



ФОНД ЗА УСТОЙЧИВО  
ГРАДСКО РАЗВИТИЕ  
НА СОФИЯ

FUND FOR SUSTAINABLE  
URBAN DEVELOPMENT  
OF SOFIA



# JESSICA initiative - nature and mechanism for implementation in Bulgaria. Opportunities and challenges.

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## FEIs and JESSICA

- During the programming period 2007 - 2013 several instruments and initiatives at European level are applied to maximize the efficient and sustainable use of Structural and Cohesion Funds. These initiatives are based on experience in the field of financial engineering, which ensures that they will maintain their impact and contribute to the long term development of the regions.
- In the context of the dynamic and investment character of European cohesion policy and the current uncertain economic climate, financial engineering instruments should be seen as a part of the strategy aiming at promoting long-term sustainable growth in European regions.
- **JESSICA - Joint European Support for Sustainable Investment in City Areas**, is an initiative of the European Commission developed in co-operation with the European Investment Bank (EIB) and the Council of Europe Development Bank (CEB), which started in 2006. It gives the opportunity to EU countries to invest some of their EU structural fund allocations in revolving funds to help recycle financial resources to accelerate investment in Europe's urban areas.

# Innovations of JESSICA



- Transition from financing schemes providing grants to financial engineering and revolving financial instruments thus making Structural Fund support more efficient and effective and creating stronger incentives for successful project implementation;
- Ensuring long-term economic viability of urban projects by encouraging the development of public-private partnerships and private investments;
- Mobilization of additional financial resources for public-private partnerships and other urban development projects with a focus on sustainability/recyclability;
- Ensuring long-term sustainability through the revolving character of the financial resources.
- Provision of financial and management skills from international financial institutions such as the EIB;

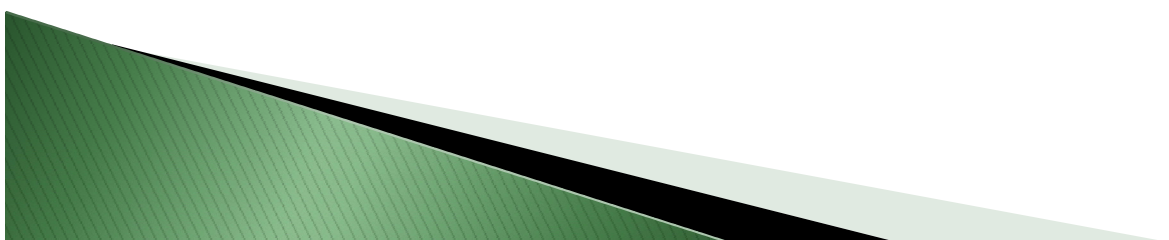




# Background of JESSICA initiative in Bulgaria



- ▶ The JESSICA initiative has been launched on the 29th July 2010 with the signature of a **Funding Agreement** (entered into force since 19th October 2010) between the Government of Republic of Bulgaria and the European Investment Bank as a JESSICA Holding Fund in Bulgaria.
  - Contribution to JHFB: EUR 33 m
  - Priority Axis I “Sustainable and Integrated Urban Development”
- ▶ The purpose of JESSICA in Bulgaria is to provide loans, guarantees and equity through Urban Development Funds (UDFs) to Urban Development Projects and Public-Private Partnerships – municipalities, private investors and PPPs in the seven largest cities of Bulgaria - **Sofia, Plovdiv, Varna, Bourgas, Rousse, Stara Zagora and Pleven.**
- ▶ Publication of Call for EoI: 31 March 2011
- ▶ Financial intermediaries selected:
  - **Regional UDF**
  - **Fund for Sustainable Urban Development of Sofia**

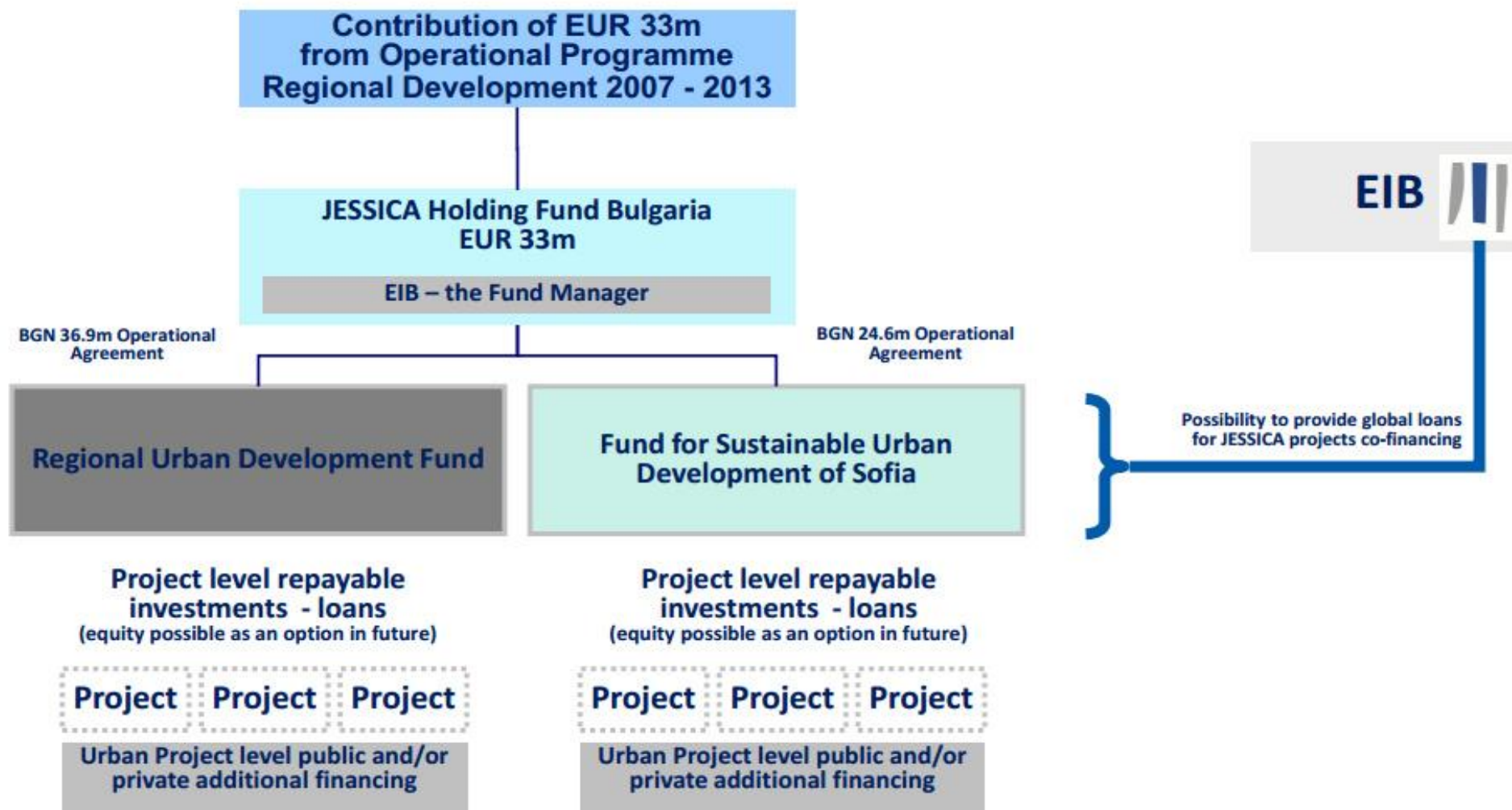






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# Structure of JESSICA in Bulgaria





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# Fund for Sustainable Urban Development of Sofia



- On 30th May 2012 was signed the **Operational agreement** between European Investment Bank, FSUDS and FLAG for providing of a Contingent loan to FSUDS in its role of UDF of Sofia at the amount of BGN 24,6 mln. FLAG provided another BGN 24,6 mln. as a co-financing for the purposes of the UDF;
- The FSUDS activity for financing of urban projects of the Municipality of Sofia is under the supervision of the **JESSICA Holding Fund for Bulgaria** organised as a “separate block of finance” within the European Investment Bank.
- The Holding Fund is set up to invest in more than one Urban Development Fund, which is considered to produce the best possible leverage effects for public resources contributed by the operational programme. It is however not a regulatory requirement to select more than one financial engineering instrument.
- FSUDS finances projects with significant socio-economic impact on the territory of Sofia city, by providing long term low-interest loans.

# Entities Eligible for Funding by FSUDS



- Municipality of Sofia,
  - Commercial companies (business entities) in which Municipality of Sofia owns over 50 per cent of the capital;
  - Other municipal public bodies of the Municipality of Sofia under the Public-Private Partnership Act;
  - Public-private companies established under the terms and stipulations of the Public-Private Partnership Act involving the Municipality of Sofia, or its municipal public bodies/organizations under the Public-Private Partnership Act;
  - Contractors involved in public-private partnership(s), where the Municipality of Sofia is a party, or municipal public bodies under the Public-Private Partnership Act.
- 
- Other legal entities including private investors.

## General Requirements for Eligibility of an Urban Project: (1)



1. **The project should correspond to the objectives and scope of eligible activities under Priority Axis 1 "Sustainable and Integrated Urban Development" of the Operational Programme "Regional Development 2007-2013" covering the following priority areas:**
  - ▶ Provision of appropriate and cost-effective educational, social, health and cultural infrastructure and improvement of its energy efficiency;
  - ▶ Improvement of the physical environment and risk prevention by restoring degraded or undercapitalized urban infrastructure, which may include all eligible indicative activities under Priority axis 1, industrial zones, business, shopping and entertainment centers, sports facilities;
  - ▶ Sustainable urban transport systems through modernization and development of infrastructure networks for public transport and communications and related infrastructure, including systems for traffic management parking and other facilities for the improvement of transportation systems;





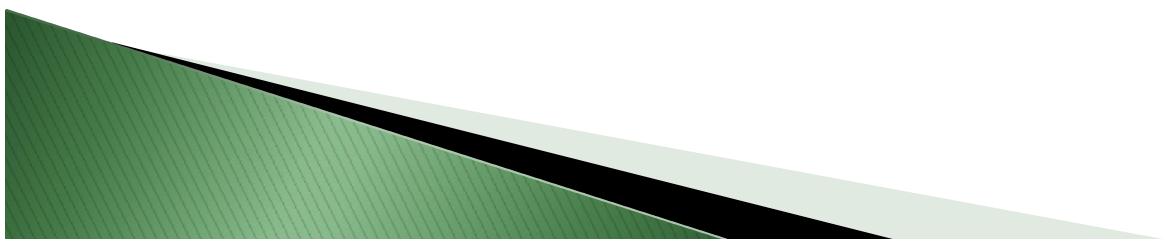
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## General Requirements for Eligibility of an Urban Project: (2)



**2. The project should be a part of an Integrated Plan for Urban Reconstruction and Development of the City of Sofia from 2014, or a part of the special municipal plans (Municipal Development Plan, General Spatial Plan and Detailed Spatial Plans) in 2013;**

An integrated plan for sustainable urban development comprises a system of interlinked actions which seeks to bring about a lasting improvement in the economic, physical, social and environmental conditions of a city or an area within the city. Since 2014 the projects that apply for financing should fall in the areas of impact of IPURD, which is in process of developing.



## General Requirements for Eligibility of an Urban Project: (3)

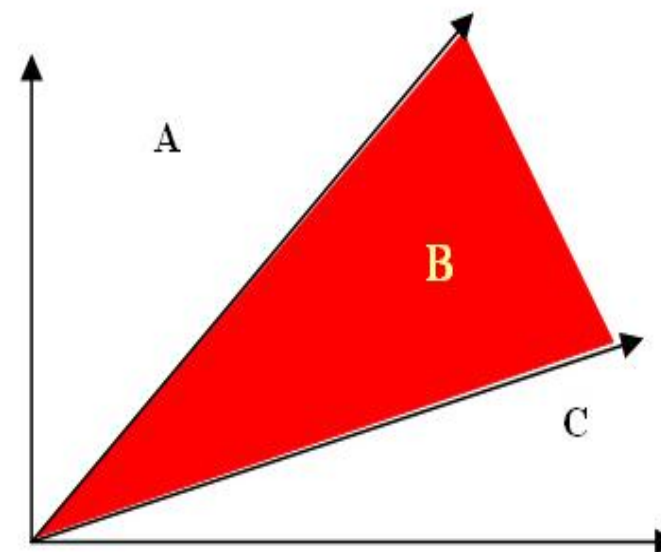


3. The project should be structured in a way that **generates revenues sufficient to repay** the funds received by the FSUDS. The investment parameters of projects financed by the FSUDS shall not allow its implementation on purely commercial terms.

**JESSICA finances projects TYPE B.**

**Projects type A are financed by the market.**

**Project type C are financed through grants.**



## Stages of application



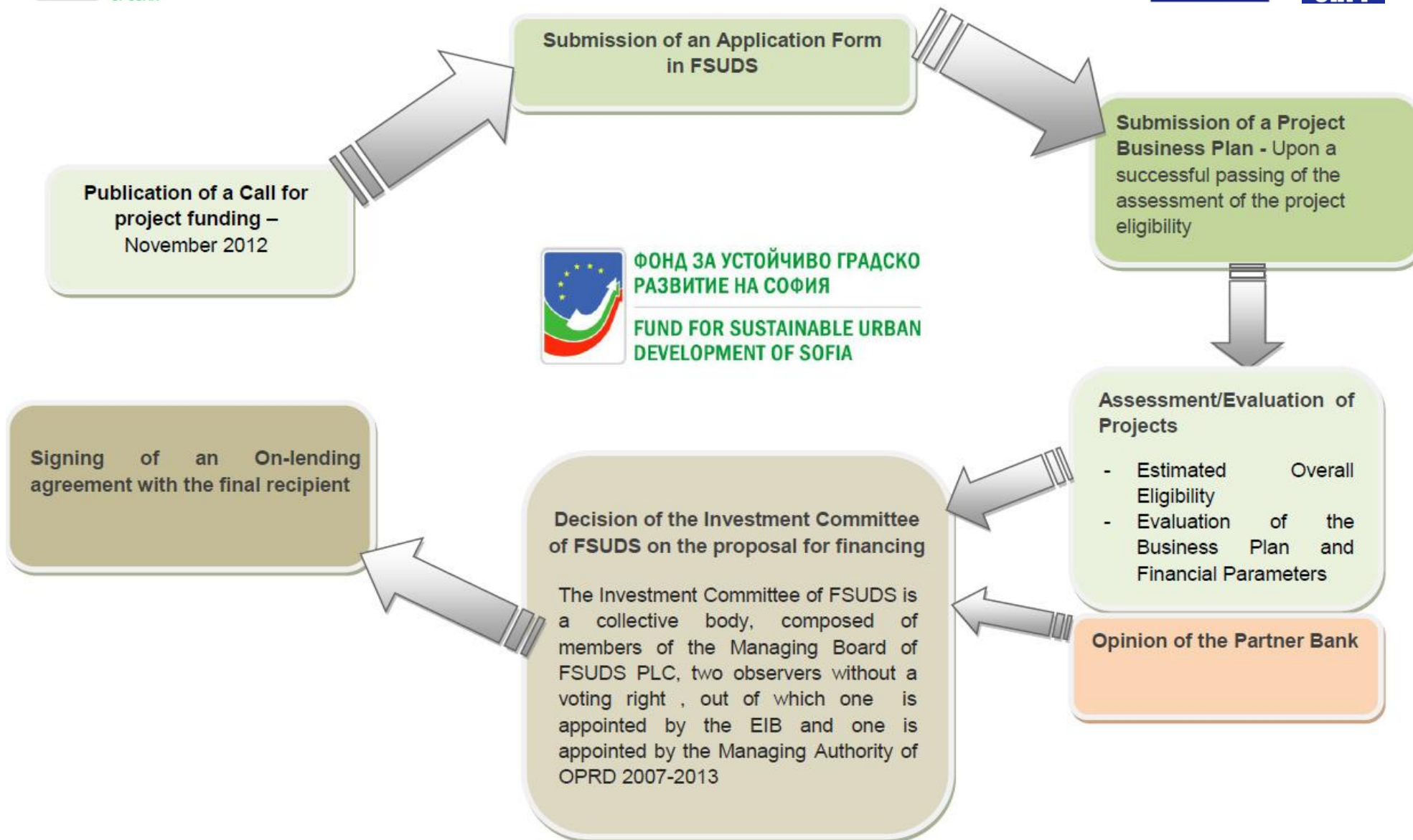
- **Stage 1 - Submission of completed application form and supporting documents in the office of FSUDS.**
- **Stage 2 - Submission of a business plan** - Upon successfully passing the assessment of the eligibility of the project, FSUDS invites the final recipient to submit updated business plan of the project, and information about the structure of the loan and the collateral offered.
- The application form under form is available on the website of FUGRS - [www.jessicasofia.com](http://www.jessicasofia.com)





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# Application cycle







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## Approved projects



- ▶ **First stage of project "Reconstruction and capital repair of Zhenski Pazar Sofia" - loan amount (BGN) 7 086 911. Main activities:** construction of 6 new buildings and a substation; replacement of pavement on the roadway and sidewalks, building of areas for temporary (holiday and seasonal) markets, and old crafts workshops; repair and replacement of underground and surface infrastructure (street lighting, plumbing, fire hydrants, Wi-Fi network, etc.); creation of green and recreational areas.
- ▶ **Reconstruction of Market Complex "Vrubnitsa" - loan amount (BGN) 1 000 000. Main activities:** construction of pavillions, cover structure and engineering infrastructure. In the pavilions will be located stores and craft shops, an amphitheater with a stage will be built, commercial equipment will delivered, the area will be landscaped with lawns, pedestrian and vehicle lanes.





# Main problems and challenges

- **Delays in establishing FEIs/JESSICA** - the Stocktaking Study concluded that they can be attributed to the 'newness' of FEIs and how the current EU regulatory framework is more suited to Grant funding than more market orientated repayable investments, requiring time and substantial clarification to be sought to design FEIs appropriately in accordance with required regulations.
- **Tight investment frames:** 50% by 31<sup>st</sup> December 2013;p 80% by 31<sup>st</sup> December 2014, 100% by 30<sup>th</sup> June 2015;
- One of the main challenges is the **lack of familiarity in the public sector around repayable forms of financing**. Grants which are viewed as less complex, thereby inhibit demand even where projects are suited to revolving mechanisms.
- The volatile economic climate and the complex nature of urban development adds a risk factor, which is combined with political risk and a potential lack of political will;
- **State Aid issues** - many MAs have not been well-prepared and may not have given enough thought to State Aid considerations at an early enough stage in the process.
  - **Independent Experts:** a short-list of independent experts, selected by EIB, in compliance with the State aid notification - unforeseen expense associated with the payment of service for independent expert assessment for determination of the Fair rate of return (FRR).

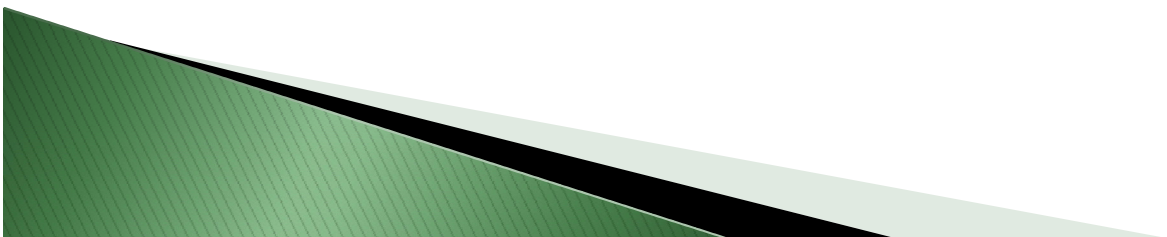


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## Major advantages of JESSICA loans



- **Long-term loans** - up to 23 years;
- **Favorable interest terms** - loan includes financing with funds provided by OPRD and funds of FSUDS:
  - The price of the financial resources of the EIB, which will be determined on the basis of the actual needs of the project so that to ensure a Fair Rate of Return for the project promoter, taking into account any applicable State Aid rules;
  - The price of the financial resource of the FSUDS: 6-month EURIBOR + 3.5% + a risk premium (amounting up to 3%).
- **A wide range of potential final recipients in the implementation of socially significant urban projects.**
- **Preparation for the next programming period 2014-2020 and its challenges.**



# JESSICA in the next programming period 2014-2020



- ▶ Need for greater clarity and agreement on interpretation of the eligibility rules, and greater certainty on the regulatory framework;
- ▶ Combination of FEIs and other forms of support incl. grants (in a single or in separate operations);
- ▶ Where experience in UDF-type models and PPPs is limited, utilising the expertise of EIB is still seen as crucial. Establishment of a HF was seen to provide significant advantages such as independent and professional management, a more comprehensive and diversified UDF structure, the ability to leverage funds and attract more private investors, a better balance among different funds and a better transfer of know how.





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