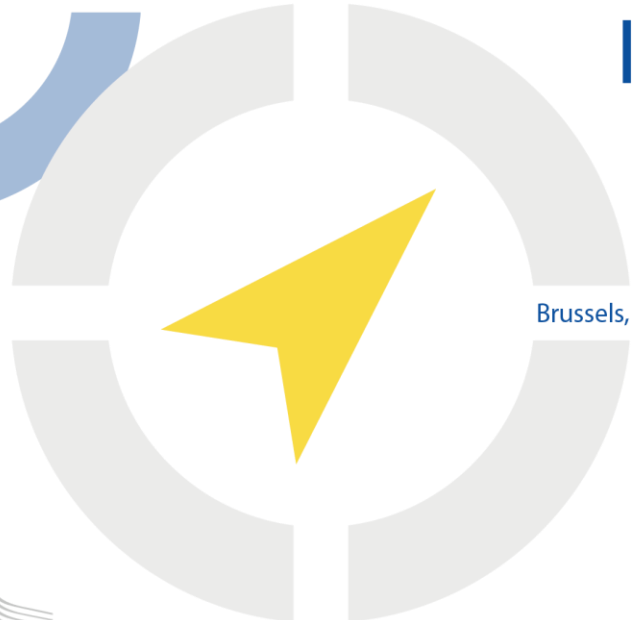




Financial Instruments 2014-2020 under European Structural and Investment Funds (ESIF)



Brussels, 19-20 January 2015

*CSI Europe – Making Financial Instruments
Work for Cities*

Des Gardner,
CSI Europe Project

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CSI Europe – Making Financial Instruments Work for Cities

fi-compass Information Session - 20th January 2015

Des Gardner



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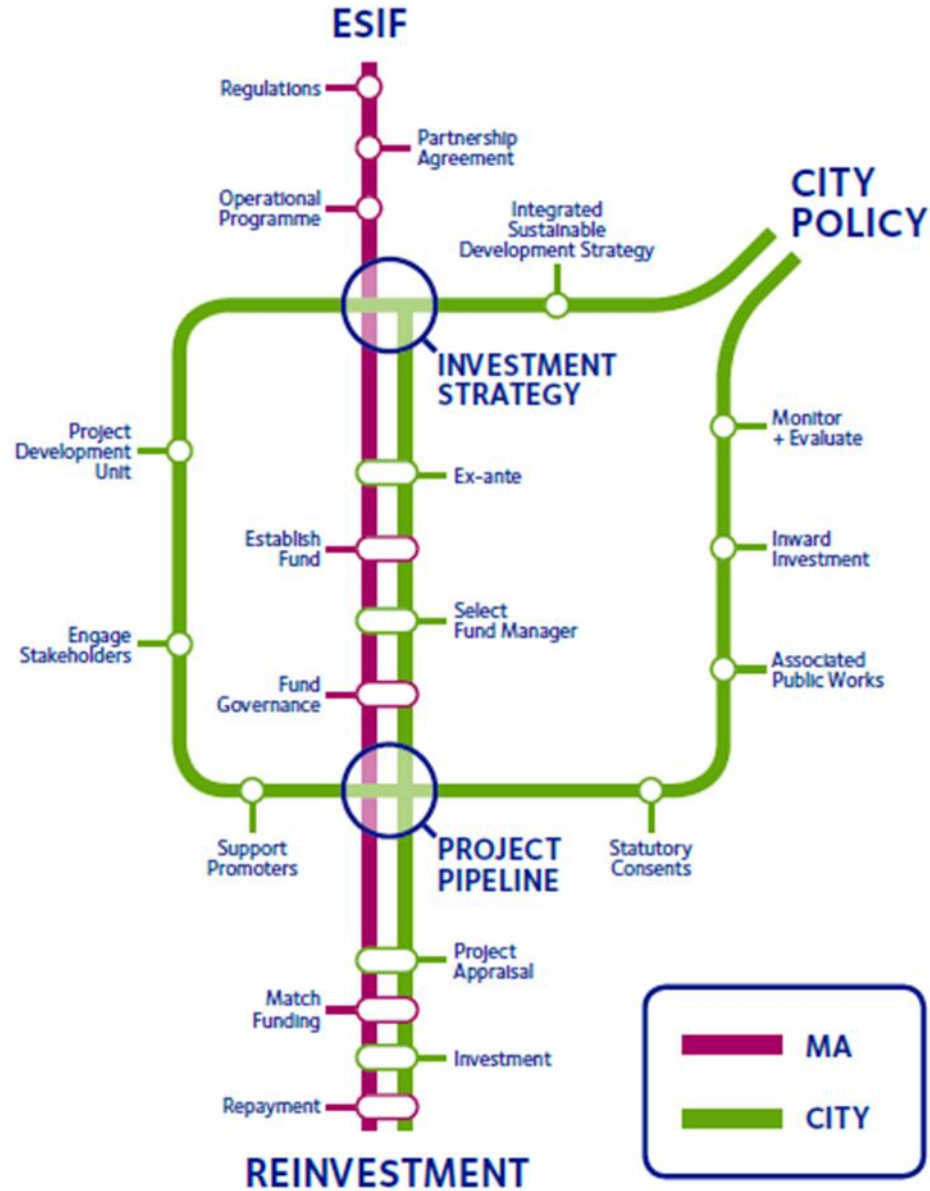
CSI EUROPE - THE KEY THEMES



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CSI Europe Route Map





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 loans. 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.



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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.

CSI EUROPE STATE AID AND FINANCIAL INSTRUMENTS

THEME PAPER 2

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.

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

- Financial Instruments (FI) 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 FI 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.

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 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 as they should make sure they are the experts and use flexibility to their full potential.
- The General Block Exemption Regulation (GBER) provides a safe and fast way to secure State aid compliance and should be used by cities.
- Other GBER notified support.

CSI EUROPE GOVERNANCE AND FINANCIAL INSTRUMENTS

THEME PAPER 3

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 to make the best use of financial instruments and resources need to be mobilised so that public and their private sector stakeholders understand instruments and how to use them to fund their projects.
- Technical Assistance is needed who can engage managers and project promoters in an informed way should look to their existing staff to identify with the skills appropriate for the work such as 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.

FINANCIAL INSTRUMENTS

FI 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 approval of investments, pricing of the loan and monitoring of the delivery of the project. The advantages of FI go beyond recycling investment funds.

WHAT IS STATE AID?

The State aid rules are set out in the European Treaty and govern Member State's "selective" "undertakings" where it gives them an advantage in a competitive market. The use of European Structural Investment Resources, whether by grant or investment through a financial instrument (FI), is the same aid rules.

The ESIF European Commission requires that FI 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.

PATHWAYS TO COMPLIANCE

This paper describes four ways in which FI established to support urban development can ensure compliance: "No-aid", De-minimis, GBER, and Notification.

This means identified FI design the by reference. For example, the aid is limited. On the other hand, large funds will be notified.

KEY MESSAGE

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

COME TO THE FUTURE

The implementation of financial instruments requires these public sector skills to be transferable 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 need a background in urban development. Therefore cities need to longer that go and must understand what Fund Managers require to enable them to effectively perform the task.

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 (FI) rather than grant. As a result the regulatory framework is designed to help ease the implementation of FI over.

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, measures including the ring-fencing of integrated actions for sustainable urban development by cities and setting up the Urban Development Partnerships (UDPs) that will allow cities to directly engage with Managing Authorities. This should be the opportunity to establish a strong Urban Development Partnerships (UDPs) that will allow cities to directly engage with Managing Authorities to help design and

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 legal framework to receive ESIF funding in the future.

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 FI, they will start to develop schemes to take advantage of the investments. Helping shape the process better than successful schemes only delivering development at the ground through

GOVERNANCE: AT FINANCIAL INSTRUMENT LEVEL

There is no single model for good governance of a FI. Funds can be managed by financial institutions 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, at the start of a FI, a City leading on the establishment of an FI as a separate vehicle supported by an independent fund manager.



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5th February 2015

Save the date



Let's rethink the ways of financing urban development!

CSI EUROPE final conference will show you how!

Join URBACT's CSI Europe Network at an energetic 1-day conference in Lille Métropole on 5th February.

The CSI Europe partners all share a common objective: to make financial instruments work for cities, responding to city strategic priorities for urban development.

In the past 2 years, cities and experts all over Europe have been building on the different experiences in relation to financial instruments and urban investments. This event focuses on the future models for investment.

When: 5th February 2014

Location: Lille Métropole – 1 rue du Ballon – France

Registration: free of charge, coming soon!

