



Financial instruments for urban development and public infrastructure

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The use of financial instruments in the energy and waste sectors in the Programming Period 2014-2020 - Ex-ante study

Four sectors analysed in the ex-ante study under an OP:

- **Renewable energy sources (RES)**
- Energy efficiency (EE) in large enterprises
- EE in multi-residential buildings
- Waste incineration plants



RES market features

- **RES support system** based on auctions and guaranteed off-take energy prices envisaged
- Commercial banks willing to fund RES projects that win auctions at reasonable off-take prices
- The **investment gap** relates to insufficient equity in financial project structures
 - this **gap** can be bridged with FIs supported by **subordinated debt (SD)** to supplement the **equity** provided by developers to meet banks' equity requirements



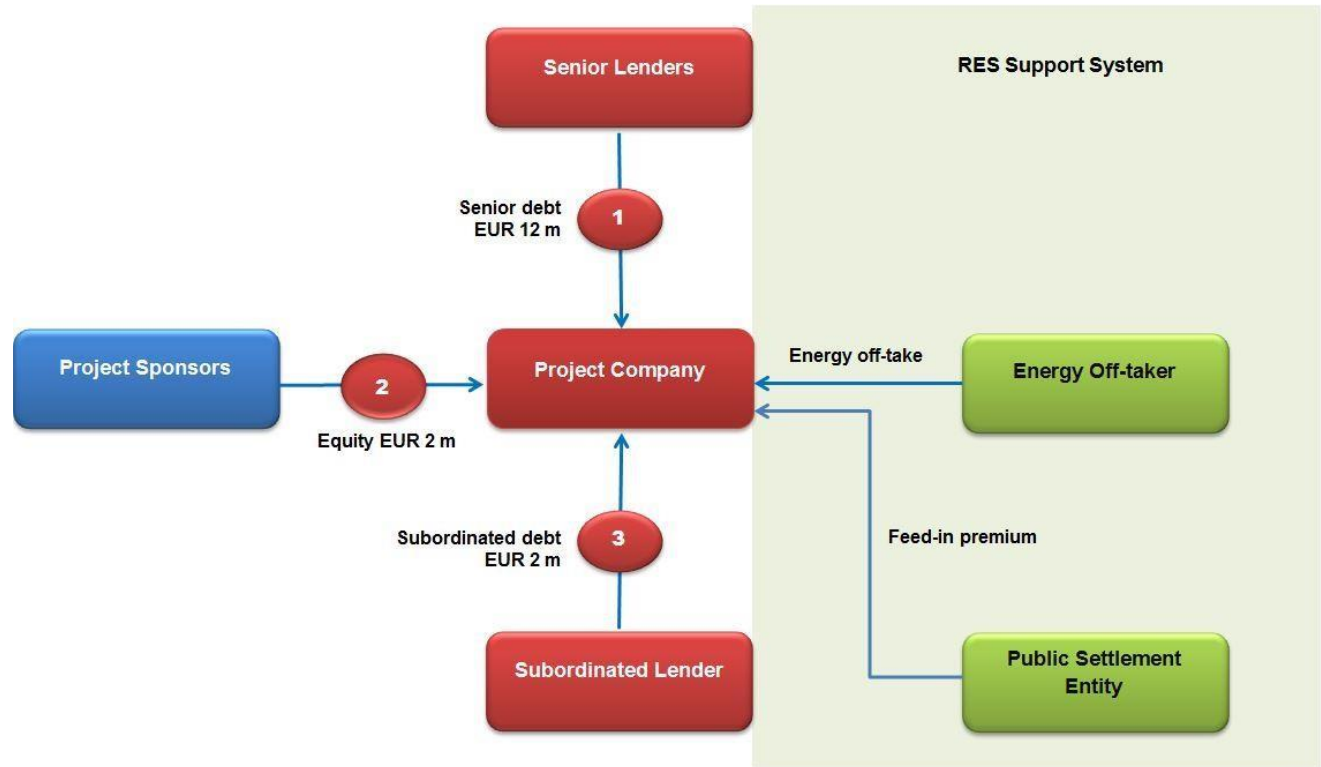
Main features of the proposed SD product

Objectives

- Fill in the estimated **market gap** for RES projects
- Provide support for **medium and small** RES developers
- Design an FI which could be treated by banks in RES projects financial structures (**project finance**) as a **partial equity substitute**



How would SD work?



75% to 25% debt to equity ratio required by the senior lenders

CAPEX = EUR 16 m

- 1** Senior lenders > senior loan (75% CAPEX) EUR 12 m to the SPV
- Equity capital requirement (25% of CAPEX) **EUR 4 m**
- 2** 50% split between equity (sponsors) EUR 2 m
- 3** Quasi-equity via SD EUR 2 m



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Urban Development Funds



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Urban Development Funds

- ❖ Public sector led UDF, established by 16 Local Authorities across Greater Manchester, Lancashire, Cheshire and Cumbria
- ❖ Focus on urban regeneration, employment, innovation, and strong and sustainable industrial base linked to OP priorities
- ❖ Certain operational matters are delegated to the FCA-registered real estate adviser, CBRE and the administrator, Gallium Fund Solutions
 - ❖ Owned in equal shares by the limited partners
 - ❖ 6 directors – representatives of AGMA and County Areas
- ❖ Investing by way of senior and mezzanine debt

THE NORTH WEST EVERGREEN FUND

Evergreen is public led UDF established by 16 Local Authorities which provides debt (senior and mezzanine) funding for urban regeneration projects. Fund's strong performance led to an increase in it's funding allocation

Evergreen investments include *inter alia*:

- ✓ refurbishment of the former Colgate Palmolive factory in Manchester and its transformation into green offices spaces ([Soapworks project](#); £6m committed)
- ✓ redevelopment of Manchester's former Royal Eye Hospital into biomedical centre of excellence featuring high- specification flexible office and laboratory space (*City Labs project*, £5m committed)

Expected results, based on GBP 60m investment in 9 projects:

- ✓ **18 ha of brownfield land** reclaimed/developed
- ✓ **160,000 sqm** of new/refurbished floor space
- ✓ **Almost 7,000 new jobs created or safeguarded**
- ✓ **Almost GBP 200m of private sector co-investment leveraged**



financial instruments revolving capacity building
 added value **ERDF** funding agreement **ESF** EU guidance
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 technical seminars leverage financial microfinance
 support co-financing intermediaries case studies
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 advisory services guarantees banks loans **EaSI** equity
 private investors life cycle combination of support
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 managing authorities manuals

