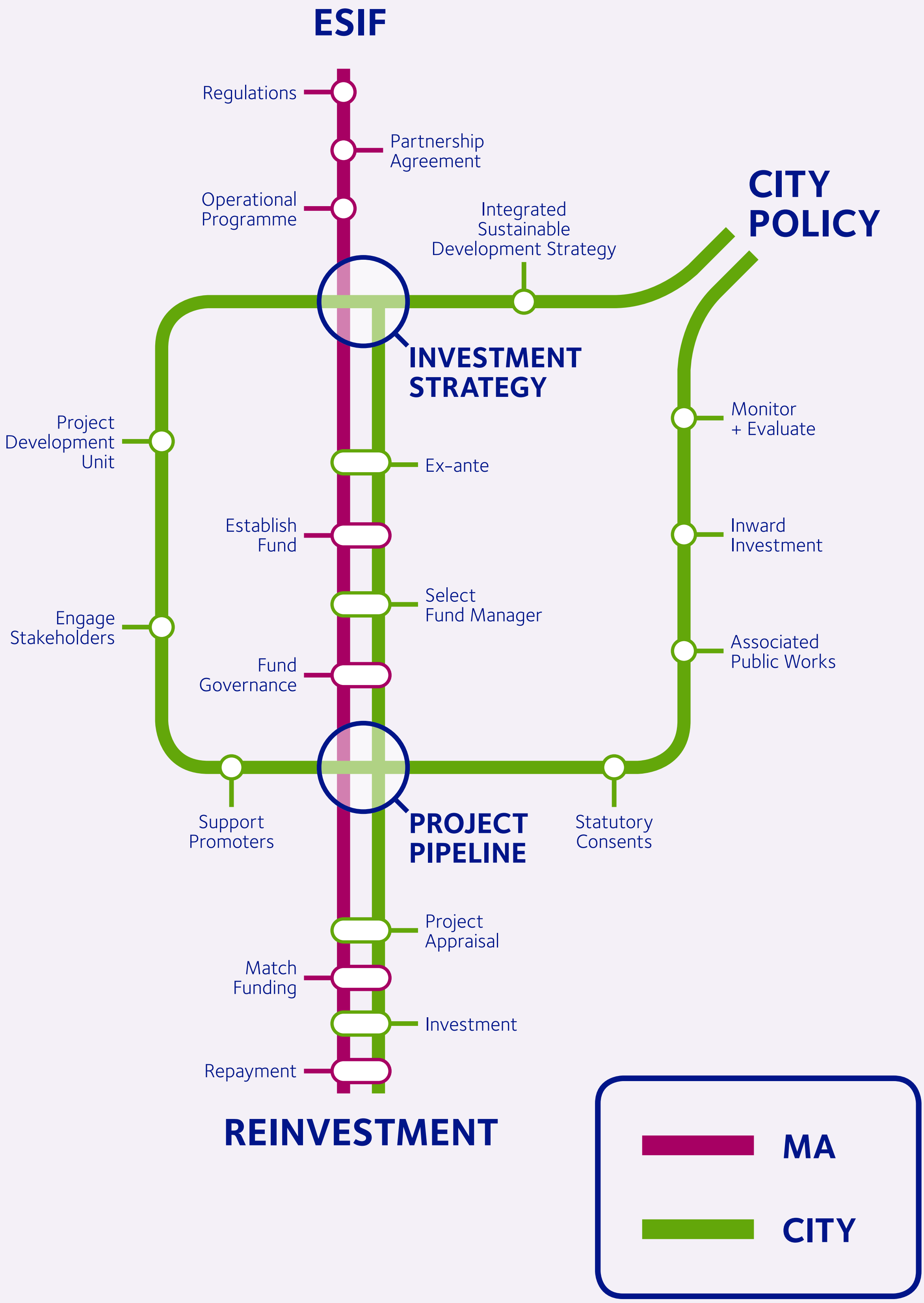
It was recognised at the outset that the implementation phase of the network would coincide with the development by the Commission of the new regulations for the 2014-2020 ESIF programme. As the lack of clarity in the regulations had been a significant constraint for early JESSICA projects this was a key issue for the partners to look at. For this reason it was the subject of the first transnational conference and remained on the agenda after publication of draft and then final regulations in 2013/2014. The new regulations can be found in the following places:

- Arts 37-46 of the Common Provisions Regulation (No 1303/2013)
- Arts 4-14 Delegated Regulation (No 480/2014)
- Art 16 General Block Exemption Regulation (No 651/2014)

The new rules provide a very clear set of regulations for establishing and operating financial instruments which have been informed and written by people who have experience of operating financial instruments through the JESSICA and JEREMIE initiatives.

Articles 37 to 46 of the Common Provisions Regulation set out the overall framework for financial instruments. Further detail can be found in the Delegated Regulation particularly in relation to the processes that need to be followed when setting up and operating the fund. Finally article 16 of the General Block Exemption Regulation provides a detailed governance structure that can be adopted for a financial instrument to be used to make discounted loans in Assisted Areas

CSI EUROPE ROUTE MAP



The CSI Europe route map has been developed to show the key stages to be taken under the Regulations by a managing authority or city to establish a financial instrument in its area. The regulation route is shown running from top to bottom on the map.

The map shows the importance of developing an investment strategy that is compliant with the operational programme and is also in line with the City's own policy framework. The next step is the ex-ante assessment. This is a new requirement under the regulations but should bring consistency and discipline to the development of financial instruments in the future. The assessment looks at the demand and market failure a proposed financial instrument is seeking to address with a view to reaching an objective conclusion about the business case for a new financial instrument.

The route map shows how, once the ex-ante assessment has been concluded, the promoters must select a fund manager and establish the financial instrument with robust governance arrangements in compliance with procurement and State aid rules. Once established the financial instrument will engage with its pipeline of investment ready projects so that projects are taken forward for appraisal by the fund manager and ultimately for investments to be made.

Finally at the end of process, the project will repay the investment and the money is then available for further investment in new projects.

The key conclusions on the network in relation to Regulation are as follows:

REGULATION SUMMARY

- The regulatory framework for financial instruments is in Arts 37-46 of the Common Provisions Regulation (No1303/2013) (CPR) and Arts 4-14 of the Delegated Regulation (No 480/2014) (DR). Art 16 of the General Block Exemption Regulation (No 651/2014) (GBER) provides further regulation (where applicable).
- The types of investment to support urban development that may be made by Financial Instruments include equity investments, loans and guarantees. Financial Instruments may, as part of the same operation, also make grants to fund technical support for projects that will be funded by a future investment by the Financial Instrument. ESIF grants towards project costs made by separate operations alongside Financial Instrument investments;
- Key requirements include: the need for an ex-ante assessment before establishing the fund; transparent processes for establishing funds; the competitive procurement of fund managers at defined maximum fee rates; phased drawdown of funds into the Financial Instrument and clear rules regarding eligible expenditure and reinvestment of funds at closure of the programme.
- National and local regulations are also important in the implementation of Financial Instruments and Cities should consider how they can support Financial Instruments through such measures.

STATE AID

State aid is a subject which people often perceive as complex and difficult but nevertheless is something that must be understood by promoters and managers of financial instruments. The CSI Europe network has sought to simplify and "de-mystify" the issue to the extent that it applies to Financial Instruments.

The network has identified four pathways to compliance with state aid as follows:

- "no aid" where funds are provided at market rates;
- de-minimis where the level of support for is below the minimum threshold of €200,000 grant equivalent;
- the General Block Exemption Regulation which provides both a specific governance structure for assisted areas which has a lot of flexibility but also provide sectoral flexibilities for areas such as low carbon and urban renewal projects; and
- a specific state aid notification which allows specific targeted measures to be implemented by that instrument alone

All four of those pathways have been used by financial instruments to support state compliant investment under the JESSICA initiative and should form the basis of operations in the 2014-2020 programme.

DE-MINIMIS

The de-minimis exemption authorises small amounts of aid up to €200,000. This has been used by Financial Instruments to provide loans to fund renewal of apartment blocks in multiple ownership,where a single loan is shared between the owners each of whom receive support below the de-minimis limit.

In Lithuania this has been used successfully to support over €200 million investment in Financial Instruments to invest in refurbishing housing and this has been used to develop an off the shelf model.

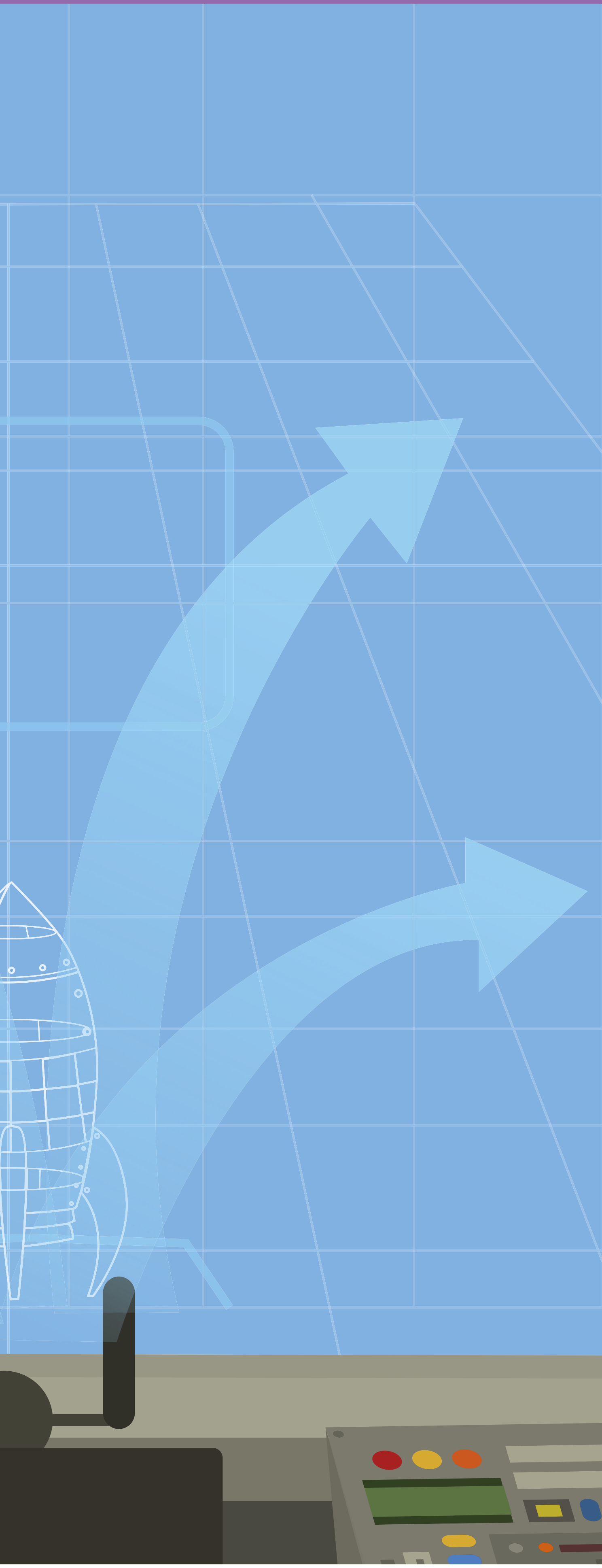
The Lithuanian model allows a mix of grant and low cost loan to be provided to home owners through UDFs established at three banks with a presence on the High Street. Home owners work with a government agency who assists in aggregating the demand to provide a single proposition that allows the owners of a block to apply through a single administrator for loans to secure the renovation of the building.

NO AID

Investments by Financial Instruments at the "market rate" are compliant with the State aid rules. Compliance can be demonstrated either by investing on the same terms and interest rate as private investors or by using the Reference Rate published by the Commission.

In Manchester, the Evergreen Financial Instrument has provided over £50 million of investment to urban development projects on a "no aid" basis, typically at rates above 5%.

For example, Evergreen invested in a Science and Innovation project called Citylabs by way of a syndicated loan where it provided 50% of the senior debt alongside a major UK private sector bank. Under the terms of the loan, the Financial Instrument enjoyed the same interest rate and rights under the agreement as the private sector bank and is therefore demonstrated to be at market rate and therefore does not constitute State aid.



GENERAL BLOCK EXEMPTION REGULATION (GBER)

A new version of GBER was published in May 2014 which included specific provision for Financial Instruments. It has specific exemptions that allow Financial Instruments in Assisted Areas to make sub-commercial loans. It also has specific exemptions that can be used by all Financial Instruments to support investment in priority sectors such as low carbon and innovation.

For example in Portugal, GBER provides a framework for delivering competitive financial products that are transparent and address market failures.

Under the Portugal scheme, the amount of aid is calculated using the gross grant equivalent. Investments with an aid level is higher than the de-minimis threshold, use the regional aid intensity levels permitted under the GBER as a cap to determine the interest rate applicable to the project.

NOTIFICATION

The State aid rules allow notification of measures to the Commission for approval. This has been used to establish Financial Instruments to make sub-commercial loans, offer priority returns and provide support as a mixture of grant and loan. This option will only be available where the other State aid pathways are not suitable.

For example in Chester an Financial Instrument with the benefit of a notified scheme was able to provide a loan of £4 million at zero interest alongside an ERDF grant to support an urban development project to deliver new offices.

This investment was authorised using procedures in the Northwest JESSICA notification that relies on the independence of the competitively procured private sector fund manager to the fund. It also requires a further independent expert to verify that the developer recipient only receives a "fair rate of return" (including its profit) to ensure aid is kept to a minimum.

Despite the importance of State aid to the success of a financial instrument, the issue is still a significant concern for many public authorities and also, importantly, for private sector fund managers who often have little experience of dealing with these issues in the past. This is one area where, therefore, cities can really add value by supporting fund managers who are trying to satisfy themselves that an otherwise viable scheme is also State aid compliant. As cities are in the "business" of providing state aid, they should have the capability to act as State aid experts, able to provide expertise to allow project promoters and managers to confidently use the flexibilities.

The key conclusions of the network in relation to State aid were as follows:

STATE AID SUMMARY

- The use of European Structural Investment Fund (ESIF) resources, whether by grant or investment through a Financial Instrument (Financial Instrument), must comply with the State aid rules
- Cities are in the business of providing State aid so they should make sure they are the experts and use flexibilities to their full potential
- The General Block Exemption Regulation (GBER) provides a safe and fast way to secure State aid compliance and should be the "first resort" when considering products to be offered by Financial Instruments.
- Other options include "no aid investments" and a Financial Instrument specific notification, both of which can be effectively used to support Financial Instruments, subject to market needs ;

GOVERNANCE

The CSI Europe partners considered governance issues both at the level of the financial instrument and also within a city's own organisation. The most important factor in relation to Financial Instruments was the development of a strong and lasting partnership between the city and its managing authority that allows the parties to work together to make a financial instrument a success.

This can be done through legal mechanisms where the city plays a formal role in the governance of a financial instrument. For example, in our network some cities have been entrusted to implement their own financial instruments. Other cities either directly or indirectly participate in investment committee decision making of a private sector fund body. We have also seen mechanisms where an advisory board is formed which does not have a direct role in decision-making but nevertheless gives the opportunity for cities to have an influence on strategy and decision-making

Informal links between city and managing authority are, however, equally important. Building strong relationships with the managing authority's local team and the fund manager should help develop a shared understanding of the financial instruments priorities. The city can then use their influence in their local area and links to stakeholders to promote the fund and develop a pipeline of investment ready projects.

The role that a city can play to support a financial instrument is shown on the CSI Europe route map. The green "circle line" shows how a city can complement a financial instrument by establishing a project development unit with officers who know and understand financials and can engage with stakeholders and support project promoters to develop a pipeline of investment ready projects.

(Refer to Route Map on page 24)

European Union

Other measures that can be taken by, a city including taking steps to align its statutory approval processes with the financial instrument's activities to accelerate the process a project developer must follow to secure the necessary consents for a project. This reduces the risk in relation to a project and makes it more likely that the project will meet the requirements of the fund manager's project appraisal process

A city may also consider whether targeted public works may unlock development sites and should also be prepared to work alongside new projects to attract inward investment which will increase demand for development and unlock further opportunities in its area.

Finally, the monitoring and evaluating of schemes is essential to inform the ongoing development of a city's and financial instrument's integrated strategy for urban development.

The key conclusions of this work can be summarised as follows:

GOVERNANCE SUMMARY

- Financial Instruments offer a fundamentally different way of supporting projects when compared with grant. Therefore cities should work with Managing Authorities to manage the "cultural shift" required amongst public servants and private stakeholders.
- A City can be entrusted to implement its own UDF or may participate in an Financial Instrument established by a MA, for example through nominating a member of the fund's investment committee.
- At the same time, cities should align their own strategies with the Financial Instrument's investment strategy and establish a project development unit with the task of promoting the use of Financial Instrument resources and building capacity within its local stakeholders to bring forward investment ready projects.
- Cities can also support Financial Instruments by streamlining its planning and other approval processes to de-risk development projects which will, in turn, improve the project's financial viability.

TECHNICAL ASSISTANCE

Financial instruments are a relatively new and complex area and cities and managing authorities need support to help them get it right. Private sector partners such as project promoters, funders and other investors also need to understand what the benefits and requirements of financial instruments are to allow them to develop projects in the future that are suitable for investment.

Early in the Implementation Phase the partners identified the objective of helping to develop a "New Kind of Public Servant" who understood both urban development and financing investments. It became a defining feature of our work to explore this theme, recognising that as well as public servants, the private sector experts within fund managers and project promoters similarly needed to develop to enhance their understanding of key "public sector" issues such as the ERDF Regulations and State aid.

A NEW KIND OF PUBLIC SERVANT

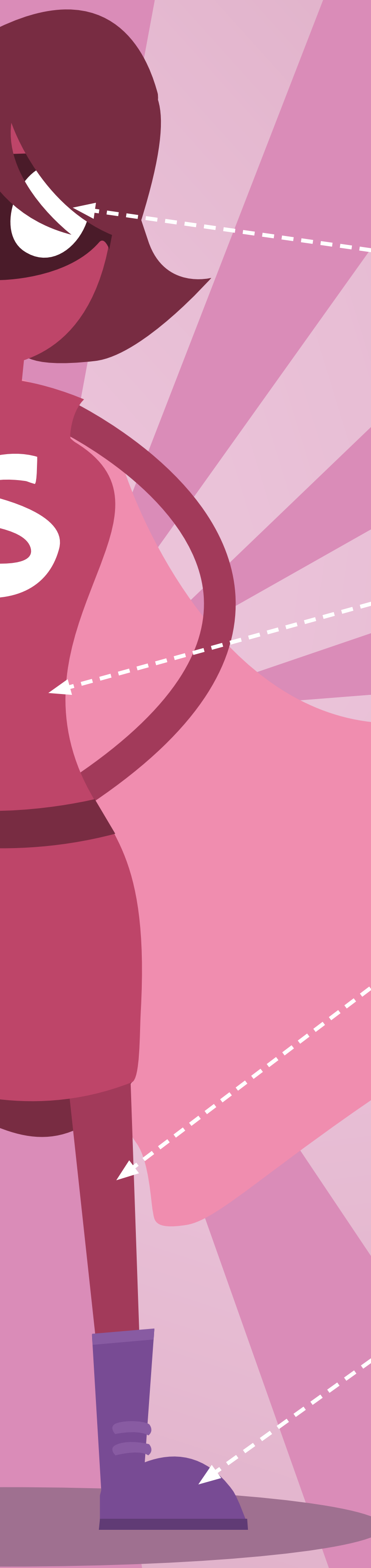
EU Know-how: a knowledge of the ESIF Regulations and State aid rules. Project promoters and fund managers will not always be familiar with these rules. An expert public servant can help develop compliant projects and give guidance on tricky issues that builds confidence so projects can progress.

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.

European Union



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.

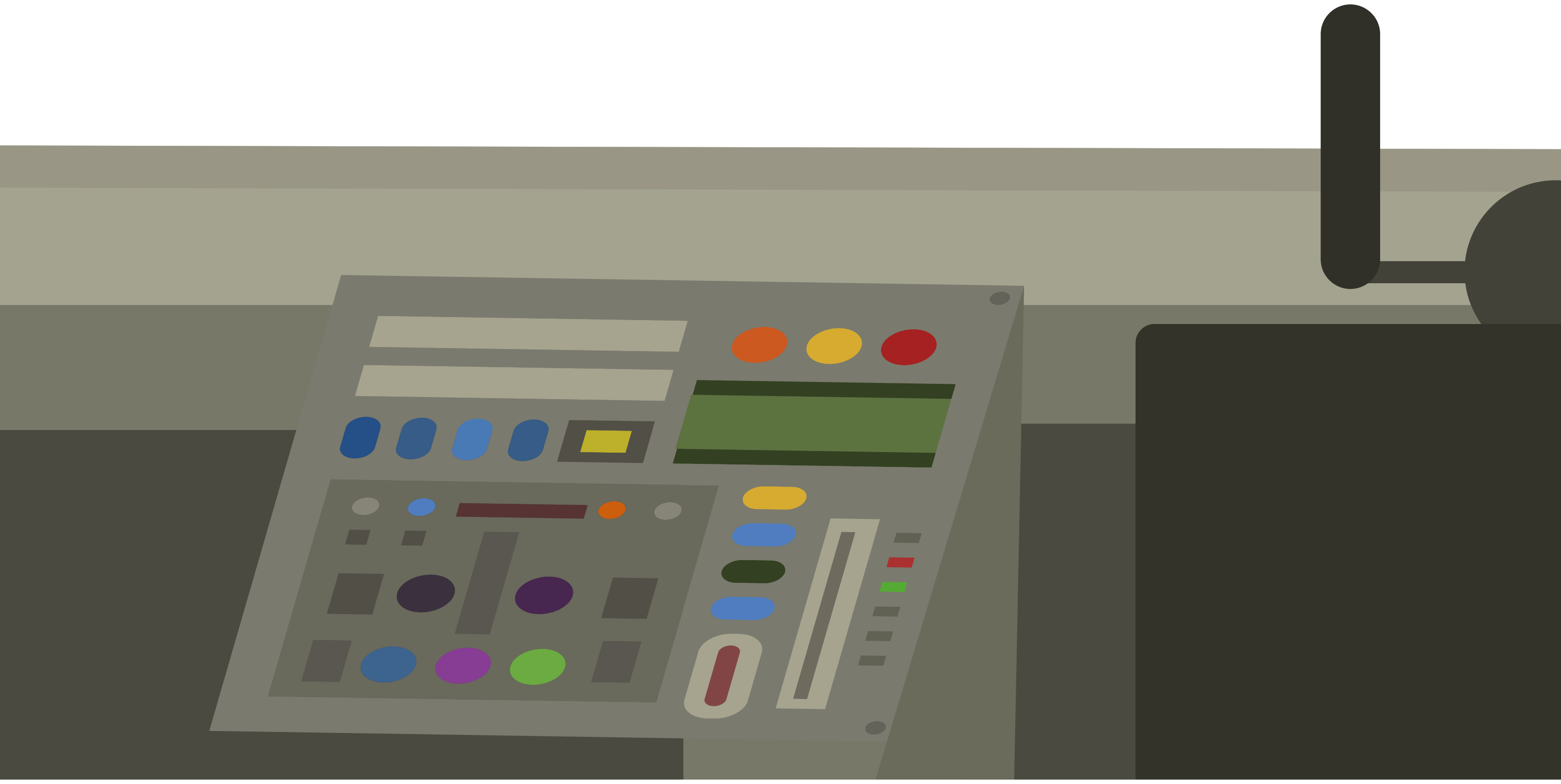
Urban Development: the expert public servant will put financial instruments at the heart of the City's integrated sustainable urban development strategy and use all their traditional skills to help bring forward projects that meet the social and economic priorities of the City.

In order to ensure successful implementation of Financial Instruments in the 2014-2020 programme period, therefore, Managing Authorities and Cities need to use ERDF Technical Assistance and other funds and resources to build capacity within their organisations to deal with this new and challenging subject. This can be done in many ways including as follows.

The regulations allow small grants to be made by financial instruments to project promoters for feasibility studies and other initial work to enable them to bring projects forward for future investment. As we have seen under Governance, cities should consider developing a project development unit with staff who understand financial instruments and who can also support their local projects to bring forward investment ready projects.

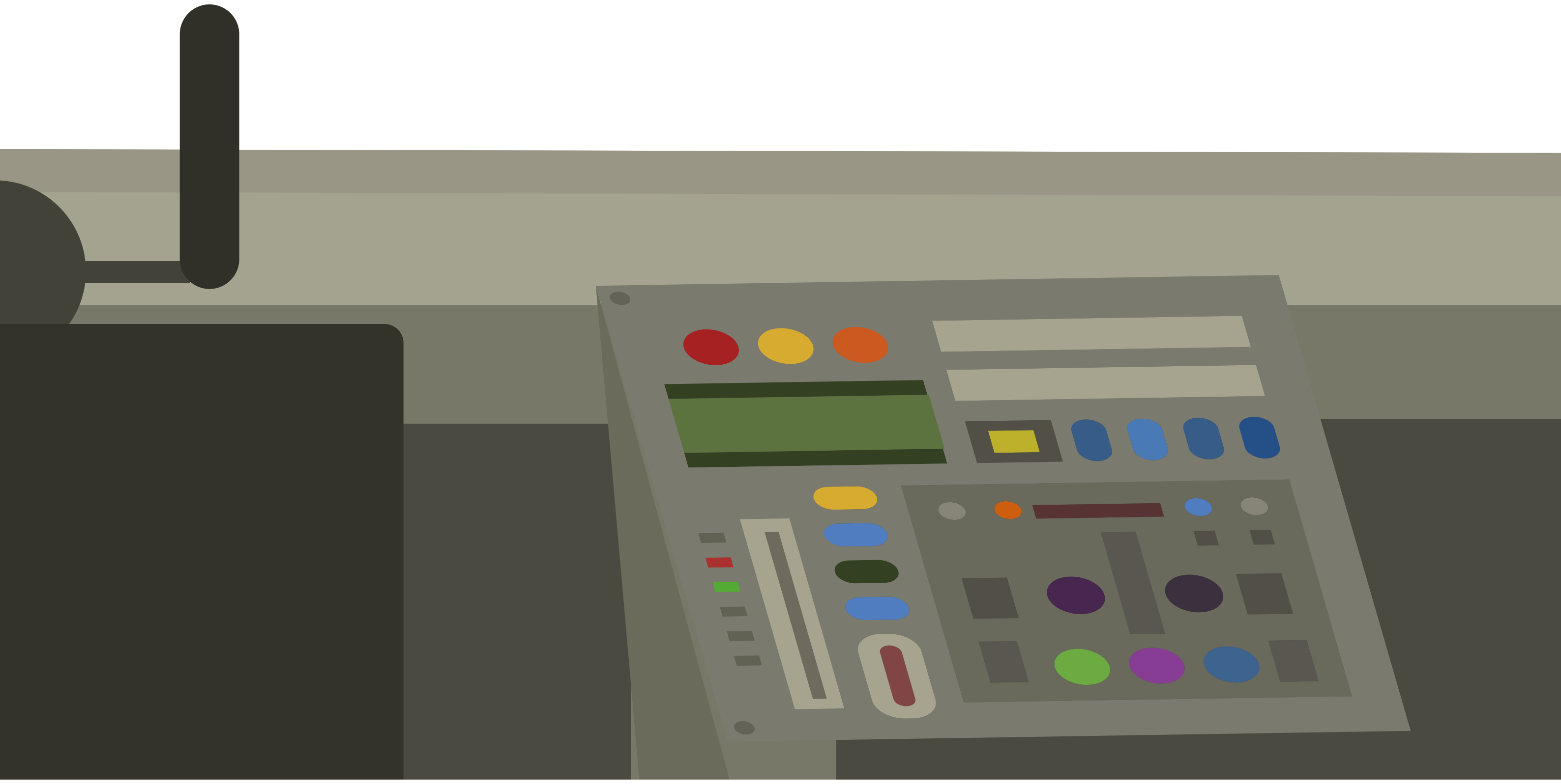
There are now a number of resources available for cities and Managing Authorities to help build capacity. The fi-compass platform has been established by the EIB and will be an extremely powerful platform to share and build capacity across Europe. Learning and exchange programmes such as URBACT can also be extremely helpful and there is now a strong group of advisers with experience of the subject who should be used to build capacity.

Cities and Managing Authorities need to use all these resources to build their capacity to work with financial instruments. The key conclusions of this work are as follows:



TECHNICAL ASSISTANCE SUMMARY

- 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.



CHAPTER 5

FUTURE MODELS FOR INVESTMENT

FUTURE MODELS FOR INVESTMENT

One of the key outputs identified in the Baseline study was a CSI Europe Model (or Models) for Investment. As the work progressed, it became apparent that this was not necessarily the right solution for urban development Financial Instruments due to the diversity of needs in different cities. The network has, however, had the opportunity to consider a number of examples of financial instruments that have been successfully implemented. Some of those include:

- the Northwest Evergreen fund which was established in Manchester and the north-west of England and provides development finance usually on a no aid basis to commercial office and workspace projects
- in Poland, a fund was established for the Poznan region of Wielkopolska which is managed by a state bank and has proved to be very successful in providing finance through the General Block Exemption Regulation
- there is a successful fund in Lithuania which supports the energy efficient refurbishment of housing blocks and has formed the basis of one of the off-the-shelf models the commission has published: and
- In the Netherlands The Hague has successfully established a holding fund which manages not only ERDF but also European fisheries fund resources for investment in its area.

Our work has shown, however, that one size does not fit all, as different places have different needs and also different financing conditions. The overriding consideration is the local context and this brings us back to how the city can add value by ensuring the investment strategy delivers maximum benefit through alignment with local priorities.

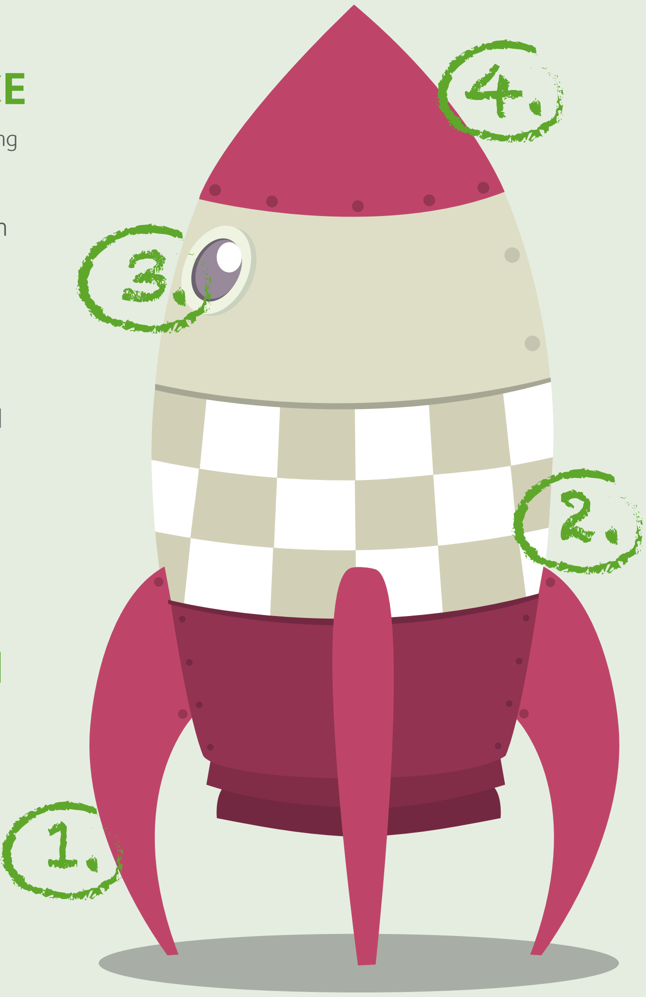
Some of the key features that cities might consider include:

3. GOVERNANCE

SPV with City controlled Board setting Investment Strategy Independent Fund Manager procured through OJEU by Board Double Lock – IFM recommend and Board approve

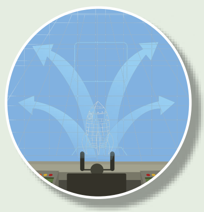
1. REGULATION

City led under Art 38(4)(iii) City raise own funds from assets/ borrowings Ex-ante to identify market failure/ demand



4. TECHNICAL ASSISTANCE

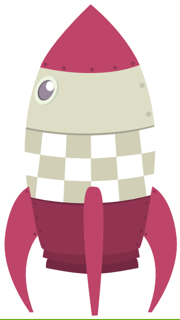
City sets up development unit to source deals and assist promoters Financial Instrument provides small grants to promoters to develop feasibility Use of external and internal specialist expertise



2. STATE AID

No aid – generate return to fund City Borrowing ESIF first loss where permitted GBER – Assisted Areas OR Sector Specific (e.g. Low Carbon)

FUTURE MODELS



	THE EVERGREEN FUND (UK)	WIELKOPOLSKA FUND (POLAND)
TECHNICAL ASSISTANCE	The City has a team of FI experts to source projects for the Fund Manager. The team works with project promoters and the Fund Manager to assist the development of investment ready projects	MA has strong regional presence and partnership with City to align investment strategy.
GOVERNANCE	The Fund's Board is nominated by the cities. The independent FI Manager must recommend projects for investment	Implementation entrusted to a State owned bank. Investment Committee has a Regional nominee. The Investment strategy requires projects to comply with local plans.
STATE AID	Most investments are made on a "no aid" basis. A State aid notification allows sub-commercial loans where supported by independent process	Sub commercial loans made using sectoral GBER flexibilities by calculating "gross grant equivalent" of discount to rates.
REGULATION	Managing Authority has entrusted the implementation of the Financial Instrument to the City authorities	The MA set up a National Holding Fund managed by EIB who supported the implementation of regional Financial Instruments through an open call.

The Evergreen Fund is a good example of a Financial Instrument providing development loans to areas where bank funding is not available. Other models that have successfully supported similar developments include the Portuguese and Wielkopolska Funds which are managed by financial institutions on behalf of the Managing Authority.

Implementation of Financial Instruments may be entrusted to cities under Art 38(4)(b)(iii) of the Common Provisions Regulation and Art 7 of the Delegated Regulation.

The Wielkopolska Fund uses flexibilities offered by GBER to support low cost investments to projects that contribute to social outcomes. It also provides loans with a term of up to 20 years which increases its usefulness to fund long term infrastructure and workspace projects, including tourist attractions, museums and hotels.

In the North of Portugal two very successful funds have been established that are similar to the Wielkopolska fund. These funds also use GBER to support sub-commercial loans that have supported projects across the region, including a large number of schemes in the city of Porto.

The funds invest ERDF resources alongside match funding provided by the financial institution acting as Fund Manager.

FUTURE MODELS

Other good examples of successful models for Financial Instruments to support Urban Development are shown on the graphic overleaf.

S FOR INVESTMENT

GBER OFF THE SHELF MODEL	HOLDING FUND ECONOMIC INVESTMENTS THE HAGUE (NED)	LITHUANIA OFF THE SHELF MODEL
As well as investments, Financial Instruments may make small grants to fund technical support for promoters to bring forward projects.	City has led the establishment of the Holding Fund, HEID, which provides a flexible platform for UDFs to support local projects.	A National Agency has been established to promote the Financial Instrument which aims to support energy efficiency improvements to blocks of flats in multiple ownership.
The fund must be managed on a commercial basis by a fund manager to ensure profit driven investment decisions.	Strong links between City and MA allow implementation. City lead Investment Committee with independent chair. Fund Manager sources deals from local promoters.	Several public and private institutions have been entrusted to implement the Financial Instrument in conjunction with the National Agency.
A fund set up under Art 16 GBER may make a number of different sub-commercial loans and offer investors preferential terms.	Uses a State aid notification for low cost loans for energy efficiency workspace and other economic investments.	Loans are provided at cheap rates and part is written off if energy efficiency target met. The de-minimis threshold is used as aid to individual owners is below threshold.
At the time of writing it is expected the Commission will publish an off the shelf model that reflects Art 16 of GBER.	The Hague will implement Financial Instruments through its Integrated Territorial Investment (ITI)in the 2014-2020 programme period.	A local act supports implementation through votes in apartment blocks. Agency is also responsible for showing de-minimis compliance.

The General Block Exemption Regulation Art 16 allows state aid flexibilities for Financial Instruments operating in Assisted Areas.

In addition to the off the shelf model established under Art 16 GBER, Financial Instruments can use the State aid flexibilities under the remainder of the Block Exemption regulation to support sub-commercial investments. This can extend beyond Assisted Areas, subject to the terms of the regulation.

Although Article 16 will only be available for Financial Instruments that use ESIF monies, the remainder of the Block Exemption can be utilised for funds that are not funded with ESIF monies.

The Hague's Holding Fund is a model for future funds established by cities. It has shown itself to be flexible enough to adapt to the needs of its local market. This has resulted in a number of investments in renewable energy.

In addition to ERDF, the Holding Fund is also responsible for a national Fishery Fund that uses resources from the European Fishery Funds.

Another good example in this sector is the London Energy Efficiency Fund which used ELENA funding to support promoters to bring forward a pipeline of investment ready schemes.

This scheme forms the basis of the Energy Efficiency off the shelf model published by the Commission under Art 38(3) of the CPR.

As it relies on de-minimis it cannot be adopted where apartment blocks are owned by a single landlord. In such cases a scheme under the GBER Art 39 may be more appropriate.

CHAPTER 6

FINAL CONFERENCE

European Union

FINAL CONFERENCE

The final conference was held on 5th February 2015 at the European Metropole of Lille. The event was hosted by Damien Castelain, the President of the European Metropole of Lille and had the benefit of Eddy Adams and Sally Kneeshaw, URBACT Pole Managers who acted as facilitators for the day.

The conference agenda was developed by the partners across three network sessions held following the transnational conferences in Poznan, Seville and Porto. The aim of the event was to launch the CSI Europe Outputs and provide a platform for dissemination of the network's findings to a high profile audience. Lille was selected as the host city due to its proximity and good transport links to several major European cities including Brussels, Paris and London. It also proved to be an ideal location to host the event due to the quality of the conference facilities at the venue.

LAUNCHING THE CSI EUROPE OUTPUTS

Three sessions were devoted to the launch of the CSI Europe Outputs. The animation and key findings were presented to the initial plenary session of the meeting following the introductions from the hosts and the Nord de Pas de Calais Managing Authority. This was to ensure that the key messages were at the forefront of the delegates minds throughout the morning session.

The key CSI Europe messages were as follows:

- Financial Instruments Work – a number of examples of successful projects across several of the network cities were presented to the session;
- Cities add value to the implementation of financial instruments;
- The biggest barrier for cities and their partners seeking to work with financial instruments is having the capacity skills and experience to make financial instruments work;
- CSI Europe's materials can help cities engage with the topic to make Financial Instruments work for them; and
- A critical success factor to successful implementation of FIs is the development by cities of a "New Kind of Public Servant"

The more detailed findings relating to the themes were the subject of two workshop sessions: one of which focussed on establishing a Financial Instrument with reference to the Regulation and State aid theme papers; the other dealing with the operation of an FI through the Regulation and Technical Assistance theme papers.

In addition to panellists drawn from CSI Europe, experts from the EIB, Commission, Managing Authorities, consultancies and a Fund Manager joined the conversation to share their experiences and engage with the delegates in parallel interactive sessions.

KEY NOTE PRESENTATIONS

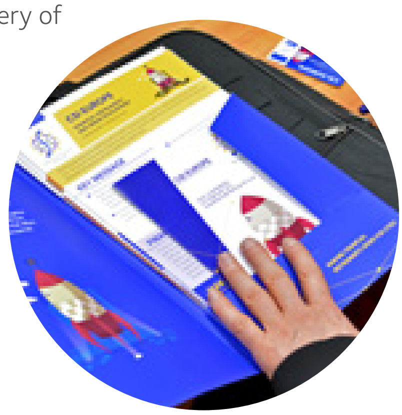
The key presentations in the plenary session were given by Thomas de Bethune from the financial instruments unit at DG Regional and Urban Policy of the European Commission and Frank Lee of the European Investment Bank.

The speakers both highlighted the importance of Financial Instruments to the delivery of the 2014-2020 ESIF programme and highlighted how the use of the financing tool is expected to extend well beyond the JESSICA and JEREMIE initiatives of the previous programme.

Frank Lee highlighted the new fi-compass platform that had been launched at a two day event in Brussels two weeks before. CSI Europe had been invited to present its findings at the launch event and Frank referred to a number of areas where the work and findings of the network complement the aims and objectives of fi-compass.

It is proposed that fi-compass will provide practical know-how and learning tools on financial instruments for Managing Authorities and interested parties for the next programme. As a result the platform has the potential to address a number of the findings of the network, in particular in relation to the need for Technical Assistance to address the skills gaps amongst urban development practitioners.

The assistance provided by fi-compass will include handbooks, factsheets, case studies, audio-visual material and other practical tools to guide practitioners through the entire life cycle of financial instruments. Based on the knowledge developed, fi-compass will organise capacity-building activities to further the necessary understanding and skills in the market. It will offer face-to-face training in Member States and e-learning to increase the capability, skills, and knowledge of individuals and organisations to help improve the design and delivery of financial instruments and will also organise promotional campaigns, conferences and networking events to raise the awareness of the benefits and features of financial instruments.



SUCCESS STORIES

The highlight of the conference was the presentation by three partner cities of successful projects implemented in their areas. Sir Richard Leese, the Leader of Manchester City Council introduced a short film about the Citylabs development, a £25 million biomedical facility developed in a refurbished heritage area with the assistance of the Northwest Evergreen Fund, a Financial Instrument established by the City Council.

Ingrid van Engelshoven, the Deputy Mayor of The Hague, presented a film that showed how the Financial Instrument established by The Hague funded the provision of photovoltaic cells at a local youth football club. Later in the morning, a representative of the mayor of Porto, Professor Azeredo Lopes, as well as the Mayor of the city himself, Rui Moreira, who gave a presentation on video, showed how tourism has been developed in the historic Centre with support from two JESSICA-type Financial Instruments.

The three presentations made by senior politicians from partner cities provided a powerful message to the conference about how Financial Instruments can help cities deliver their integrated urban development strategies.

URBACT III

The conference concluded with a presentation from Emmanuel Moulin, the Head of the URBACT Secretariat. The presentation described how the findings from URBACT II networks, including CSI Europe will be disseminated. He then went on introduce the objectives of the URBACT III programme which are:

- To improve the capacity of cities to manage sustainable urban policies and practices in an integrated and participative way
- To improve the design of integrated urban & sustainable strategies/ action plans in cities
- To improve the implementation of integrated urban & sustainable strategies/ action plans in cities
- To ensure that practitioners and decision makers at all levels have access to knowledge and share know-how on all aspects of sustainable urban development

The URBACT III programme will have three different kinds of networks and will also provide future opportunities for dissemination and development of the CSI Europe network's findings.

The conference closed with a vote of thanks from the partners to the hosts and a celebration of the network as it reached its conclusion.

CHAPTER 7

LOCAL ACTION PLANS

LOCAL ACTION PLANS

In addition to the transnational working and the development of the CSI Europe Outputs each partner has worked with its URBACT Local Support Group to develop a Local Action Plan (LAP). Summaries of the partners local activity are set out on the following pages. An Executive Summary of each Partner's Local Action Plan will be submitted separately.

CITY OF ANCONA

LOCAL ACTION PLAN OBJECTIVES:

- Drawing a new Integrated Sustainable Urban Plan where the PPP Strategy shall be mainstreamed
- Straightening the partnership with Marche Region which is also the Managing Authority for the ERDF funds which will be used for the Financial Instruments application
- Increasing the information and the knowledge on Financial Instrument (how to apply, how to build the rocket, how to exploit the new funds.)
- Exchanging experiences and best practices throughout the CSI project

LAP OUTCOMES TO DATE:

- Implementing Project by using Financial Instrument as main tool
- Developing a Green Energy Funds for Urban Project Implementation
- Remodelling and recovery urbanized areas
- Increasing green urban areas

LOCAL ACTIVITES:

- Participation in CSI Europe Network
- Established ULSG core and wider group
- ULSG to continue as a tool for communication and monitoring the Plan Implementation
- Integration of CSI Plan into the Urban Agenda of Ancona Municipality
- Participation to the CSI Final meeting in Lille
- Participation to the Launch event of URBACT III (Brussels)

Building relationship and exchanging Best Practices with Eurocities

EUROPEAN MÉTROPOLE OF LILLE

OBJECTIVES

- Better knowledge on Financial Instrument
- Develop projects linked to Financial Instrument
- Aligned Financial Instrument strategy with MEL territory expectations
- Develop a fund dedicated to SMEs development in deprived areas

ACTIVITIES

- Develop a USLG to explain what is a Financial Instrument to technician and to political representatives
- Define a grey zone concept and what can fit into the grey zone
- Exchanges with MA about the projects concerned by Financial Instrument
- Identify the reasons of lack SMEs development in deprived areas and develop a tool inside the ITI to solve the problem

CITY OF LEIPZIG

Stadt Leipzig
Amt für Stadterneuerung und Wohnungsbauförderung

LOCAL ACTION PLAN OBJECTIVES:

- Establishment of a local urban development funds
- Examination of a variety of financial sources to find appropriate governance structures
- Development of a project structure suitable for a funds
- Simulating calculation of a variety of funds products
- Reimbursement of money out of JESSICA funds 2007 – 2013
- Using it as discussion basis for political level
- Embedding of UDF in the frame of other instruments like Interim purchase of buildings, consulting network etc.

LOCAL ACTIVITIES:

- 6 meetings of Local Support Group, consisting of local, regional and federal funding banks, staff of financial department and staff of urban development department
- Hosting 3rd Cities Dialogue event about Innovative financial instruments in urban development and housing policy („Connective Cities")
- Individual meetings with local bank to discuss financial support of housing projects
- Meetings rounds with local stakeholders and future project partners to develop the project pipeline

MANCHESTER CITY COUNCIL

MANCHESTER CITY COUNCIL

LOCAL ACTION PLAN OBJECTIVES:

- Deliver Current Evergreen Programme of Expenditure
- GM Core Team Well Resourced and Linked to Evergreen and Low Carbon Fund Managers
- Secure Approval of GM EU Investment Plan with significant Financial Instrument component
- Transition of Evergreen to new Financial Instrument for 2014/20

LAP OUTCOMES TO DATE:

- Evergreen on track to deliver current programme
- GM Core Team (GMIT) extended to include link to Low Carbon Fund
- GM EU Investment Plan approved with strong Financial Instrument element
- Ex ante assessment completed for new Evergreen programme

LOCAL ACTIVITIES:

- Management of CSI Europe Network
- Established ULSG core and wider group
- ULSG to continue as a tool for communication by the GMIT
- Hosted visit from Seville partner on establishing non-ESIF funds
- Building stronger relationship with CLG (MA) in relation to Financial Instruments
- Contributed to Financial Instrument Compass launch
- Building relationship with Eurocities

European Union
European Regional Development Fund

Rudy ELEGEEST

CSI EUROPE

CITY OF MALMÖ

LOCAL ACTION PLAN OBJECTIVES

Raise the policymakers (both political and administrative) knowledge regarding UDFs and other financial instruments for urban development through:

- Incorporate innovative financing as one main theme for the city to explore by making it a specific package within different strategical urban development projects.
- Make innovate financing a main theme in 2015 urban development conference (C/O Stad).
- Examine and document different Financial Instrument, use material as discussion material with policy makers.
- Hand-pick 2-3 urban development projects where Financial Instrument could be tested and simulate calculations of test projects.

Create a forum for constructive dialogue regarding innovative financing through:

- Map interested financial institutions and start a dialogue with them.
- Map other relevant local partners.

Raise UDF and innovative financing at national level through:

- Make the conference (C/O Stad) relevant through international guest with specific experience of UDFs.
- Raise issue at Almedalen and other national forums.
- Point out main political obstacles for creation of UDF in LAP.

LOCAL ACTIVITIES

- Monthly meetings of LSG continuing of regional and local partners.
- Hosted workshop with policymakers to raise issue.
- Individual meetings with banks and larger insurance companies to discuss Financial Instrument.

PORTO VIVO SRU

LOCAL ACTION PLAN OBJECTIVES:

- Establishment of an UDF specialized in self-sustainable projects and fully funded projects (possible combination with grants)
- Creation of Financial Instruments to support other sectors of activity (e.g., Housing)
- Build up a city governance model at the UDF level
- Provide pre-approved reporting formats to the Managing Authorities
- Capacity building, improve information and make the rules known

ACTIONS:

- Creation of the Fund for Efficient Renovation of Buildings in the Historic Centre of Porto (REENERGI.CHP)
- Creation of an office for technical assistance
- Pilot-project for developing a best practice in terms of renewal and energy efficiency in an heritage building

LOCAL ACTIVITIES:

- 7 meetings of the Local Support Group, consisting of 21 entities from the local, regional and national levels
- The 6th meeting was held during the CSI Europe Meeting in Porto, taking advantage of the international experience of the network partners, an opportunity to liaise
- Individual meetings with different stakeholders, including the Government, to set up the Fund REENERGI.CHP
- Presentation of the REENERGI.CHP in the International Conference held in Madrid on "Energy Efficiency in Historic Buildings: Experiences & Solutions" (including a paper published in the Proceedings) and in the "Capacity Building Workshop for Energy Efficiency Financing" held in Almada.
- Presentation of the REENERGI.CHP in the Energy Cities Annual Conference, held in Aberdeen.


Gilles PARGNEAUX
M.E.P. and metropolitan councillor
in charge of European funds

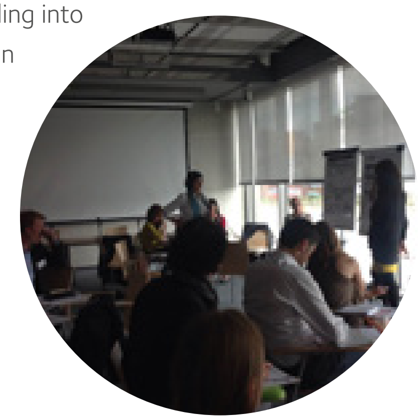
CITY OF POZNAN

OBJECTIVES:

- Identification of municipal projects to be implemented and applied for co-financing within the Financial Framework 2014 – 2020 (at the city and district level).
- Identification of areas of intervention of Wielkopolska Regional Operational Programme 2014 -2020 where Financial Instruments could be used.
- Identification of several projects from the municipal list that might be eligible for financing with Financial Instrument (at least partly). Describing elements that make the future projects "jessicable".
- Increasing influence of the City of Poznan on selection of projects that would involve issues linked with city policies through embedding a separate municipal selection procedure within the application process for Financial Instrument (in cooperation with the MA and the future UDF).
- RESULT: portfolio of ready to implement projects and investors selected at the City level according to local requirements and Financial Instrument regulations would be presented to the MA and UDF.
- Designing procedure of cooperation City – MA – UDF in the process of selecting Financial Instrument projects linked with City development

ACTIONS:

- Several meetings of Steering Committee (Mayor, deputy mayors, directors of municipal units entitled to take decision in the field) where decision on selection of projects were made
- Elaboration of Strategy of Development of City Centre district with portfolio of different regeneration projects
- Meeting with the EIB (August 2014) to discuss possibilities of using Financial Instrument in 2014 – 2020
- Meeting with regional MA to present proposal on involving the City in procedure of selection of projects to be financed with Financial Instrument (in order to raise influence on their performance in relation to city development.
- Preparing of external analysis on structure and conditions that would enable including into the regional FI application process, of a separate City procedure aiming at selection and monitoring of FI financed municipal projects'



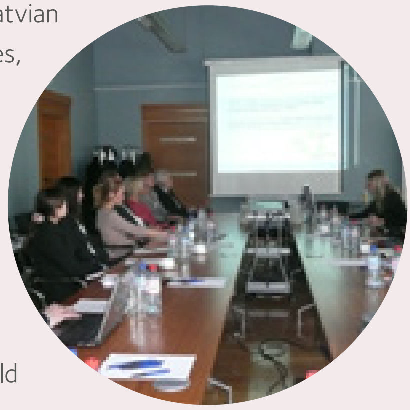
RIGA PLANNING REGION

OBJECTIVES

- Previous experience in EU funds administration and implementation of urban development projects;
- Possibility to combine different support schemes and different financing sources;
- Possibility to use the ex-ante evaluation for determining support rules complying with the development needs of Riga planning region and thus contributing to the development of priority projects;
- Possibility to develop more projects by using financial instruments and ensuring further re-investing of financing in new urban development projects. The use of financial instruments will increase sustainability and return of investments.

ACTIONS

- Meeting with the Ministry of Finance
- Consultations with the Latvian Association of Large Cities, the Latvian Association of Local and Regional Governments and with municipalities on investment projects for whose development the financial instruments could be potentially used.



European Union

- Meeting with the financial institutions
- Meeting with representatives of other countries having previous experience in implementing JESSICA initiative
- Elaboration of Sustainable City Development Strategies
- The market analyses for commercial properties in Riga planning region

SEVILLE MUNICIPAL COMPANIES CORPORATION AIE

LOCAL ACTION PLAN OBJECTIVES:

- Establishment of a local urban development fund in Seville as a pilot project for other cities.
- Learn about how to create it
- Learn about how to make it work for the city.
- Build up a city governance model at the UDF level
- Create an Off the Shell Model to extend this UDF to the rest of Spain
- Examination of a variety of financial sources to fund appropriate governance structures
- Development of a project structure suitable for a fund
- Development of the project pipeline
- Reinforce the implementation of FI in the ESIF strategy in Spain.
- Deliver Investment strategy linked to ERDF 2014-2020 & economic policy
- Apply for Interreg Europe in order to work together with other countries in the same situation

LOCAL ACTIVITIES:

- 3 meetings of Local Support Group with a different composition
- Individual meetings with Managing Authorities: Regional and National
- 2 meetings with the National WG for FI implementation
- Political representatives visit Manchester to learn about FIs
- Building a stronger relationship with National Managing Authority in relation to FIs
- Establish the national working group for implementation of FIs
- Map relevant partners in the ESIF FI strategy
- Raise UDF and innovative financing at national level through dissemination activities in Spain

ACTIONS:

- Creation of an office for technical assistance
- Set up an Off the Shell model for Spain cities
- Pilot-project in Seville for developing a best practice.

CITY OF THE HAGUE

LOCAL ACTION PLAN OBJECTIVES:

- Making financial instruments work in The Hague.
- Learn about theory (how)
- Learn about practice (does it work)
- Deliver Investment strategy linked to ERDF 2014-2020 & economic policy
- Evaluation study
- Broadening geographical focus
- Draft investment strategy 2015-2020

LAP OUTCOMES TO DATE:-

- Establishment of an Revolving Fund structure with a Holding Fund
- Set up two UDF's
- Set up a national Fund.
- Working Holding Fund investment strategy approved by local action group.

LOCAL ACTIVITIES:

- 2 meetings of Local Support Group, consisting of UDF manager local banks and project developers
- 4 meetings of Local Support Group, consisting of representatives from education, SME's, chamber of commerce, MA, local and national government
- Several meetings with UDF Manager
- Dissemination activities in The Netherlands and abroad.

CHAPTER 8

LESSONS LEARNED

LESSONS LEARNED

For most of the partners involved in the CSI Europe Network, including the Lead Partner and Lead Expert, this was the first URBACT project they had participated in. For all participants the experience was at different times challenging, enjoyable, informative, stressful, exhausting, frustrating and ultimately an extremely positive experience.

The URBACT method with its dual approach of transnational working combined with Local Action Plans offers a different way to generate new thinking and innovation to tackle shared issues across Europe. As a network we matured and learned how to work together as a team to deliver the network's objectives. Some of the insights are set out below and we hope they are interesting to future URBACT projects.

1. PROJECTS SHOULD CHOOSE PARTNERS WISELY

It is good to have partners with a range of different knowledge and skills, combining experienced partners with others who are eager to learn. It is essential however that all the partners join the project because the issue is an important policy priority within the city.

2. CITIES SHOULD INVOLVE THE RIGHT PEOPLE

The ideal partner representatives involved in the partnership should be a combination of senior, experienced practitioners with a responsibility for the subject matter of the network in their city and other team members with the capacity to directly support the work of the network.

3. EMBRACE THE URBACT METHOD

The Lead Partner/Lead Expert programme meetings allow the dissemination of good practice and play an important role in building capacity to lead the network. Lead Partners and Experts should commit the time and resource to get the most from these sessions and the accompanying guidance

4. TRANSNATIONAL WORKING TAKES TIME

The challenges of transnational working within a network include the language barrier and different levels of understanding of the topic. Over time, however, trust builds and the network overcomes these initial barriers to deliver positive outputs. Don't worry if early meetings are less animated, keep working and good things will happen – don't try a "fishbowl" session on the first day of the first conference like we did!

5. USE THE URBACT BRAND TO DEVELOP LINKS WITH INSTITUTIONS

The URBACT name opens doors both locally and at European level. Projects should try to use this to build links with institutions. CSI Europe benefited hugely from the support of the European Investment Bank and latterly the Commission adding significantly to the quality of our outputs and reach of our dissemination.

6. INDEPENDENT CONSULTANCIES CAN ENHANCE THE NETWORK

We were lucky enough to secure the support and involvement of a number of independent consultancies who added significantly to the network's work. In particular, Melvin Koenigs of Lysias, introduced by the Hague generously gave his time and played a huge part in developing our thinking and the resulting outputs.

7. THE URBACT UNIVERSITY BUILDS CAPACITY

Several partner representatives and the Lead Expert all attended the University in Dublin which provided an excellent opportunity to increase understanding of the URBACT method. It also proved an inspirational event deepening partner commitment to the network. Cities should commit senior resource to take advantage of this opportunity.

8. COMMUNICATION BETWEEN MEETINGS IS DIFFICULT

Perhaps we are unusual but the network found new forms of web communication such as Webex, Facetime, Dropbox, Google difficult and in the end we relied on conference calls and email to communicate. Overall, this was not the key to a strong network. It was the willingness and desire of the partners to develop the work locally; that has delivered the CSI Europe outputs

9. THE LEAD PARTNER ROLE REQUIRES ADMINISTRATIVE AND FINANCIAL STRENGTH

Manchester City Council committed a highly skilled team to support the Lead Partner role, alongside the local activities including coordinating the ULSG. The resources and skills required for this role should not be underestimated and Lead Partners need to ensure the people are in place to perform this role from the outset.

10. FOSTERING FRIENDSHIPS IS ALSO IMPORTANT

Travelling can be hard and people are busy. When the network comes together there are usually 101 things that need to be discussed alongside a busy conference. Networks need to recognise this and build in some "downtime" for social links to be built which will ultimately sustain the network and retain key team members for the duration of the project.

CHAPTER 9

CONCLUSIONS

European Union

CONCLUSIONS

The first important finding of the project is that Financial Instruments Work.

Within the network Financial Instruments in the Hague, Manchester, Porto and Poznan have all invested substantial ERDF monies into urban development projects. Furthermore, the Commission has made a strong commitment to build on the success of the JESSICA and JEREMIE pilots to extend the use of financial instruments to all areas of the 2014-2020 Cohesion Funds.

The second finding is that cities add value to the implementation of financial instruments. To ensure this added value is captured, all stakeholders, including in particular, the Commission and Managing Authorities, need to recognise the importance of involving cities in financial instruments for urban development.

The CSI Outputs can assist cities engaging with this work in their areas whether as a public body entrusted with the implementation of a Financial Instrument, as a stakeholder partner working alongside a Fund Manager to develop a pipeline of bankable, investment ready projects or another role reflecting the city's strengths and local context.

The key messages in the outputs can be summarised as follows:

- **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 Financial Instrument is intended to address. The 2014-2020 regulations provide a clear framework for implementing Financial Instruments that reflects the learning of the JESSICA initiative and should enable Financial Instruments to be established more quickly than in the past. Local regulations are also important to the implementation of Financial Instruments as they can support or constrain project delivery,

- **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.

- **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 Financial Instrument'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 Financial Instruments work to support its future development.

- **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 Financial Instrument in the future.

FUTURE SUCCESS

In conclusion, a well implemented financial instrument will have a robust and streamlined governance framework that ensures professional led investment decisions are taken within an investment strategy that reflects the local context. Cities should recognise this and seek to engage in the promotion of the instruments in their area.
There are now lots of good examples of financial instruments working in Europe and this provides a strong platform for the

development of new and more ambitious models for the new programme period. The CSI Europe project has demonstrated that cities can play a positive role in the success of Financial Instruments by working in partnership with their Managing Authorities. Initiatives such as fi-compass and future projects under programmes such as URBACT should be used to further develop cities' understanding and engagement in the subject.

As is said in the animation, "it's not rocket science but it is complicated". It is hoped that the CSI Europe materials can help raise awareness and knowledge of financial instruments and as result play a small part in the development of a more sustainable way of funding urban development.

ACKNOWLEDGEMENTS

The CSI Europe partners would like to thank the many organisations and people who have helped us deliver our project. Particular thanks must go the Frank Lee, Emily Smith, Pedro Couto and their numerous colleagues at the European Investment Bank for their support throughout the network. They were at our Kick Off meeting and our Final Conference and in between provided us with support know how and introductions. We also must thank our TPM Sally Kneeshaw, former TPM Eddy Adams, Emmanuel Moulin, Melody Houk and everyone at the URBACT secretariat who have been supportive, tolerant, patient and resolute in their support for us (and the rest of the URBACT II programme). Thanks too to our private sector and consultancy partners who have attended our events including Melvin Koenigs of Lysias in the Netherlands, Colin Beyer and Bernhard Faller of Qaestio, Bonn, Germany, Will Church of CBRE in the UK and Gatis Kristaps of Ardenis in Latvia. We would also like to thank our supporters at the Commission including Fiona Wieland, Thomas de Bethune and Barbara Crome who have all contributed to our events and secured opportunities for dissemination of our work within the Commission. We must thank Robin Fisher and his colleagues at nerv in the UK who were the creative talent behind the graphics that brought our animation "How to Build a Rocket" that became the "look and feel" of all our outputs. We are bound to have missed many people to whom we send our apologies.

CSI Europe.

PARTNERS	PARTNER CITY
Marco Cardinaletti	City of Ancona
Karsten Gerkens, Margrit Beier, Ute Gläser	City of Leipzig
Amélie Cousin, Perrine Ezelin	European Métropole of Lille
Victoria Percovich, Christine Olofsson, Trevor Graham	City of Malmö
Mark Duncan, Karen Findley, Grainne Bradley	Manchester City Council (Lead)
Natalia Madajczyk, Agnieszka Gorczewska	City of Poznan
Álvaro Santos, José Sequeira, Ana Delgado	Porto Vivo SRU
Agnese Bidermane	Riga Planning Region
Modesta Hoyuela Díaz	CEMS: Seville Municipal Companies Corporation AIE
Ton Overmeire, Jolinda Verwoert	City of The Hague
EXPERTS	
Des Gardner	Lead Expert
Paul Evans	Thematic Expert
Sally Kneeshaw	URBACT Pole Theme Lead – Governance

APPENDICES

THEME PAPER: INTRODUCTION

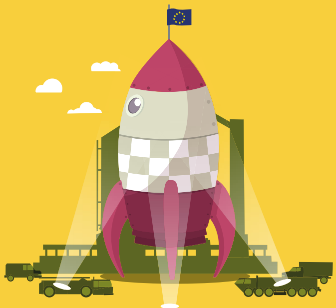
European Union
European Regional Development Fund

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.

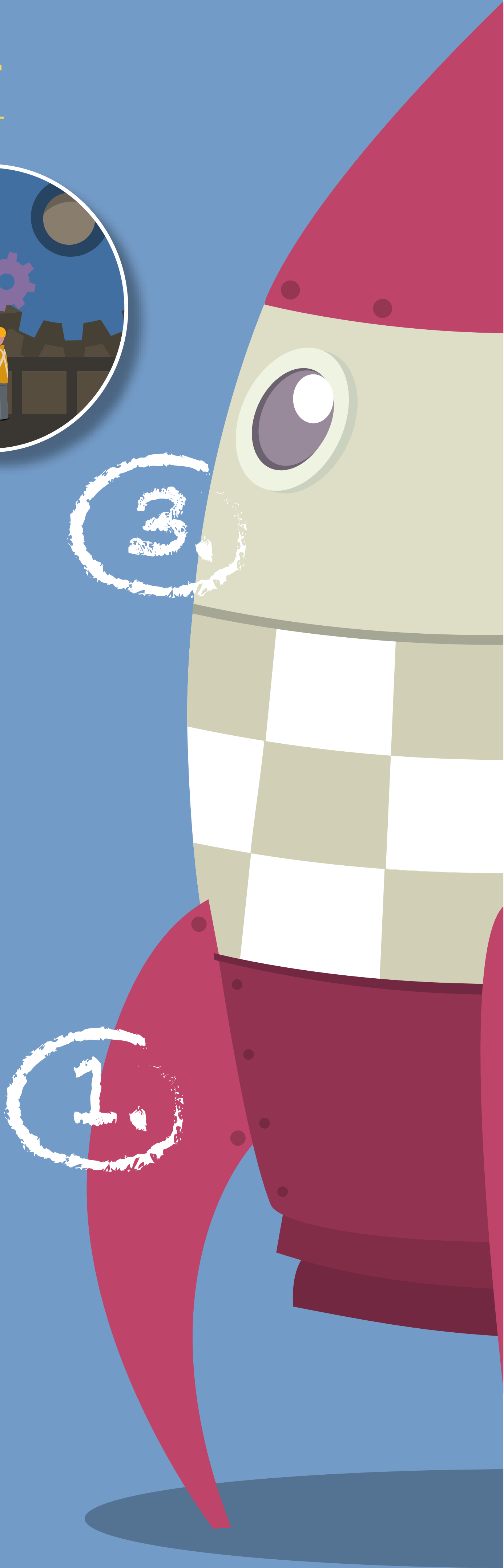
MAKING FINANCIAL INSTRUMENTS WORK

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

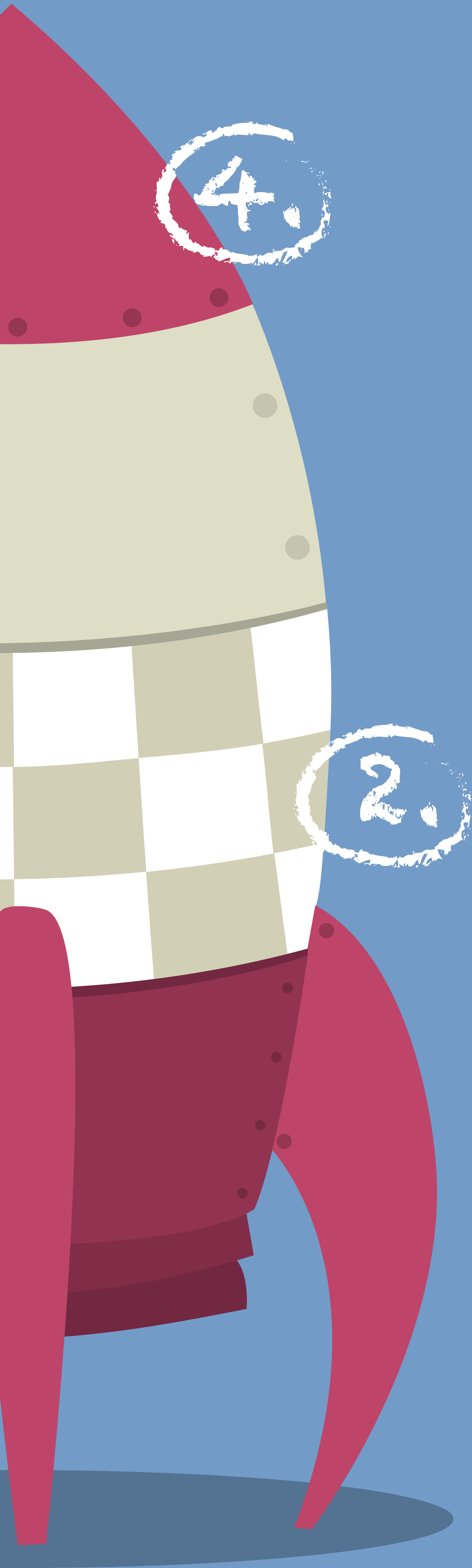
3. GOVERNANCE

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,

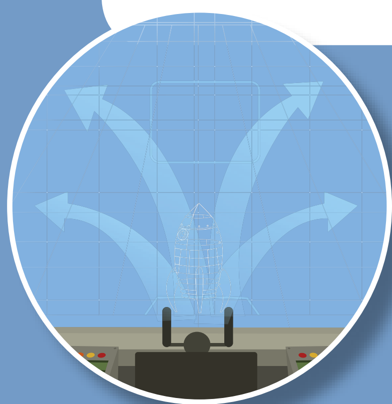


4. TECHNICAL ASSISTANCE

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. 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?

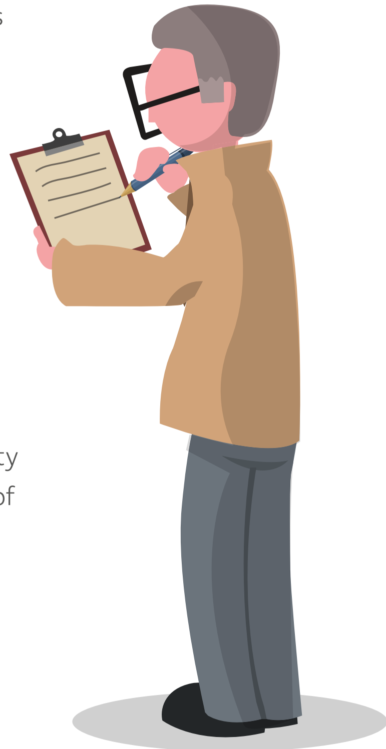
A: There now exists considerable knowledge within institutions and professional organisations about how to tackle governance and technical issues affecting FIs. The fi-compass advisory platform will allow the expertise to be pooled and lessons learned from successful FIs.

Q How can private investment be attracted into FIs?

A: There are examples of (and the regulationsare 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) 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

For further information on CSI Europe project, including the Theme Papers please visit: www.urbact.eu/csieurope

European Union
European Regional Development Fund

APPENDICES

THEME PAPER 1

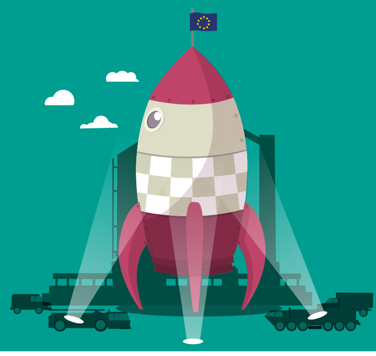
European Union

Making financial instruments work for cities

CSI EUROPE

REGULATION AND FINANCIAL INSTRUMENTS

THEME PAPER 1



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

- The regulatory framework for financial instruments is in Arts 37-46 of the Common Provisions Regulation (No1303/2013) (CPR) and Arts 4-14 of the Delegated Regulation (No 480/2014) (DR). Art 16 of the General Block Exemption Regulation (No 651/2014) (GBER) provides further regulation (where applicable).
- The types of investment to support urban development that may be made by FIs include equity investments, loans and guarantees. FIs may, as part of the same operation, also make grants to fund technical support for projects that will be funded by a future investment by the FI. ESIF grants towards project costs made by separate operations alongside FI investments;
- Key requirements include: the need for an ex-ante assessment before establishing the fund; transparent processes for establishing funds; the competitive procurement of fund managers at defined maximum fee rates; phased drawdown of funds into the FI and clear rules regarding eligible expenditure and reinvestment of funds at closure of the programme.
- National and local regulations are also important in the implementation of FIs and Cities should consider how they can support FIs through such measures.

ESIF AND THE ROLE OF CITIES

The European Structural Investment Fund (ESIF) has been established by the Commission to deliver its Europe 2020 strategy. The policy framework includes a commitment to deliver more of its funding through Financial Instruments (FIs) rather than grant. As a result the regulatory framework is designed to help make the implementation of FIs easier.

Another feature of the ESIF regulatory framework is the recognition of the importance of the role cities will play in achieving the Commission's objectives. This can be seen in measures including the ring-fencing of 5% of the fund for integrated actions for sustainable urban development to be led by cities and setting up the Urban Development Platform, that will allow cities to directly engage with the Commission and Managing Authorities. This should provide cities with the opportunity to establish a long term partnership with its Managing Authority to help design and deliver FIs in its area.

NON-ESIF FUNDING

Financial Instruments can also be set up using non-ESIF money such as National funding and/or a City's own money or borrowings. The models developed by the Commission provide a good template for establishing a fund without ESIF resources and compliance with the regulations may allow the fund to receive ESIF funding in the future.

THE CSI EUROPE ROUTE MAP

WHAT IS IT?

The CSI Europe Route Map has been designed to show the key steps to be taken by Managing Authorities and Cities to achieve the objective of "making financial instruments work for cities".

THE REGULATION ROUTE

The Regulation Route runs from top to bottom on the map and shows how an FI would move from the establishment of ESIF to an FI that is reinvesting resources in a city.

PARTNERSHIP

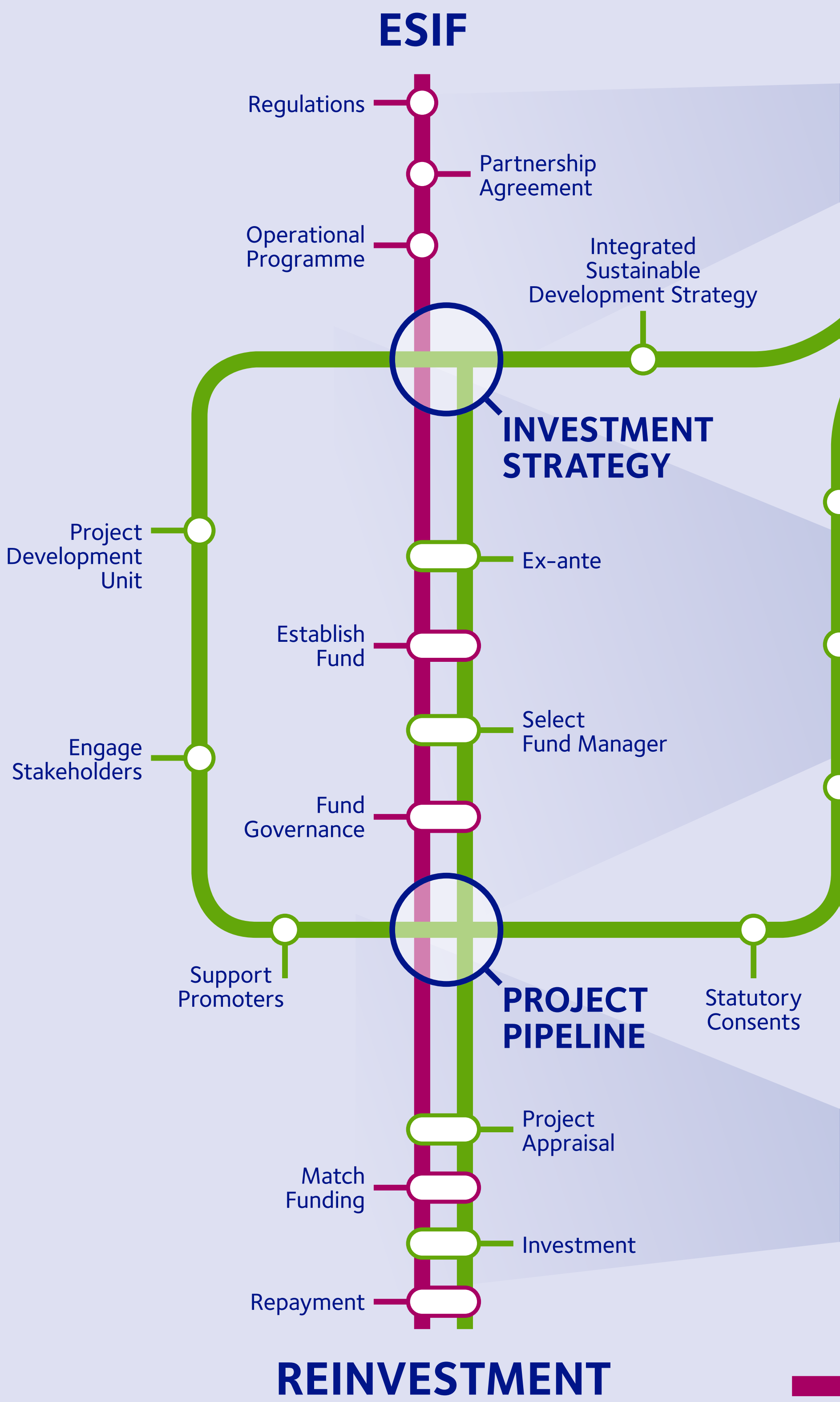
The route map emphasises the importance of partnership between the Managing Authority and City. As the map shows, MAs must first establish their Operational Programme after agreeing its Partnership Agreement with the Commission. After that, the route can be taken by either the MA or the City but should in all cases be done in partnership.

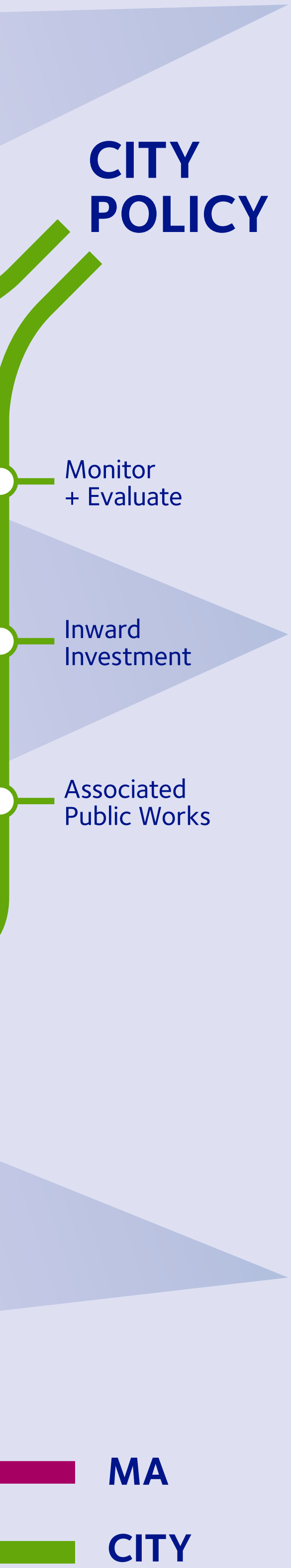
CITY ADDED VALUE

The involvement of cities can add value by ensuring the ESIF resources are targeted at the projects that deliver the best social as well as financial outcomes. Cities understand the local context and can help ensure this is reflected in the FI's investment strategy. Cities can also contribute knowledge and, with the help of Technical Assistance add capacity in the area to make best use of FIs.

CITY GOVERNANCE ROUTE

The circular green route on the map shows how a City's governance interacts with FIs. This is explored further in Theme Paper 3 – Governance and FIs





STEP 1 – POLICY TO INVESTMENT STRATEGY

This stage must be undertaken by the Managing Authority and involves the negotiation and agreement between the MA and the Commission of a Partnership Agreement (PA) and operational programme (OP). FIs that are established to invest the ESIF funds must invest only in compliance with the OP.

Cities must be aware of the relevant policies and thematic objectives in the OP and design their investment strategy for FIs to fit within that framework. Ideally, a close partnership between city and MA would deliver a joint Investment Strategy which is used for the future implementation of FIs.

A key requirement of the Common Provisions Regulation (CPR) (Art 37(2)(a)) is that the FI must meet investment needs for policy areas and thematic objectives. Therefore, to be effective and successful in a city, the FI's investment strategy should be aligned to both the MA's OP and the City's local strategic plan

STEP 2 – INVESTMENT STRATEGY TO PROJECT PIPELINE

This stage may be undertaken by the Managing Authority or the implementation may be entrusted to public or private bodies including a City Authority. In all cases it is best done in partnership.

When a MA entrusts implementation to a City under Art 38(4)(b)(ii) of CPR, it must do so on transparent criteria that satisfies Art 7 of the Delegated Regulation (DR). This does not require a formal procurement where a contingent loan facility agreement is used which, if structured properly, will not be a services agreement.

Subject to the ex-ante assessment supporting its establishment, the FI will be established with a private sector fund manager. The procurement of the fund manager must comply with the formal procurement rules and the management fee must be within Arts 12-13 of DR

The types of investment that can be made by a FI and the ways investments can be blended with other funding are described in paragraphs 6-13 of Art 37 CPR.

STEP 3 – PROJECT PIPELINE TO REINVESTMENT

The final stage involves the delivery of investments to projects. It involves the FI, through its fund manager appraising the financial viability of schemes and recommending investments.

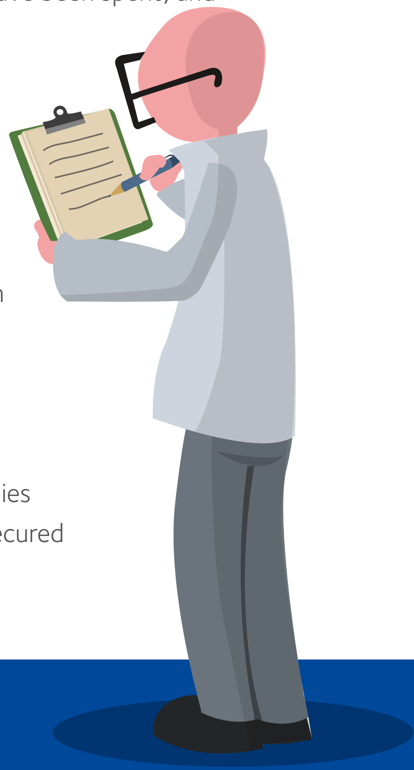
Art 37(1) states that FIs should be used to fund investments that are expected to be financially viable but cannot secure funding from market sources. As these projects are not initially easy to identify, when FIs are not widely understood by project promoters. Cities can play a key role in their area by helping develop a robust project pipeline for FIs.

The regulations allow match funding at both fund and project level and at Arts 37(2)(c) and 44(1) CPR and Art 6 DR, allow preferential treatment of co-financing subject to assessment of need in the ex ante. Art 41 CPR governs how the ESIF funds will be paid in tranches to the FI as investments are made.

Art 44 CPR allows reinvestment of funds returned to the FI during the eligibility period to meet OP priorities and Art 45 allows greater flexibility afterwards.

IMPLEMENTATION AND REGULATION

- The **ex-ante assessment** under Art 37 CPR is intended to demonstrate both the market failure and investment needs the proposed FI is intended to address. The ex-ante should be finalised only once an FI is ready to be implemented and can to be updated from time to time to allow FIs to adapt to changing market conditions and other circumstances;
- There are two **"off the shelf"** models that have been developed for urban development under Art 38(3) CPR. One is designed for an FI for energy efficiency in multi blocks, the other to fund urban development in assisted areas in accordance with GBER. The models can either be adopted in full or provide a starting point for funds adapted to suit the local context;
- Eligible **fund management costs** are regulated by Arts 12-13 of the Delegated Regulation. For loan funds, the base fee is capped at 0.5% of programme contributions paid into the FI with performance fees linked to one or more of the four criteria specified in Art 12. The aggregate fee is also capped, depending on the type of investment provided;
- Art 41 CPR sets out how **phased contribution** of ESIF funds to a FI works. The maximum size of each tranche is 25% of total commitment. Tranche 2 is payable once 60% of tranche 1 has been spent on eligible expenditure. Third and subsequent tranches are payable once 85% of all previous disbursements have been spent; and
- An **annual report** must be prepared for every FI under Art 46 CPR that will be submitted to the Commission by the MA. The regulation contains a detailed list of information required for the report which include: the measures being targeted by FIs; progress in setting up the FI, selection of bodies implementing, leverage secured and money invested.



LOCAL REGULATIONS

Local regulations have an important part to play in the implementation of FIs. For example in Lithuania, a local law states that if more than 50% of residents vote to use FI funding to improve a multi block apartment, all the residents are required to participate in the scheme. In other places rules against public sector borrowing or regulation of investments can be a constraint for cities wishing to establish FIs in their area, This is an area where cities can add value to MAs and FIs by seeking to understand the local regulations and take steps to ensure compliance with FI objectives.

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:
www.urbact.eu/csieurope

CASE STUDY

The steps taken to carry out the ex-ante assessment for a FI in Manchester for the 2014-2020 programme period is described in our Case Study which can be found on our website.

European Union

APPENDICES

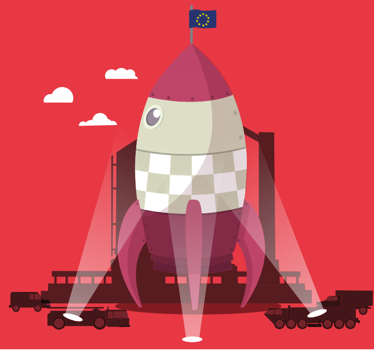
THEME PAPER 2

Making financial instruments work for cities

CSI EUROPE

STATE AID AND FINANCIAL INSTRUMENTS

THEME PAPER 2



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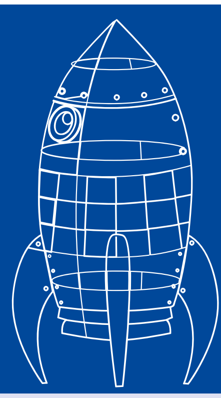
KEY MESSAGE

- The use of European Structural Investment Fund (ESIF) resources, whether by grant or investment through a Financial Instrument (FI), must comply with the State aid rules
- Cities are in the business of providing State aid so they should make sure they are the experts and use flexibilities to their full potential
- The General Block Exemption Regulation (GBER) provides a safe and fast way to secure State aid compliance and should be the “first resort” when considering products to be offered by FIs.
- Other options include “no aid investments” and a FI specific notification, both of which can be effectively used to support FIs, subject to market needs ;

WHAT IS STATE AID?

The State aid rules are set out in the European Treaty and prevent Member States from subsidising “undertakings” where it gives them an advantage in a competitive market. As urban development is a competitive market , the use of European Structural Investment Fund (ESIF) resources, whether by grant or investment through a Financial Instrument (FI), must comply with the State aid rules.



PATHWAYS TO COMPLIANCE

This paper describes four ways in which FIs established to support urban development can ensure compliance: “No-aid”; De-minimis; GBER; and Notification.

The ESIF Common Provisions Regulation requires that FIs comply with the State aid rules and any FI will be required to demonstrate compliance through audit and other monitoring processes. The pathways to compliance for urban development funds have been informed by the experience of JESSICA funds established in the previous programme.

This means that once a City and/or Managing Authority has identified its priority areas for investment, it should seek to design the measures to be provided by FIs to meet these needs by reference to the State aid pathways to compliance.

For example, a FI for energy efficiency schemes in housing may be able to adopt the de-minimis off the shelf model if it is seeking to tackle apartment blocks in multiple ownership. On the other hand if the blocks are owned by one or more large landlords, this option may not be available and the GBER flexibilities should be considered instead.

STATE AID – PATHWAYS TO COMPLIANCE

DE-MINIMIS

The de-minimis exemption authorises small amounts of aid up to €200,000. This has been used by FIs to provide loans to fund renewal of apartment blocks in multiple ownership,where a single loan is shared between the owners each of whom receive support below the de-minimis limit.

In Lithuania this has been used successfully to support over €200 million investment in FIs to invest in refurbishing housing and this has been used to develop an off the shelf model.

The Lithuanian model allows a mix of grant and low cost loan to be provided to home owners through UDFs established at three banks with a presence on the High Street. Home owners work with a government agency who assists in aggregating the demand to provide a single proposition that allows the owners of a block to apply through a single administrator for loans to secure the renovation of the building.

NO AID

Investments by FIs at the "market rate" are compliant with the State aid rules. Compliance can be demonstrated either by investing on the same terms and interest rate as private investors or by using the Reference Rate published by the Commission.

In Manchester, the Evergreen FI has provided over £50 million of investment to urban development projects on a "no aid" basis, typically at rates above 5%.

For example, Evergreen invested in a Science and Innovation project called Citylabs by way of a syndicated loan where it provided 50% of the senior debt alongside a major UK private sector bank. Under the terms of the loan, the FI enjoyed the same interest rate and rights under the agreement as the private sector bank and is therefore demonstrated to be at market rate and therefore does not constitute State aid.

GENERAL BLOCK EXEMPTION REGULATION (GBER)

A new version of GBER was published in May 2014 which included specific provision for FIs. It has specific exemptions that allow FIs in Assisted Areas to make sub-commercial loans. It also has specific exemptions that can be used by all FIs to support investment in priority sectors such as low carbon and innovation.

For example in Portugal, GBER provides a framework for delivering competitive financial products that are transparent and address market failures.

Under the Portugal scheme, the amount of aid is calculated using the gross grant equivalent. Investments with an aid level is higher than the de-minimis threshold, use the regional aid intensity levels permitted under the GBER as a cap to determine the interest rate applicable to the project.

NOTIFICATION

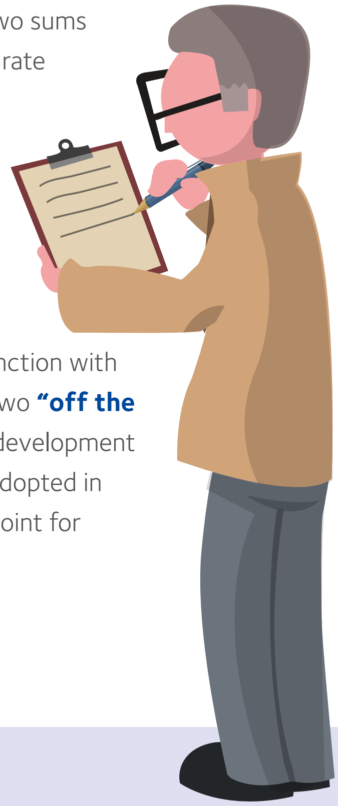
The State aid rules allow notification of measures to the Commission for approval. This has been used to establish FIs to make sub-commercial loans, offer priority returns and provide support as a mixture of grant and loan. This option will only be available where the other State aid pathways are not suitable.

For example in Chester an FI with the benefit of a notified scheme was able to provide a loan of £4 million at zero interest alongside an ERDF grant to support an urban development project to deliver new offices.

This investment was authorised using procedures in the Northwest JESSICA notification that relies on the independence of the competitively procured private sector fund manager to the fund. It also requires a further independent expert to verify that the developer recipient only receives a "fair rate of return" (including its profit) to ensure aid is kept to a minimum.

STATE AID FACTS

- **No-aid** can be demonstrated by showing market investors have invested in the project on the same terms (pari passu) as the FI. Alternatively, where there is no market comparison, the "market rate" can be calculated by using **the reference rate** that is published annually by the Commission;
- The **de-minimis** rules are set out in Regulation 1407/2013 and permit grants of up to €200,000 or loans of up to €1 million to be made to any single undertaking over a rolling three year period;
- **GBER** was published by the Commission in May 2014 and contains specific provisions that allow FIs to make sub-commercial loans in Assisted Areas. To take advantage of this flexibility the governance of the FI must comply with the terms set out in GBER;
- Alternatively investment by FIs at below market rate can be made under the other provisions in GBER, for example which permit support of **low carbon** projects.
- The **notification** procedure needs to be undertaken by Member States and the lead ministry may not be the same as the Managing Authority. The process involves a series of preliminary discussions around draft "non-papers". Once terms are agreed, a formal paper is submitted for consideration and, if the Commission approve the notification it is likely they will issue a formal letter approving the arrangement. The process typically takes around a year.
- A lot of the features of the early notified schemes are now found in the GBER model and therefore, in the future, it is likely that notified schemes will be limited to those which cannot take advantage of GBER such as, for example FIs that are **operating outside assisted areas**;
- When calculating the amount of aid provided under a FI it is essential that the value of the "aid" can be correctly identified. To do this the **"gross grant equivalent"** (or GGE) needs to be calculated. This is done by calculating the amount of interest that would have been paid under the applicable reference rate and comparing it to the amount of interest actually paid. The difference between the two sums is the GGE of the interest rate discount. The GGE may then be used to demonstrate compliance with the de-minimis and GBER rules as applicable.
- The Commission, in conjunction with the EIB, have developed two **"off the shelf"** models for urban development funds that can either be adopted in full or provide a starting point for funds adapted to suit the local context.



FURTHER INFORMATION

This paper is intended to be a guide to some of the relevant issues arising in connection with financial instruments and State aid. 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 State aid 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: www.urbact.eu/csieurope

CASE STUDY

The steps taken and issues considered in relation to the notification of the Northwest JESSICA fund are described in our Case Study which can be found on our website.

European Union

APPENDICES

THEME PAPER 3

European Union
European Regional Development Fund

Making financial instruments work for cities

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GOVERNANCE AND FINANCIAL INSTRUMENTS

THEME PAPER 3

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KEY MESSAGE

- Financial Instruments offer a fundamentally different way of supporting projects when compared with grant. Therefore cities should work with Managing Authorities to manage the "cultural shift" required amongst public servants and private stakeholders.
- A City can be entrusted to implement its own UDF or may participate in an FI established by a MA, for example through nominating a member of the fund's investment committee.
- At the same time, cities should align their own strategies with the FI's investment strategy and establish a project development unit with the task of promoting the use of FI resources and building capacity within its local stakeholders to bring forward investment ready projects.
- Cities can also support FIs by streamlining its planning and other approval processes to de-risk development projects which will, in turn, improve the project's financial viability.

GOVERNANCE: AT CITY LEVEL

A robust pipeline of investment ready projects is probably the most critical factor in the success of a fund. Experience with the JESSICA funds is that once a market understands the type of product offered by FIs, they will start to develop schemes to take advantage of the investments. Nothing helps this process better than successful schemes visibly delivering development on the ground through investment from Financial Instruments. Cities should work to ensure the product is understood by its local actors. It should seek to identify barriers to project development and address them through the use of technical assistance and building links between promoters and the MA and/or UDF.

GOVERNANCE: AT FINANCIAL INSTRUMENT LEVEL

There is no single model for good governance of a FI. Funds can be managed by Financial Intermediaries or other vehicles, often established by public or private sector bodies specifically for the purpose. The off the shelf models provide a good guide to the type of formal structures to be used.

Cities should seek to ensure that they have a role in the formal governance arrangements to ensure alignment between fund and city strategy and embed the FI in the urban development work in its area. This may include, if the MA agrees, a City leading on the establishment of an FI as a separate vehicle supported by an independent fund manager.

CSI EUROPE: ROUTE MAP –
MAP YOUR ROUTE AND GET GOING

The **ALIGNMENT** of a City's strategy for Integrated Sustainable Urban Development and the Managing Authority's (MA's) Operational Programme should deliver an Investment Strategy for Financial Instruments (FI) with the best chance of success. Cities should try to build partnerships with MAs to influence the development of the Investment Strategy to reflect local priorities.

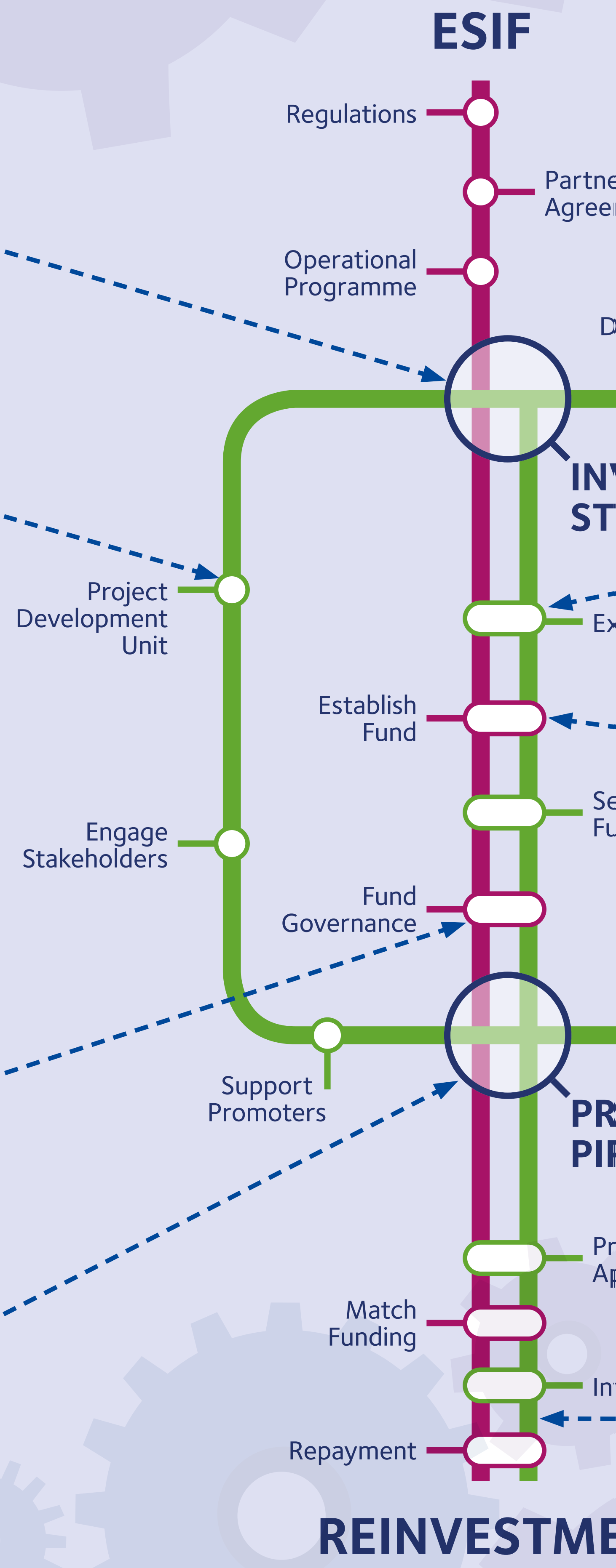
A City should consider establishing a Project Development Unit. The unit will work with projects to provide guidance, access to resources and links to Fund Managers for local actors keen to secure investment from a Financial Instrument.

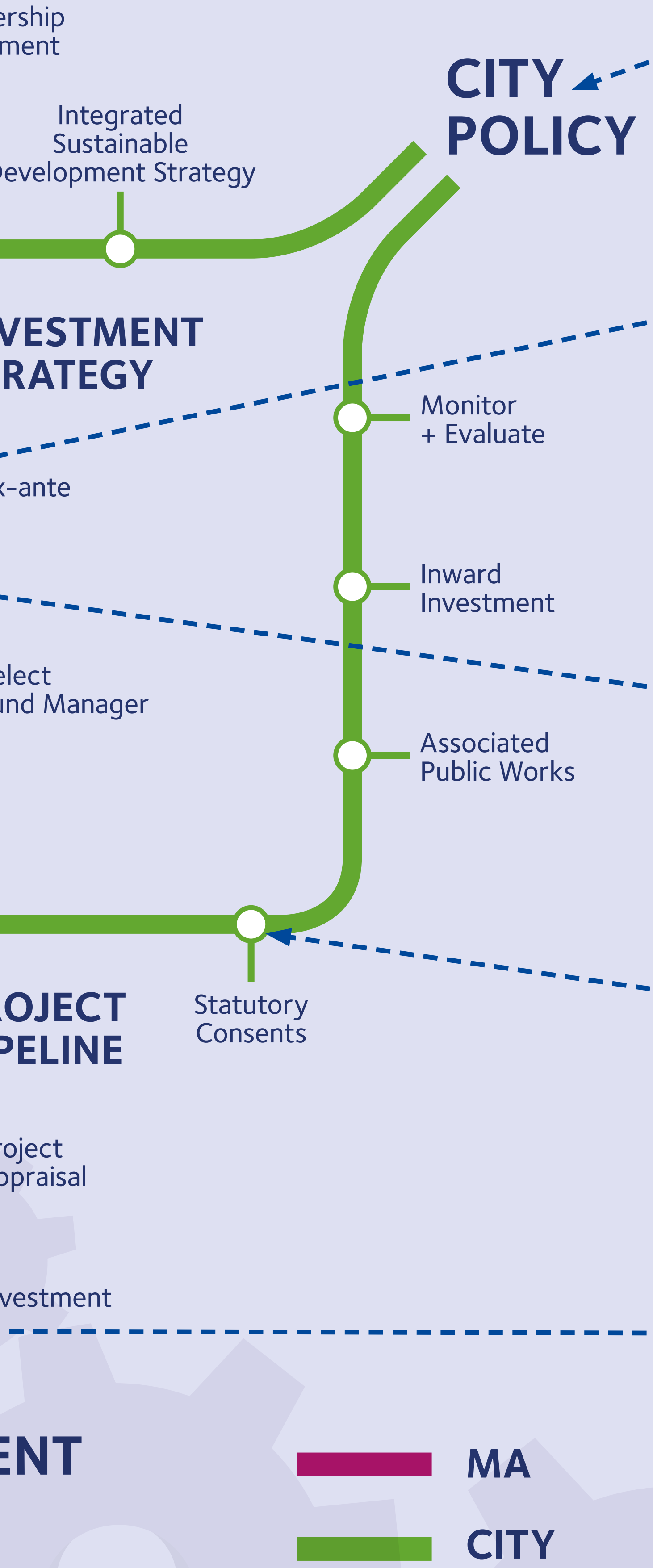
Cities should seek a role within the FI's governance structure such as through a seat on the FI's **INVESTMENT COMMITTEE**.

Where a City have been entrusted to establish a fund, it will typically set up a wholly owned body such as a company or partnership governed by a **BOARD** made up of senior individuals with appropriate skills.

This can enable cities to ensure the fund responds to local needs. Cituies should not, however, seek to interfere with the Fund Manager's authority to manage the fund.

A robust pipeline of **INVESTMENT READY** projects is probably the most critical factor in the success of a fund. The development of a robust project pipeline is the single most important thing a City can do to make Financial Instruments work in its area.





The Leipzig Charter highlighted how Cities should establish an integrated strategy for urban development. A City's policy should be **FLEXIBLE** enough to respond to opportunities created by FIs, adapting to fit with the MA's Operational Programme. Wider City policy should seek to support the use of Financial Instruments, for example by ensuring there are no competing grant funding programmes.

A City can play a key role in the **EX-ANTE** process needed to establish a FI by using its local knowledge to provide evidence of market failure and demand in its area. This is a key part of the process and involvement at this stage should increase the chance that the FI's Investment strategy is aligned with a City's local strategy.

In the majority of cases a MA will establish the fund itself. This will be done by way of a **CALL** for Fund Managers or establishing a Holding Fund with the EIB who will then run a competition for Fund Management.

Alternatively, a City can be **ENTRUSTED** by a MA to set up a fund on behalf of a MA. This would be implemented through a grant to the City which onward invests the fund in an FI.

A City can use its role as local **PLANNING** authority to assist the implementation of priority projects. Planning approval can often be a major risk for developments so Cities can help projects secure funding if it can deliver quick decisions

The governance of the Investment Decision is perhaps the most important single stage of the process. The **GOLDEN RULE** of Financial Instruments is that the decision must be only taken if the Fund Manager has independently appraised the project and is satisfied that it is financially viable. There are no short cuts in Financial Instruments. If FIs are to become financially sustainable, it is essential that expert Fund Managers are able to exercise the level of control sufficient to ensure the fund's exposure to risk is prudently managed.

LESSONS LEARNED FROM JESSICA 2006–2013

- The most important thing a City can do in order to ensure FIs work for them is to develop a pipeline of Investment Ready Projects that meet its local strategy. The formula is: **Investment Ready Projects = Eligible Expenditure + State aid compliance + Financial Viability;**
- Although the Commission has indicated it favours larger funds to avoid duplication of costs, City led FIs will be **viable for large cities** which have the scale and capacity to support an economically sustainable fund. Smaller cities may benefit more from National and Regional FIs;
- The experience in the Hague also shows how a City led FI could be established to make smaller investments in local schemes and may be a good example of how FIs could support **Community Led Local Development** in the future;
- If a City is to establish a FI it needs to have the resources to secure the capacity to manage the implementation. The most important appointment is the **Fund Manager** who must have the necessary financial expertise allied to an understanding of the wider urban development strategy. The Fund Manager will make investment recommendations to the Board of the FI. The City should ensure its Board members have a range of expertise to manage the fund manager and ensure alignment between FI and City strategy without interfering with the Fund Manager's day to day management of the FI;
- Alternatively, FIs established on a National or Regional basis may be less likely to be tailored to local schemes so cities must focus their effort on engaging with the Fund Manager who will often be a **Financial Intermediary.** Cities should add value by developing an understanding of the FI's investment strategy and application processes, acting as a bridge between the FI and projects.
- Successful FIs can be established by Cities without ESIF resources. Although such funds do not need to formally comply with the regulations, cities and their advisers will benefit from using the models that have been developed in connection with JESSICA and the ESIF programme and compliance with the regulations will ensure that the fund is available to receive ESIF money in the future. In order to ensure the success of these funds the need for capacity within the City is even greater. However, structured properly, such funds can act as a "**basket**" for attracting funding in the future.

FURTHER INFORMATION

This paper is intended to be a guide to some of the relevant issues arising in connection with financial instruments and Governance. 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 Governance 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: www.urbact.eu/csieurope

CASE STUDY

The steps taken and issues considered in relation to the establishment of the Northwest Evergreen Fund is described in our Case Study which can be found on our website.

APPENDICES

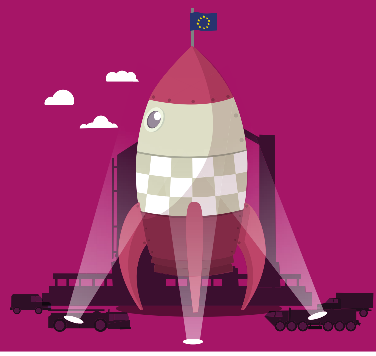
THEME PAPER 4

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.

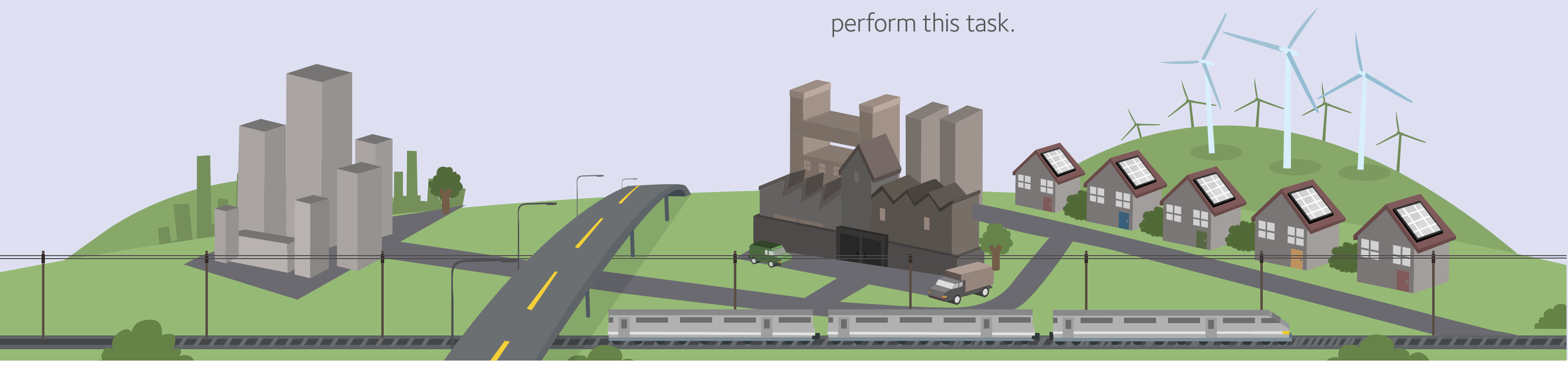
KEY MESSAGE

- 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.



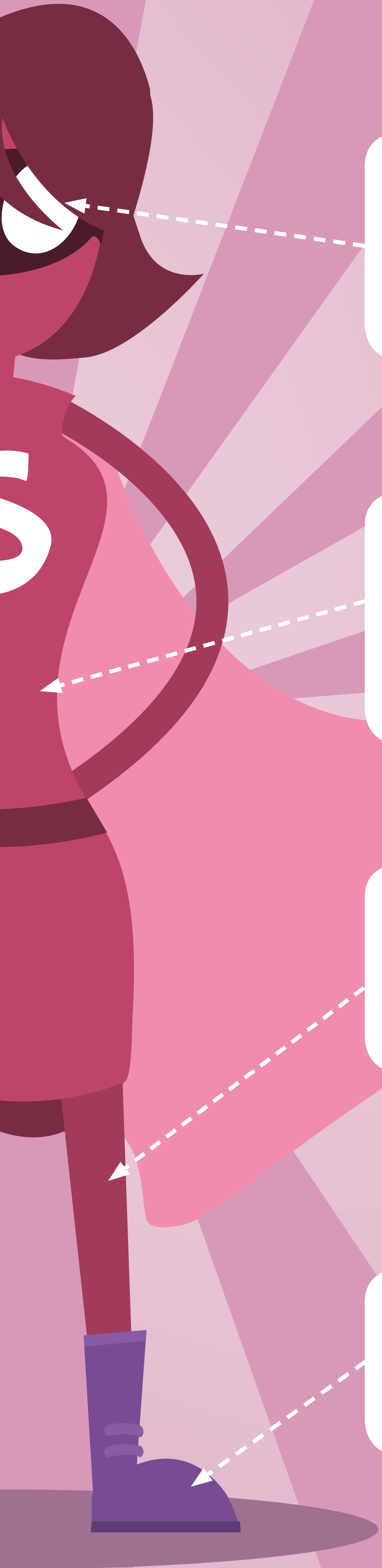
A NEW KIND OF PUBLIC SERVANT

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 insitutions 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:
www.urbact.eu/csieurope

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.

European Union

URBACT II

URBACT is a European exchange and learning programme promoting sustainable urban development. It enables cities to work together to develop solutions to major urban challenges, reaffirming the key role they play in facing increasingly complex societal challenges. It helps them to develop pragmatic solutions that are new and sustainable, and that integrate economic, social and environmental dimensions. It enables cities to share good practices and lessons learned with all professionals involved in urban policy throughout Europe. URBACT is 181 cities, 29 countries, and 5,000 active participants.

www.urbact.eu/csieurope

European Union

Connecting cities
Building successes