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# Innovative financial instruments from the City of The Hague

**Ton Overmeire,**  
Holding Fund manager and ERDF programme manager



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Making financial instruments work for cities

# FI Campus

*Innovative Financial Instruments from the City of The Hague*



Ton Overmeire,  
Holding Fund manager and ERDF programme manager

*Brussels, 29 November 2017*

Connecting cities  
Building successes



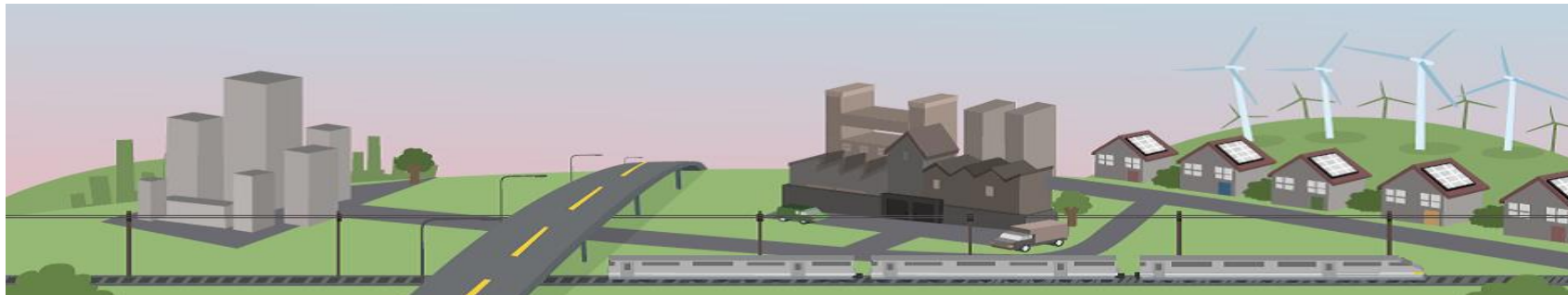
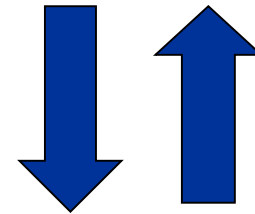
# Why JESSICA

*Joint European Support for Sustainable Investment in City Areas*

Grant



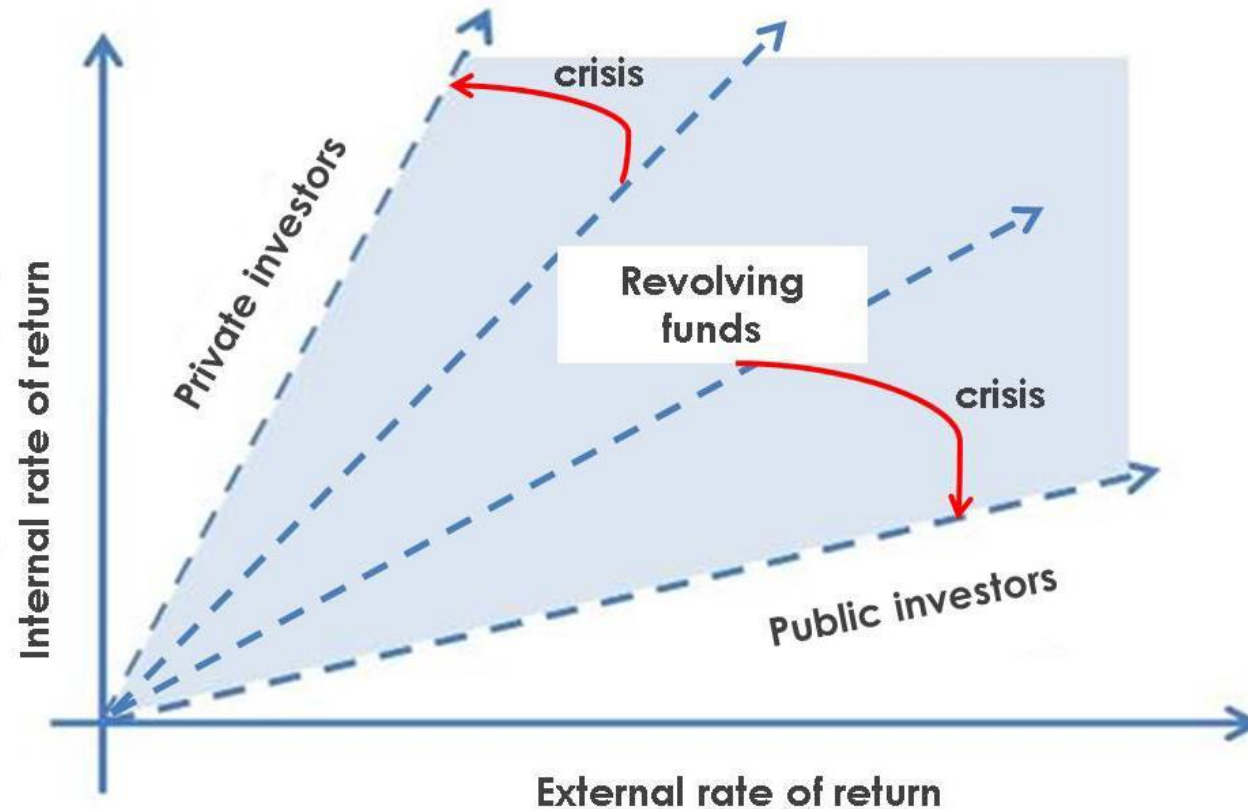
Financial Instrument



# Why Jessica

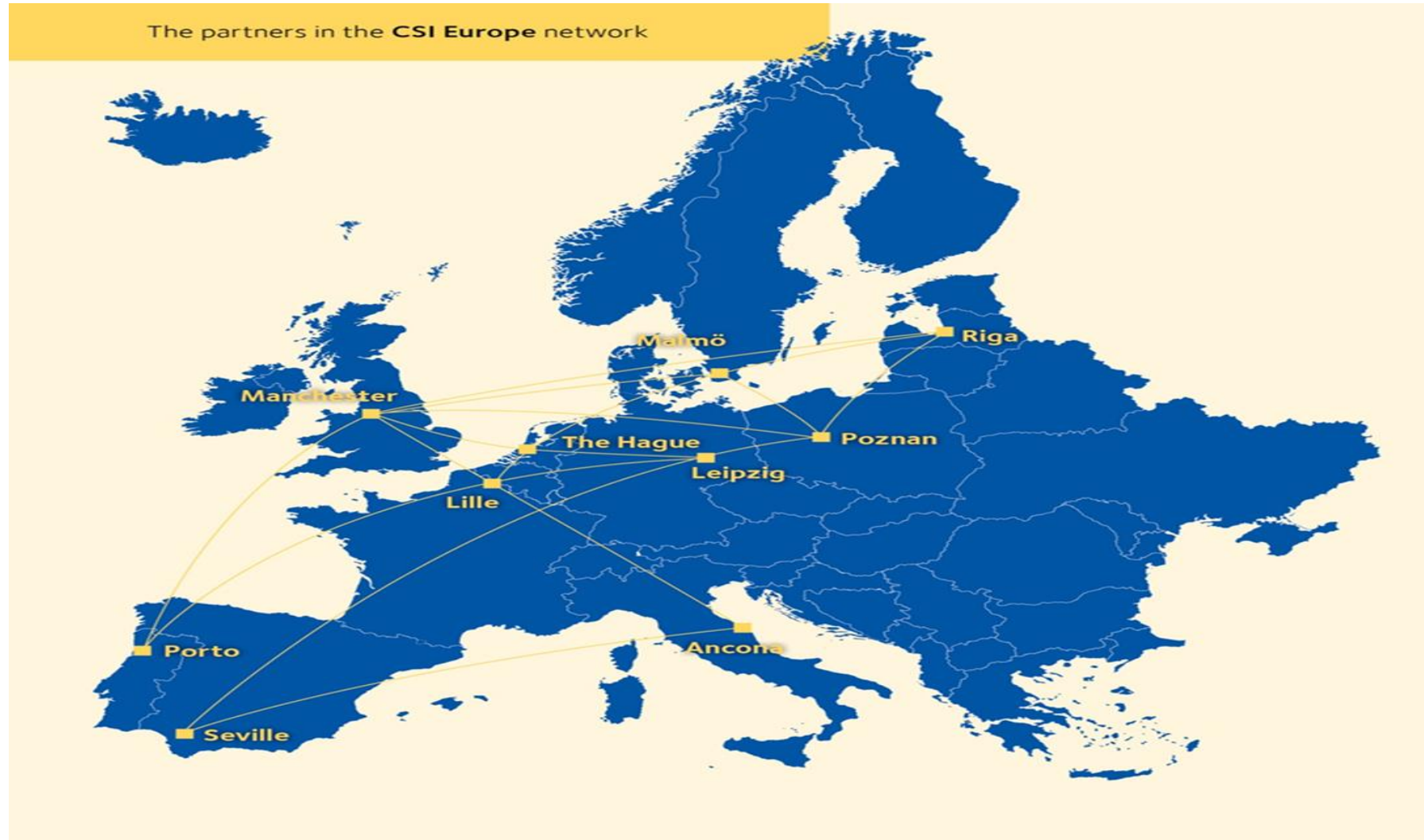
*Joint European Support for Sustainable Investment in City Areas*

- **Increased investment needs while public resources are scarce**
- **Growing emphasis on the need for an Integrated Urban Development Policy**

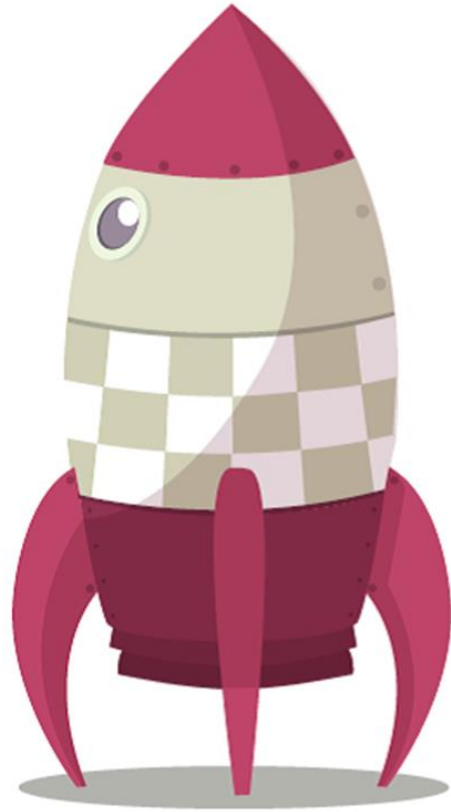


# CSI EUROPE

Making Financial Instruments Work for Cities



# HOW TO BUILD A ROCKET



# THEME PAPERS



## 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 grants is that the investments will be repaid and the money will be available for reinvestment to further projects in the future.
- A well implemented FI will have a robust and streamlined governance framework that assesses professional and 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



## CSI EUROPE REGULATION AND FINANCIAL INSTRUMENTS

### THEME PAPER 1

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### KEY MESSAGE

- The regulatory framework for financial instruments is in Arts 37-48 of the Common Provisions Regulation (No 1303/2013) (CPR) and Arts 4-14 of the Delegated Regulation (No 480/2014) (DR). Art 19 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. EGF 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 as defined maximum fee rates, phased disbursement 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.



## CSI EUROPE TECHNICAL ASSISTANCE AND FINANCIAL INSTRUMENTS

### THEME PAPER 4

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### 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
- 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 EGF resources. This will provide a valuable resource that cities, Managing Authorities and their partners can access to help implementation of financial instruments.



## CSI EUROPE 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 grants. Therefore cities should work with Managing Authorities to manage the "out-of-the-box" required amongst public servants and private stakeholders.
- A City can be entrusted to implement its own EGF 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.




## 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 facilities 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.



## CSI EUROPE FINANCIAL INSTRUMENTS AND URBAN DEVELOPMENT

### THEME PAPER 5

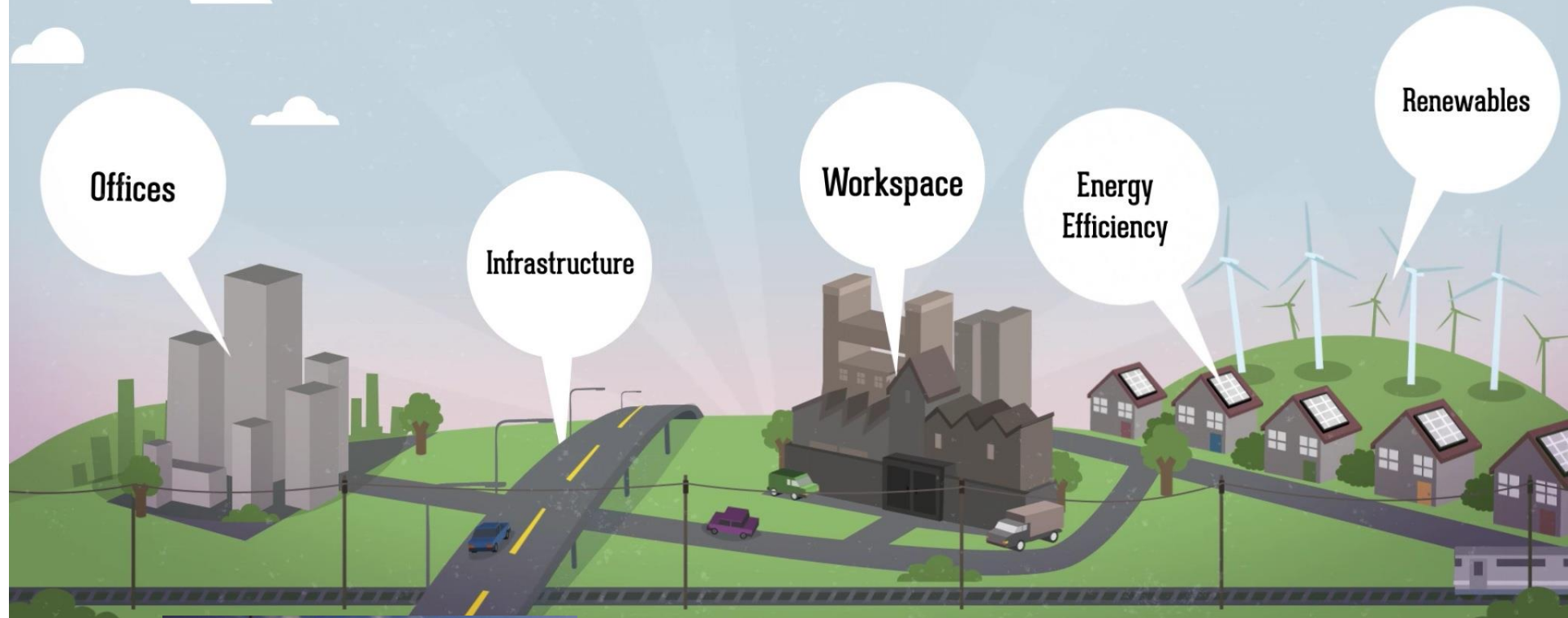
The CSI Europe network was established under the URBACT programme with a mission to make financial instruments work for cities. This series of Theme Papers introduces the key issues for successful implementation of financial instruments to support urban development through loans and other investments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

### KEY MESSAGE

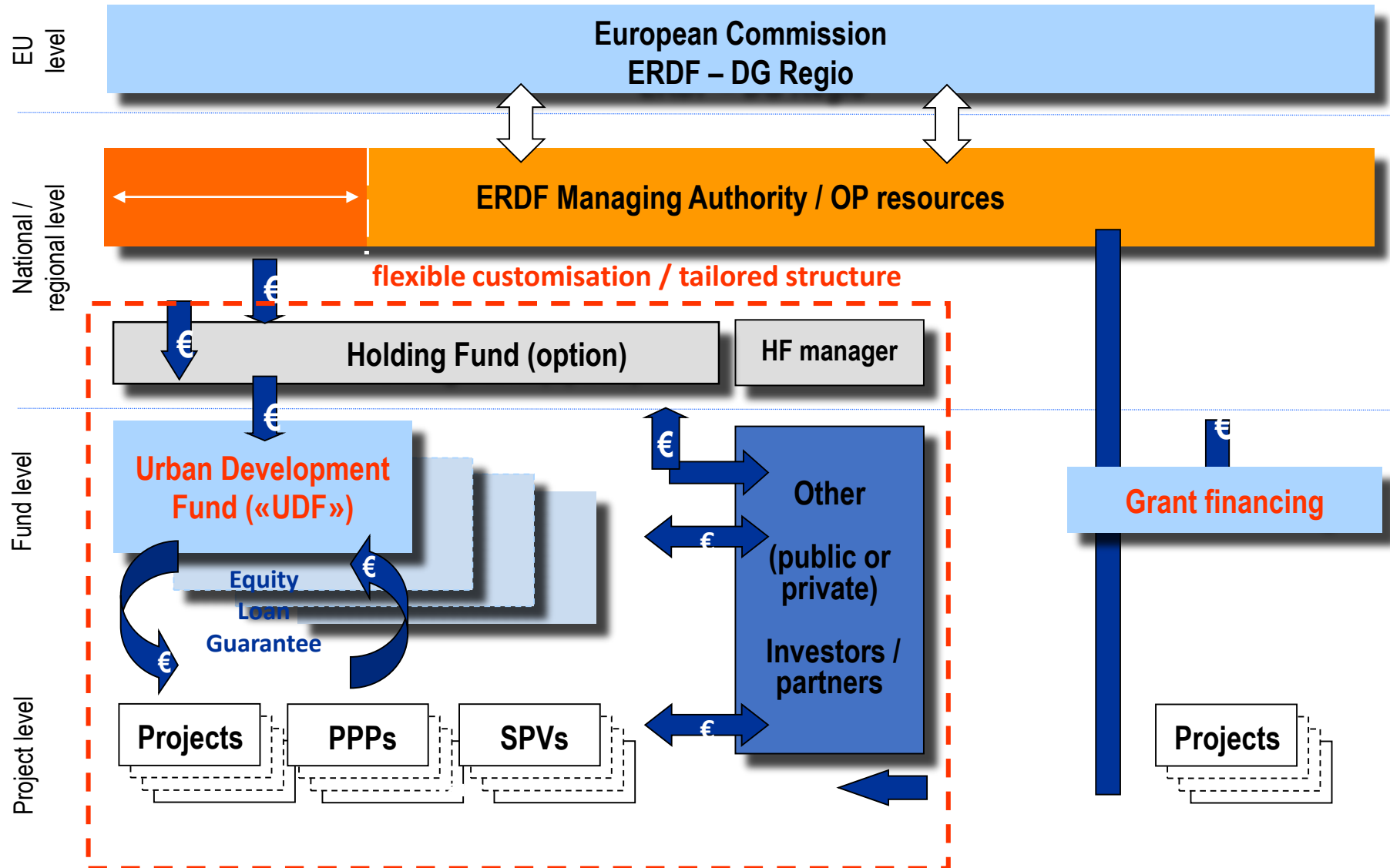
- The implementation of financial instruments requires these public sector skills to be blended with the skills traditionally found in banks and other financial institutions that govern project approval and underwriting of investments. Financial instruments use Fund Managers with this expertise who will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



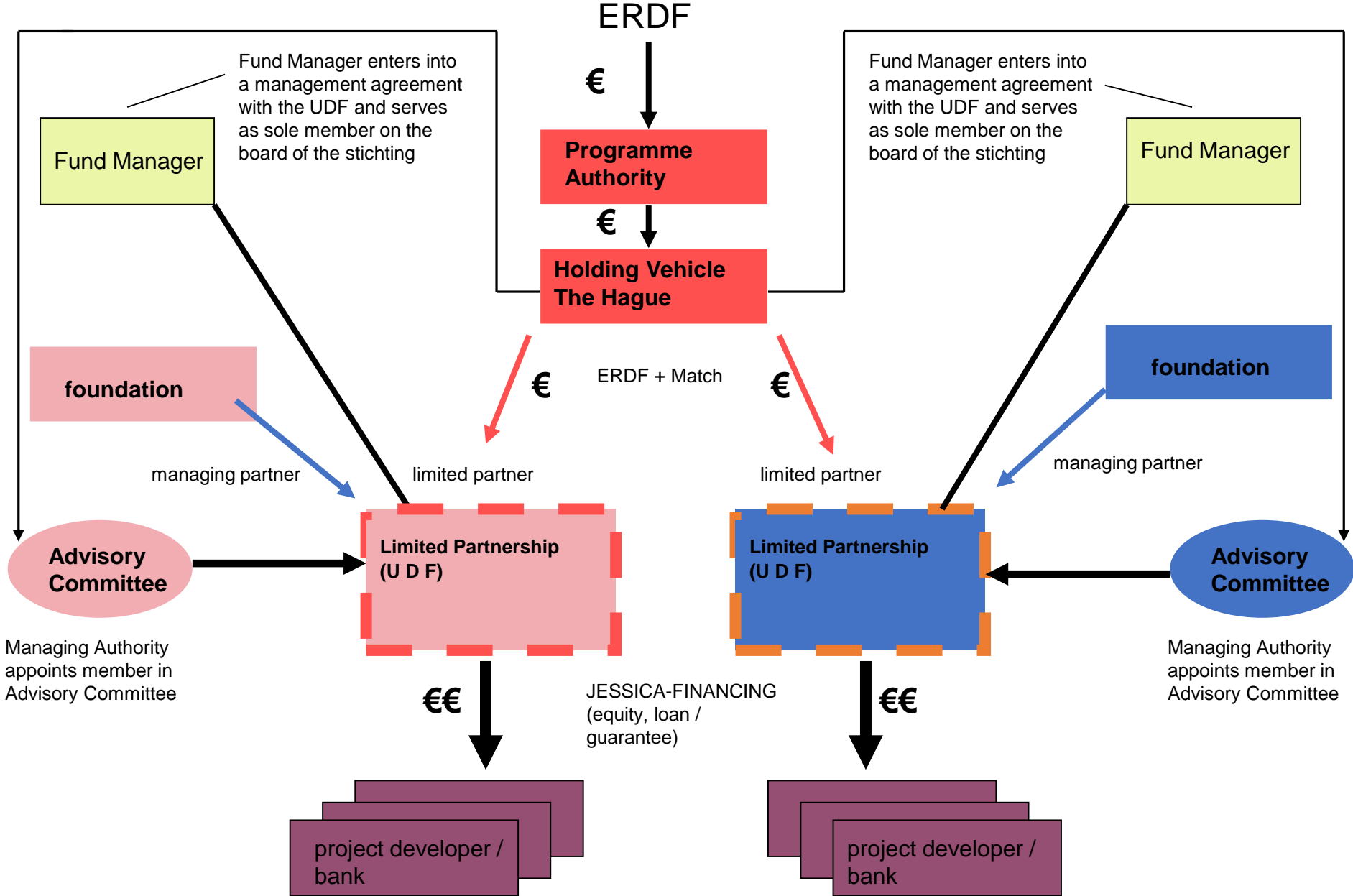
# Integrated Sustainable Urban Development



# JESSICA key components

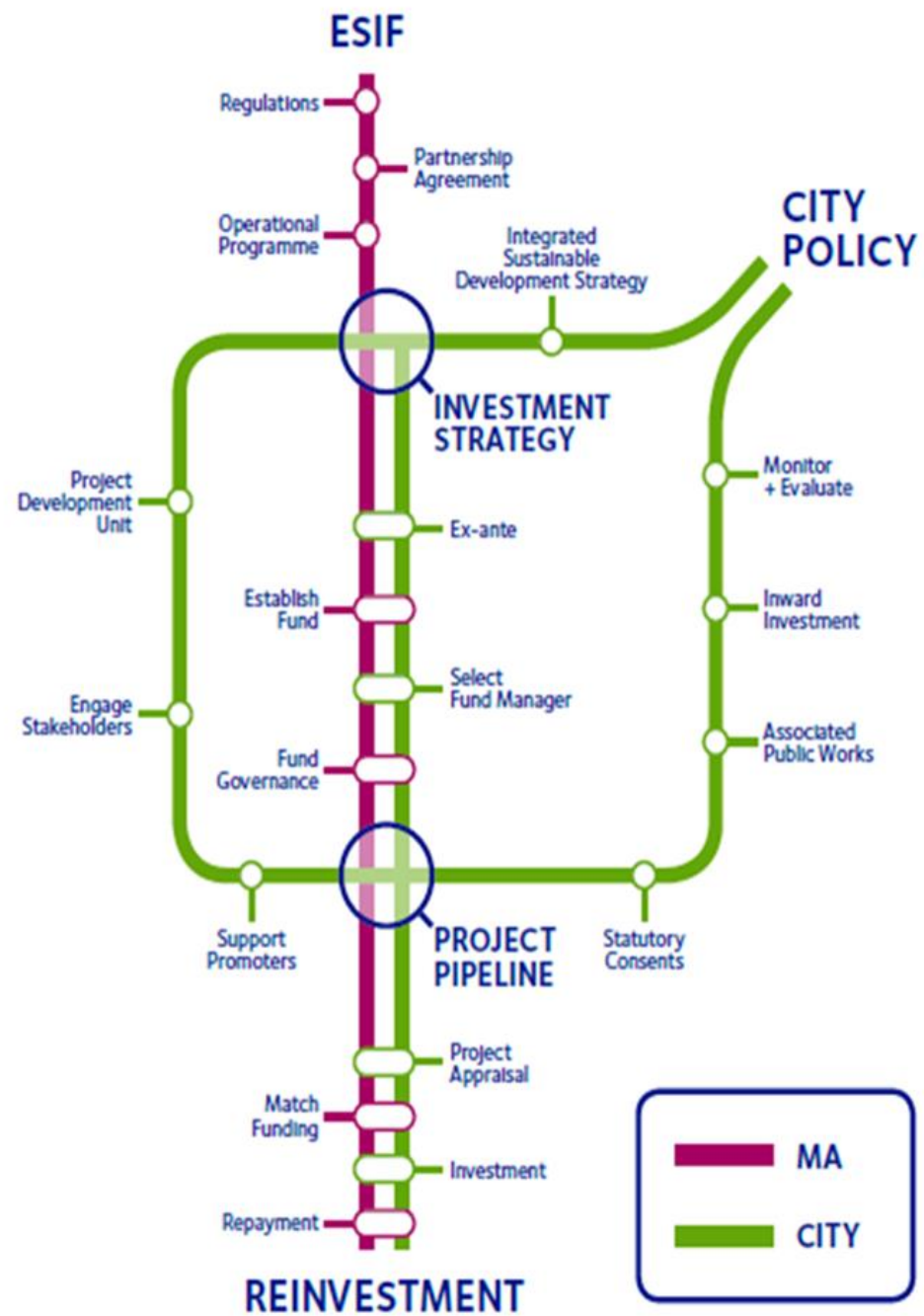


# Financial Instruments Structure for The Hague



## How we started our revolving fund structure.

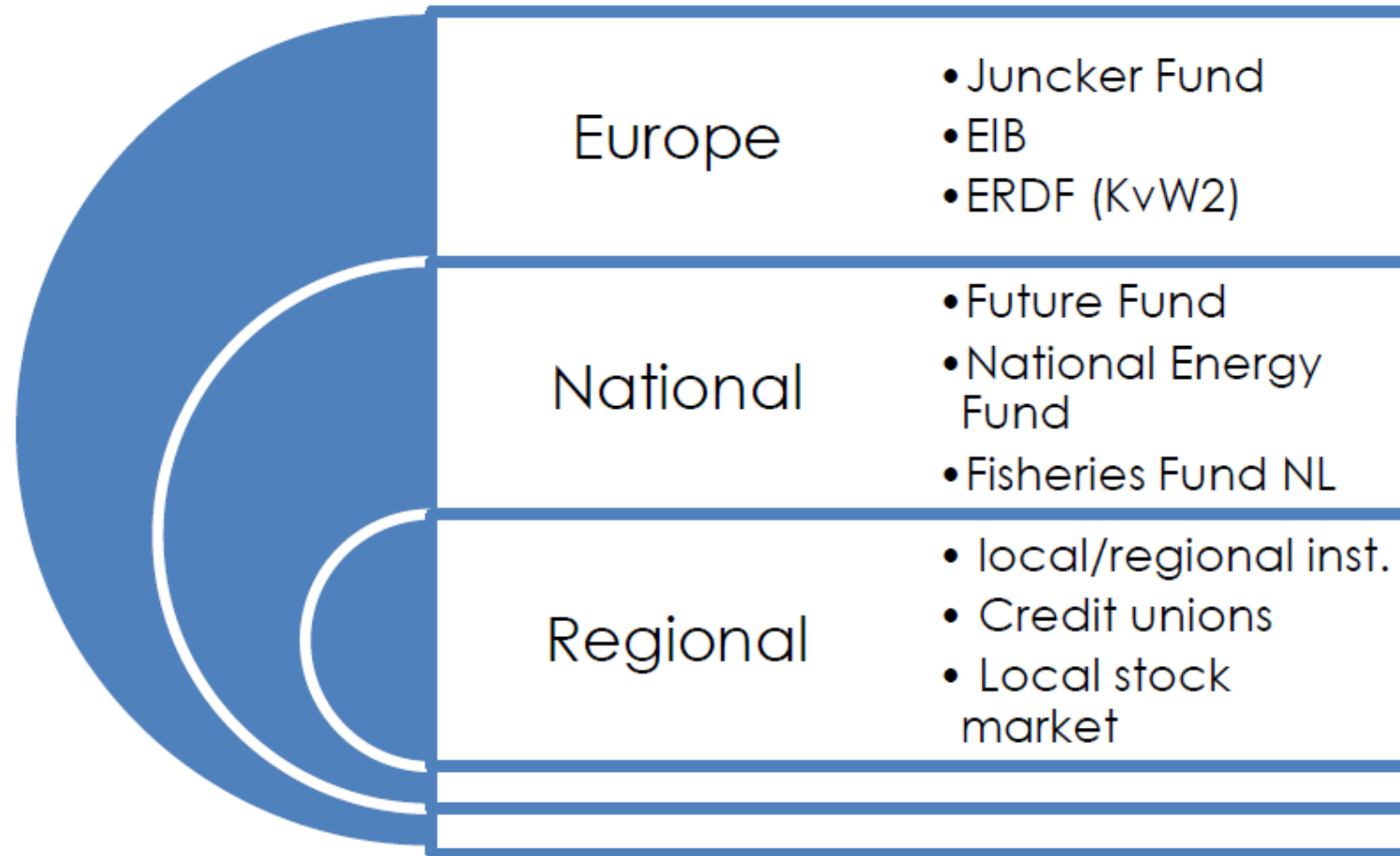
- There was the political awareness and willingness to “let go”;
- We acknowledged market failure;
- We developed a flexible investment strategy based on city policy;
- We did a state aid notification;
- We organised a competitive procurement of fund managers;
  
- ....But we forgot to organise the project pipeline.



# Development of FIs in The Hague

	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017:</b>
Offices	4,8mln	4,8 mln	7,1 mln	14,3 mln
Renewables	4,0 mln	4,0 mln	10.9mln	17,9 mln
Fishery	3,5 mln	3,5 mln	3,5 mln	1,5 mln
Energy efficiency				8,0 mln
Innovation			4,0 mln	6,0 mln
SME's			1.5 mln	1,5 mln

# Future development of FIs in The Hague



## **From Jessica 2007-2013 to Jessica 2014-2020**

- Ex-ante assessment before establishing the fund
- Flexibility investment strategy
- Pipeline development
- Phased drawdown of funds into the Financial Instrument