



# Implementation of Urban Development Funds: Experiences and lessons learned of the EIB

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“Financial Instruments in the context of EU financed interventions”  
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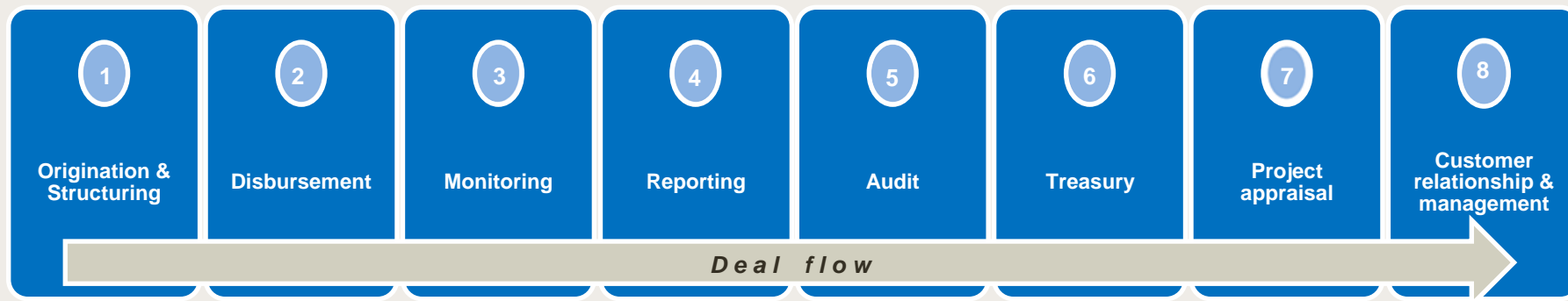
# The role of EIB in implementing JESSICA



## Services of the EIB:

*Management JESSICA Holding Funds including extensive implementation support to regional/ national MAs and the UDF managers (see chart below);*

- Support of the establishment of a system of Urban Development Funds (UDFs / FIs);
- Absorption of ESIF via financial engineering (ERDF in 2007-2013, ESIF in 2014-2020);
- Technical Assistance, e.g. studies to establish viability of implementation of FIs;
- Co-financing opportunities (EIB and other) where possible and appropriate;
- Supporting/contributing to networking platforms and “horizontal” studies to promote the **rollout of UDFs and the overall JESSICA ‘philosophy’ throughout EU.**



# JESSICA objectives and EIB state of play\*

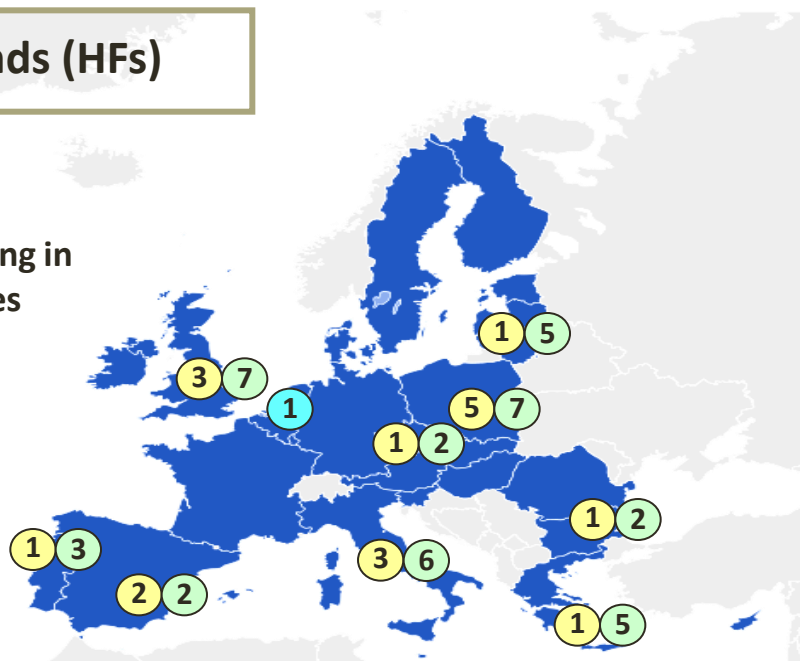


- Structural Funds efficiency and productivity in urban areas
- Leverage effect
- New partnerships and synergies

- ➔ *Innovative financial instruments which allow for reutilization of the resources invested in the urban sector*
- ➔ *Mobilization of public and private resources to be invested in a wider scheme of integrated urban development*
- ➔ *Managerial, financial and implementation competences from the private sector and the institutions involved (EIB)*

## Holding Funds (HFs)

- 18 JESSICA HFs
- currently operating in 11 Member States
- EUR 1.8bn in commitments



## Urban Development Funds (UDFs)

- 39 agreements signed to date
- EUR 1.5 bn committed to UDFs
- EUR 200m of projects signed

- 18 JESSICA HF in the Member States
- 39 JESSICA UDFs in the Member States
- 1 JESSICA Technical Assistance

\* As of May 31st 2013

# Target projects

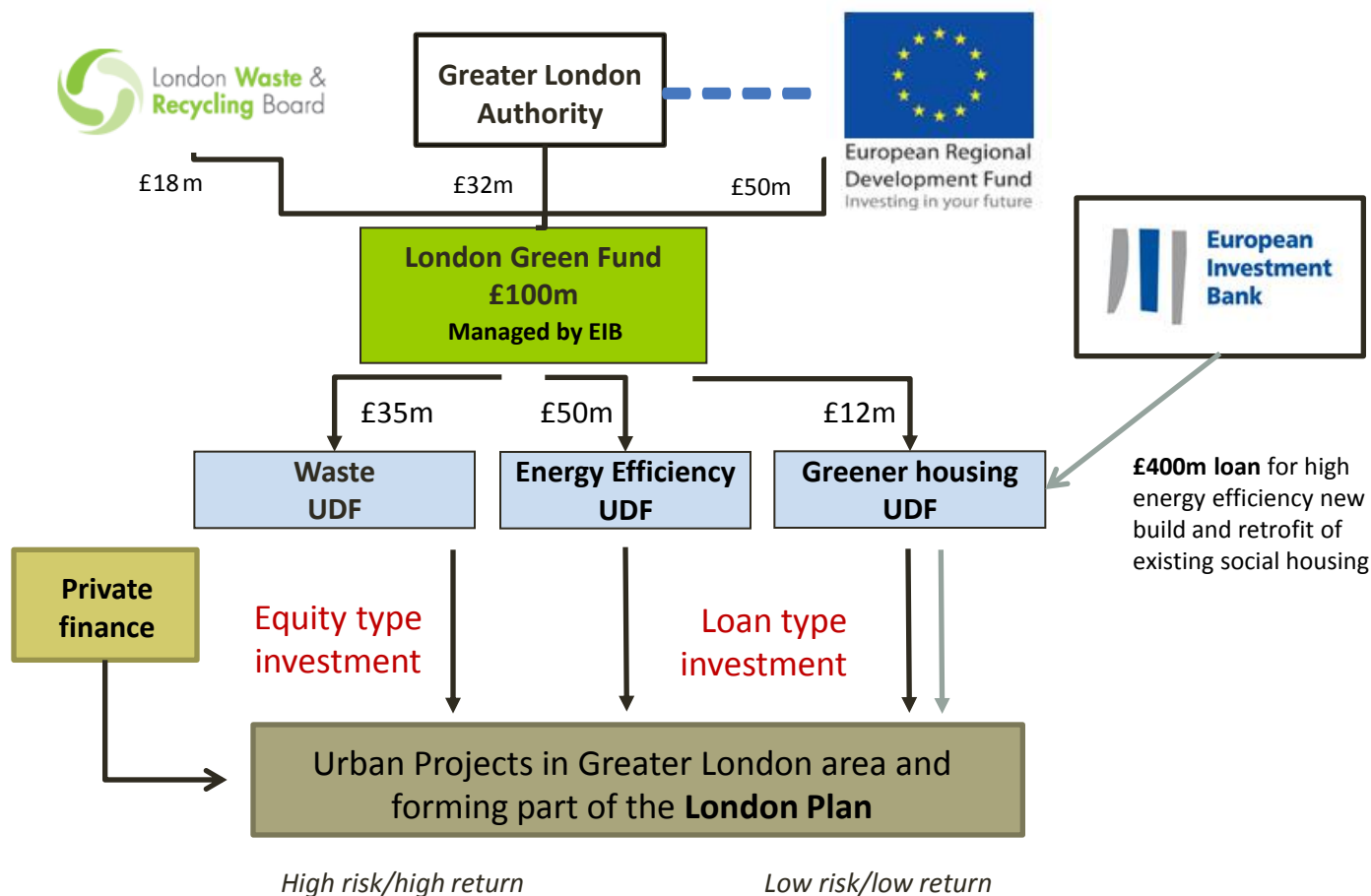


- Regeneration of brownfields sites (post-industrial, post-military)
  - Site clearance and decontamination
  - Purpose: Social, Education, Training, Leisure, Sports and Culture facilities
- Investments in socially deprived areas
- Urban infrastructure:
  - Transport
  - Water and Wastewater
  - Waste and recycling management
  - Energy
- Investments in education and healthcare facilities, including specialised institutions
- Renewable Energy in urban areas (e.g. Solar, Biomass)
- Energy efficiency projects
  - Public and private buildings
  - Cooling and heating systems
  - Street lighting and public lighting (e.g. schools)
  - Traffic systems
  - CO2-reduced urban transport (new technologies)
- Investments to enhance the competitiveness of an urban area



# Case studies and selected projects

# London Green Fund – Implementation structure



***Aiming to deliver outputs/impacts of job creation, carbon reduction, and energy usage savings***



# London Green Fund – Urban Development Funds



**Market gap identified:** energy efficiency of buildings, waste and decentralized energy, social housing

**Background:** rising energy costs, changing legislation and challenging carbon reduction targets exacerbated by the scarcity of available funds (loans and equity) at acceptable interest rates and maturities are prompting creative thinking about sustainable investments in buildings

**3 UDFs → Funding for projects in 3 key sectors to realise objectives of the London Plan (and the OP)**

## Waste regeneration



**re-flow: sale of electric energy**

**Organic Waste Facility in Dagenham**  
First such project in central London  
The facility will generate approximately 1.4MW of electricity, sufficient to power approximately 2,000 homes  
JESSICA Funding: est. £5.2m

## Low-carbon heating



**re-flow: savings due to reduced energy bills**

**Carbon neutral new build extension as well as energy conservation measures at a public Art Gallery** – forecast energy savings of 26%, forecast CO2 savings of 2,500 tonnes p.a.  
JESSICA Funding: est. £20m

## Green housing



**re-flow: lower energy costs; lower future public expenditure**

**Social housing retrofit**  
Test case for future investment to reduce fuel poverty, promote social interaction and reduce fear of crime  
JESSICA Funding: est. £2.2m



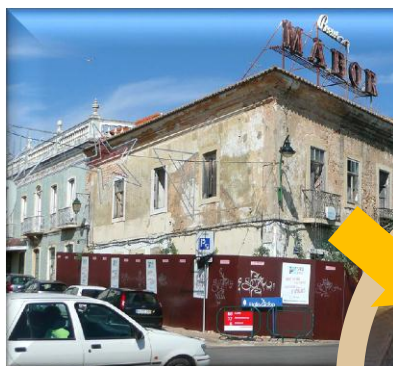
# Portugal – Case studies



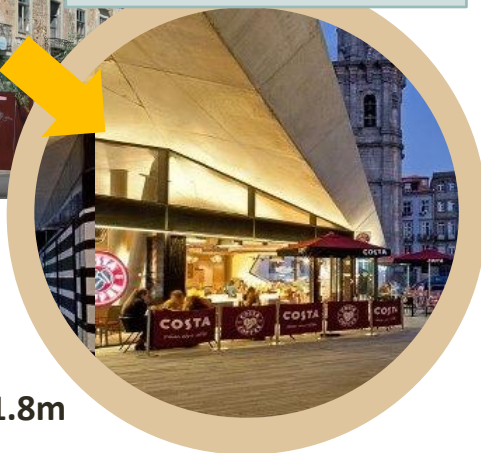
## Investment Strategy :

- Urban rehabilitation and regeneration, incl. infrastructure and equipment, EE/RE in urban areas;
- Economic revitalization, esp. towards SME and innovative companies;
- ICT dissemination, incl. broadband and wireless infrastructures – particularly in the context of tourism, equity and commerce

### Commerce



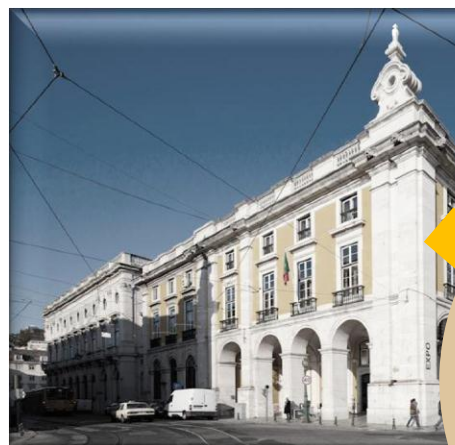
re-flow: increased  
property value,  
rental income



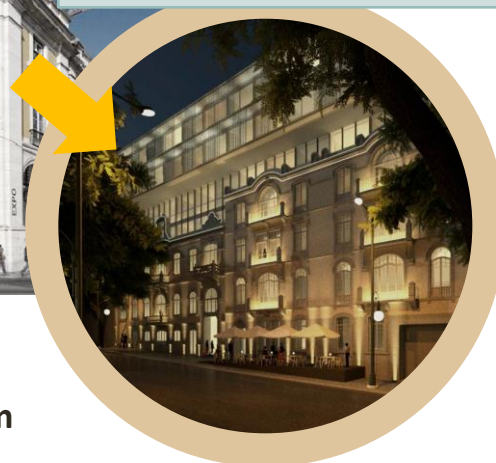
Region of Norte

JESSICA Funding: €1.8m

### Tourism



re-flow: increased  
property value,  
revenue from tourism



Lisbon

JESSICA Funding: €8.6m

## Investment Strategy:

- Revitalisation of urban areas, post-military and post-industrial areas;
- Strengthening of business environment institutions;

### Culture



**re-flow: increased  
property value, rental  
income, ticket sales**

Gdansk - revitalization of a post-military area  
adaptation of a former garrison building for cultural  
purposes

JESSICA Funding: PLN 19.2M



Silesia - revitalization of a post-industrial  
area located in the city centre and its  
adaptation for business and cultural  
purposes

JESSICA Funding: PLN 30.7M

### Commerce

**re-flow: increased  
property value, income  
generated by business**

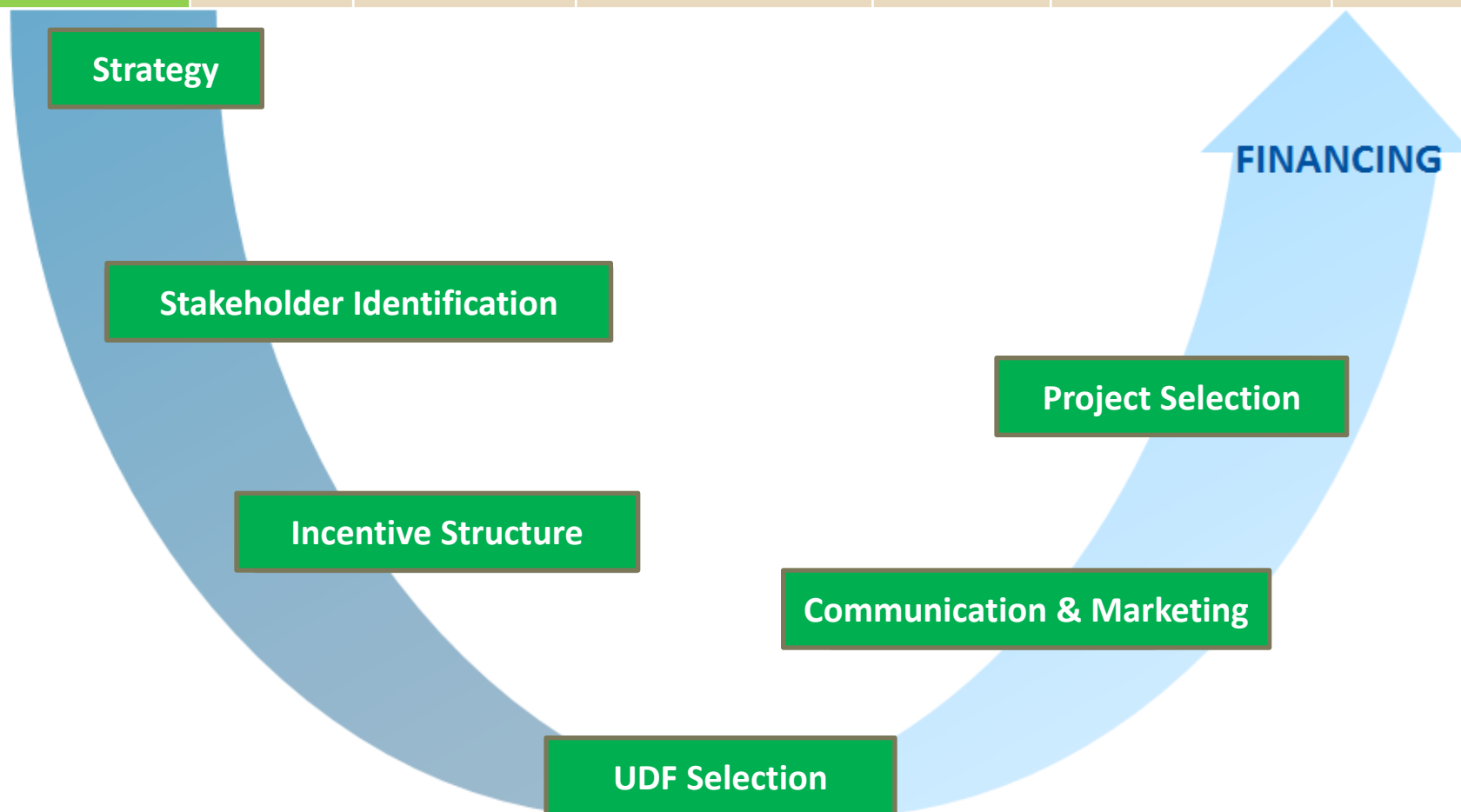


Poznan – development of a  
multifunctional office and services  
building within the industrial park

JESSICA Funding: PLN 18.5M

## **Lessons Learned and Outlook 2014-2020**

Cycle stage	Strategy	Stakeholder Identification	Incentive Structure	UDF Selection	Communication	Project Selection
Success Factors	<ul style="list-style-type: none"> <li>• Clear</li> <li>• Separate</li> <li>• Flexible</li> </ul>	Support from <ul style="list-style-type: none"> <li>• MAs</li> <li>• National Authorities</li> </ul>	Addressing Market Gap <ul style="list-style-type: none"> <li>• Equity-Debt</li> <li>• Co-financing</li> <li>• Pricing</li> </ul>	<ul style="list-style-type: none"> <li>• Ownership</li> <li>• Capacity</li> <li>• Market base</li> </ul>	<ul style="list-style-type: none"> <li>• Effective internal and external communication</li> </ul>	<ul style="list-style-type: none"> <li>• Project pipeline</li> </ul>



# Key lessons learned from the JESSICA pilot phase

- **Urban Development Funds** = proven concept, popular in times of crisis
  - strategic, long-term instrument for integrated urban development
- **Grants mentality**
  - revolving Financial Instruments require a paradigm shift
- Specific **market niche**, complexity of urban development projects
  - TA + capacity building, and lots of it!
  - De-risking urban projects
  - Catalytic effect
- **Discipline, strong governance and incentives**
  - Making it happen through inclusion of the right experts
- **Patience and commitment ...**

# Trend 1: Expansion of revolving Financial Instruments

## Expansion of Financial Instruments

- FI may be deployed for all 11 thematic areas of Cohesion Policy (Art 9 CPR)
- FI may combine resources from different ESIF and Operational Programmes (Art 32 CPR)
- More flexible implementation options (Art 33 CPR)
- Better compatability with other instruments, in particular EU grants

## (Financial) Incentives for Managing Authorities

- Higher ESIF co-financing rates when FI covers an entire priority axis of the OP (+10%)
- Expansion of eligible expenditure for FI

## Clear & detailed rules from the outset

- Continuity 2007-2013 (COCOF), Optimisation (experience of MAs) and legal certainty

## Increased TA for Managing Authorities

- Technical Assistance in combination with FIs
- Advisory via EU platform (in preparation)



**2007-2013**

**est. EUR 10.8 bn ERDF  
(SME, Urban Dev., EE)**



**Strengthening of Financial  
Instruments (loans, guarantees and  
equity)**



**2014-2020**

**Target: 2-3 fold growth  
in revolving Financial Instruments  
(est. EUR 25-35 bn)**

## Trend 2: Integrated urban development

### One legal framework for all ESI Funds (CPR)

- Uniform legal and implementing framework for ERDF, Cohesion Fund, ESF, EAFRD and EMFF
- Combination and Integration of resources from different ESIF facilitated; bundling possible

### Dedicated resource allocation under ERDF

- MAs shall allocated a minimum of 5% of the available ERDF resources to measures in support of urban development (ERDF Reg., Art 7(1))
- Stronger emphasis on territorial interventions and urban development in OP (Art 11, 14, 87 CPR)

### Possible delegation of managing ESIF resources

- ITI (Integrated Territorial Investments) > possible to administer ESIF at local level and combine different sources of funding into an ITI measure



**Strengthening of integrated urban development with the implementation of European Structural and Investment Funds**



## European Investment Bank

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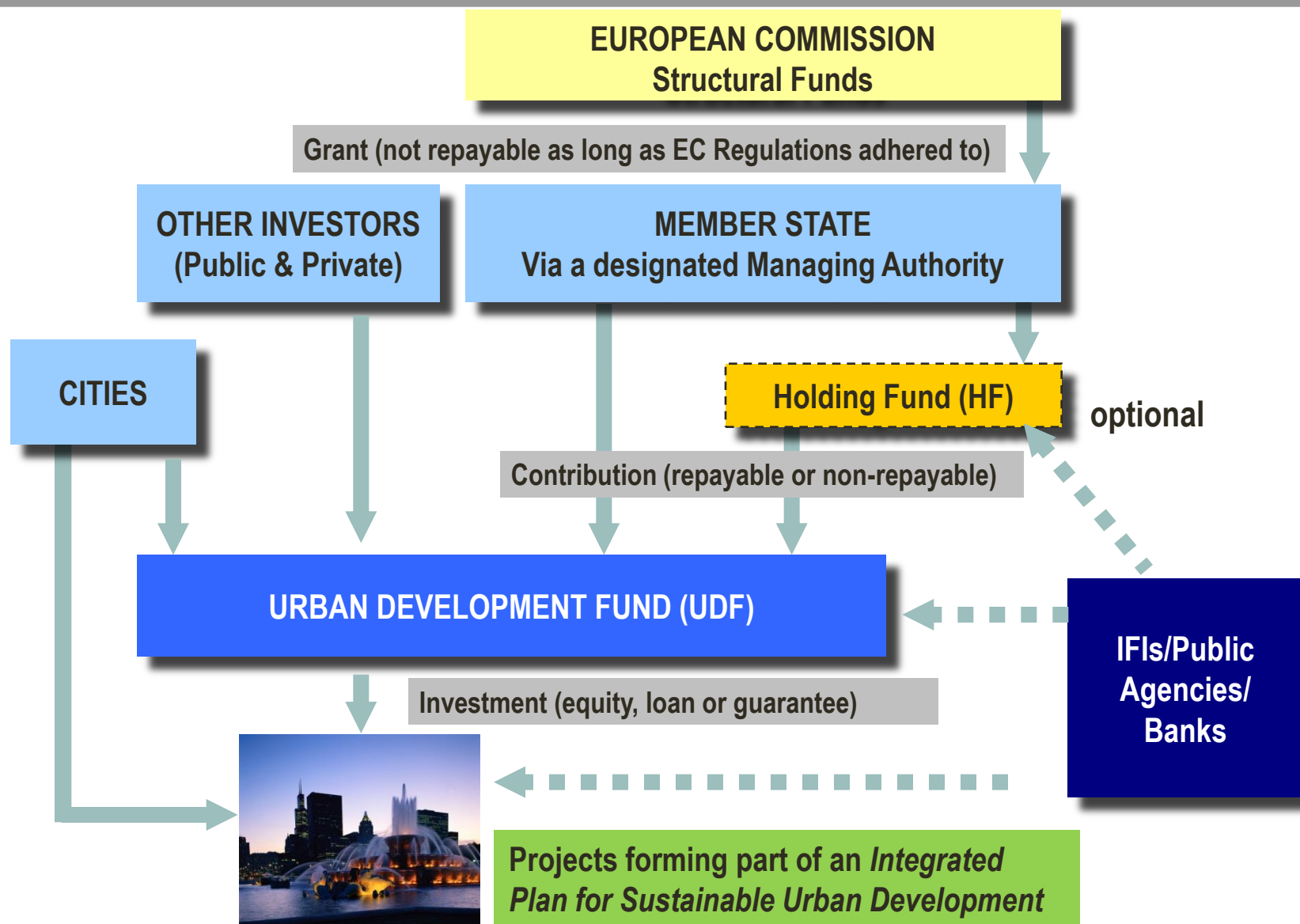
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*DISCLAIMER: The views expressed are purely those of the presenters and may not fully coincide with an official position of the European Investment Bank*

**Back-up**

# Traditional JESSICA implementation model



# Rationale of Financial Instruments



Hospital Redevelopment Project in Manchester, UK



Project funded by a JESSICA-type UDF in Salford, UK

1. Financial Instruments have high(er) risk tolerance and **take risks from urban projects** to enable projects which are stalled due to the absence of commercial banks from the market;
2. Promote **governance and incentive structures** that are build to enhance the rate and quality of absorption of EU funds for urban development projects given investment criteria;
3. Job creation starts in cities. Urban development is a **transversal objective** under which numerous sectorial objectives can be addressed:
  - R&D and education facilities
  - Office parks and business space
  - Tourism and leisure
  - Cultural sights
  - Energy savings and generation
  - other
4. Financial Instruments strengthen the **management capacity of local and central public authorities** for which Technical Assistance funds are readily available.

# Project examples Poland



Development of a multi-media communication centre for a publishing company, seat of the editorial staff and a training centre for volunteers; Private promoter; JESSICA Funding: est. PLN 1.5m.



Development of a multifunctional office and services building within the industrial park in Poznan; Municipal company; JESSICA Funding: est. PLN 18.5m.



Revitalisation, enlargement and adaptation of an old gasworks building for educational and cultural purposes; Local Government; JESSICA Funding: est. PLN 1m.



# Foresight Environmental Fund



## Provision of equity and risk capital for the development or expansion of:

- Waste to Energy and Fuel facilities, excl. incineration
- Recycling or re-use entities

Bank lending

Project sponsors

London Waste & Recycling Board

Pension funds/  
private investors

London Green  
Fund

ERDF  
£18m

UDF:  
£60m

Expected investment programme:  
more than £200m



TEG AD plant in Dagenham,  
Investment of £21m



**Foresight**  
group

# Case study: Soapworks in Salford – Northwest England



- Former Colgate Palmolive factory empty and in decay → public interest
- Project contains the revitalisation of the building and the provision of around 20,000 qm of flexible office space for a variety of users and sectors;
- **Challenge:** Access to finance for investors without pre-lets and rental agreements;
- **Opportunity:** high-performing location and cost-efficient office space;
- No funding → Evergreen (UDF) provides loans at attractive rates to enable project

more via <http://www.soapworks.co.uk/index.php>





# Soapworks, Salford



Interior Pre-development

9 of 16



Interior CQ1

10 of 16



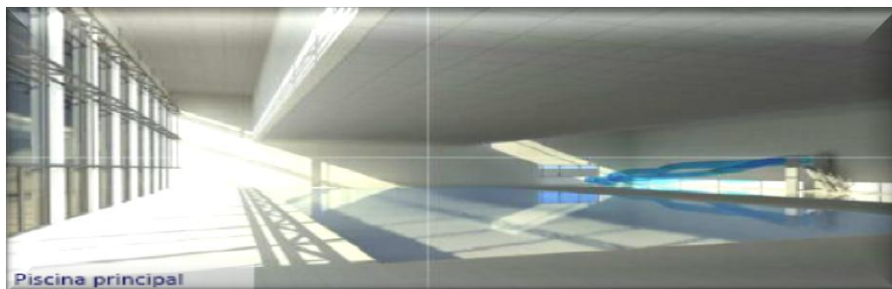
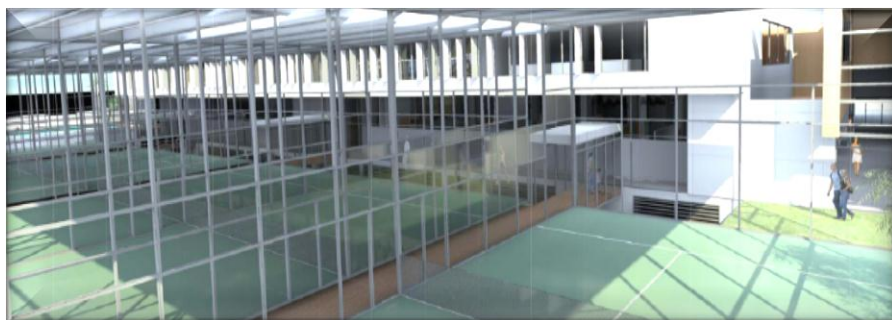
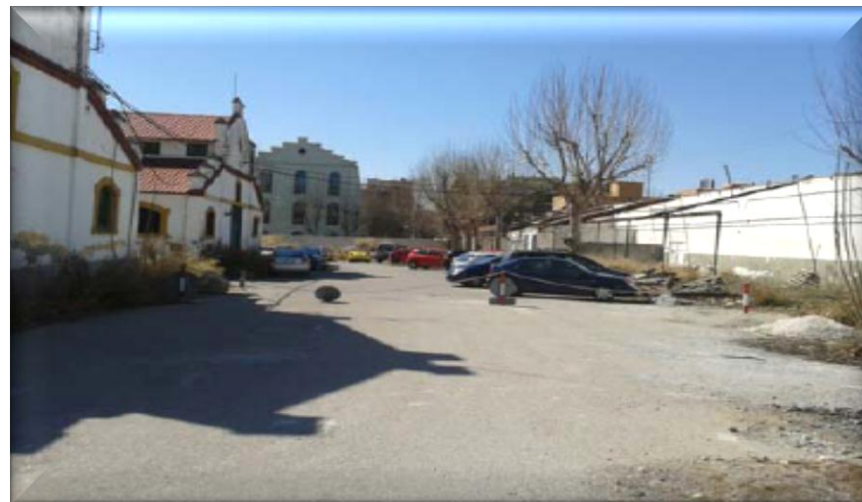
Exterior Pre-development

6 of 16



Work in Progress

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Piscina principal

Development of a sports centre, a shopping centre and an underground car park located in an abandoned site (former military use);  
Project contains eligible and non-eligible interventions (e.g. shopping centre is not eligible);  
Concession from the city to private operator;  
JESSICA Funding: est. EUR 10m (Equity + loans to project companies for sports centre and car park) – Total investment of around EUR 19.3m.



# Bulgaria – Case Studies

**Market gap: Lack of urban investment in areas where revenue generation seems possible:**

**Sports facilities; urban regeneration/infrastructure; energy efficiency and social infrastructure**

## Urban regeneration



**re-flow: increased property value**



### Reconstruction and repair of Zhenski Pazar in Sofia

Demolition of 7 existing and construction of 5 new buildings and of a substation. Surrounding area and infrastructure works (street lighting, plumbing, fire hydrants, wi-fi network; creation of green and recreational areas)

**JESSICA funding: EUR 1.8m**



**re-flow: tourism revenues and ticket sales**

### Bourgas

Transformation of the existing city underground bomb shelter into a modern interactive tourist attraction and art exposition centre

**JESSICA funding: EUR 0.36m**

## Cohesion Policy 2007 - 2013

Currently approximately 5% of ERDF delivered through Financial Instruments

### Examples

- Venture capital funds, guarantee funds and loan funds
- Urban development funds
- Funds, for energy efficiency and use of renewable energy in buildings
- Other risk sharing arrangements

## Cohesion Policy 2014 - 2020

### Implementation options:

- EU level: managed directly/indirectly by COM in line with FR.
- National/regional level: managed by or under the MA
  - Off-the shelf instruments: pre-defined, ready to use instruments allowing swift roll out
  - Tailored instruments (existing or newly created)

# Key requirements to projects

- Eligible under applicable provisions of the Structural Funds regulations
- Solid business model with committed partners (UDF mindset: bankable not thinkable)
- Economic viability of the intervention (usually project NPV > 0, revenue generating)
- Inclusion of projects in accordance with the integrated plan for sustainable urban development as well as the with policy goals and investment strategy of the OP
- Expected socio-economic impacts of the project in line with OP priorities
- Not eligible are (as a general rule):
  - (i) **Housing expansion**, with the exception of social housing or related investments in EE/RE,
  - (ii) **private** infrastructure
- Beneficiaries include:
  - Public sector entities (towns, municipalities, municipal companies, etc.);
  - PPPs;
  - Private Actors\* which were selected through public procurement. Beneficiary is the public entity carrying out the procurement.

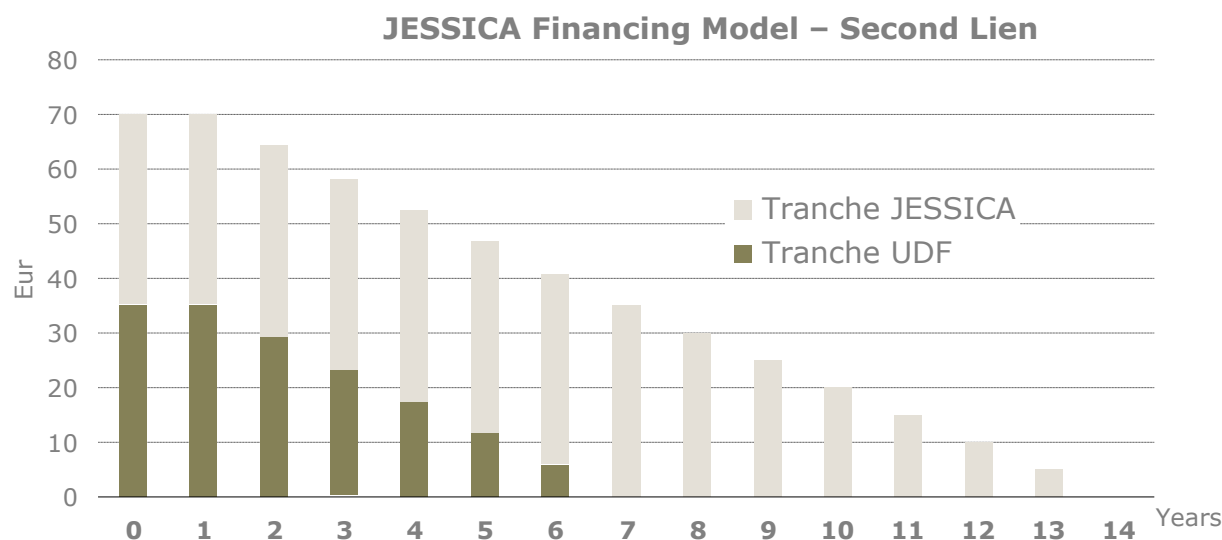
\*under certain circumstances, e.g. SMEs, alignment with OP goals, etc.

# Incentive structure/ financial instruments



Pari passu and second lien loans as well as equity products are available under JESSICA. The most attractive product so far is the second lien loan. Its key strengths according to beneficiaries are:

- Long Maturity (due to combined tranche structure)
- Pricing (that may be further enhanced when BPI is able to use the EIB framework loan)



Longer maturity than current market offer.

Up to 20 years

Great market acceptance

## Actions taken:

- State aid clearance on second lien products is ready but need to be submitted to DG COMP by national authorities
- Equity funds have been approved by the Portuguese securities commission