Leveraging Investment through Targeted Support

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Background to EIB

- The European Investment Bank (EIB) is the European Union's financing institution. Its shareholders are the 27 Member States of the Union, which have jointly subscribed its capital. The EIB's Board of Governors is composed of the Finance Ministers of these States.

- UK is equal largest shareholder (with 3 others), and UK Government and EIB maintain strong links.

- During 2010 the European Investment Bank supported 20 new projects in the United Kingdom. Total EIB support for these represented an engagement of more than £4.1 billion. In the five years from 2006 to 2010 the EIB has provided £17.2 billion for UK projects (in energy, social infra, water and waste, R&D and SME support).

- EIB manages circa 1.6bn Euros of JESSICA investment across Europe.

- The status of EIB as a supranational EU institution means it does not follow Member State procurement rules, and it is exempt from taxation and state aid considerations.

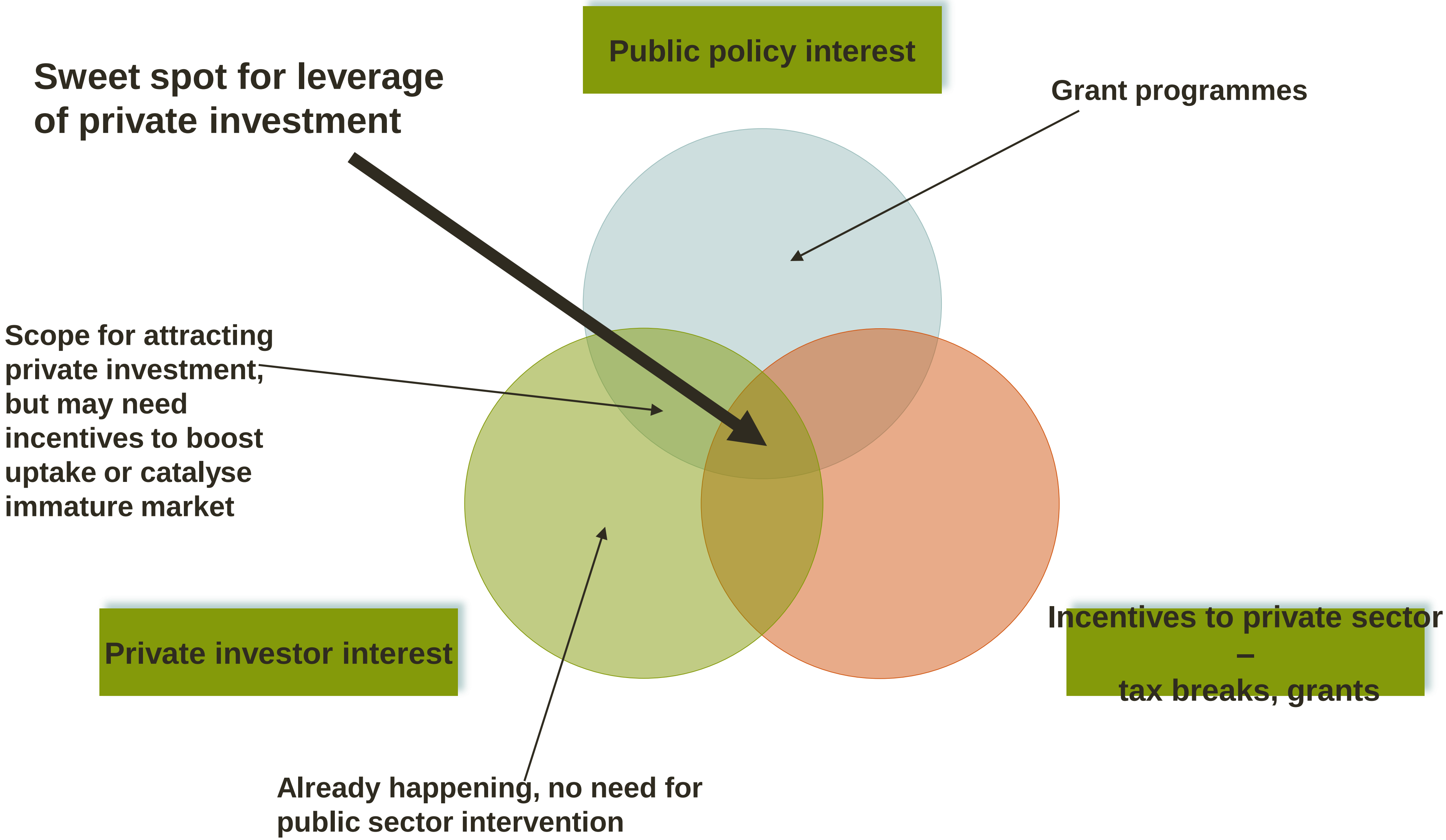
Background to JESSICA Initiative

- Over the past several years, EIB has worked with the European Commission and Managing Authorities, to explore ways to utilise EU Structural Funds to lever private investment in urban development
- One resulting funding mechanism is called JESSICA
- JESSICA stands for Joint European Support for Sustainable Investment in City Areas
- JESSICA is a financial engineering mechanism, it enables the public sector to invest on a repayable basis by way of debt, equity and guarantee
- Whilst it currently uses ERDF funding, the model is applicable to a number of more mainstream initiatives – it can be used creatively to secure private sector leverage and to support other Government initiatives such as LEPs, TIF, Growing Places etc

Rationale

- JESSICA aims to provide investment where project sponsors are unable to access the required level of debt or equity from commercial sources
- It is not intended to replace grant funding, it is an additional intervention tool – which will address the ‘fundability’ problems being experienced by many project promoters
- It can create a better balance between risk and reward with the private sector, enabling the public sector to still achieve its policy objectives, share in any upside and potentially participate at no net cost
- It can involve the deployment of governance structures and decision making processes which may empower local policy and decision makers, yet harness the commercial expertise of private sector fund managers

Alignment of interests?



Typical JESSICA Structures

A range of structures have been adopted in the UK. Most involve three principal tiers:

- Holding Fund
  - Can be managed by EIB, develops overall strategy, secures funding, procures UDFs, invests in UDFs and monitors performance
- Urban Development Fund (UDF)
  - Receives investment from Holding Fund, responsible for investment in specific geographies or themes, selects, appraises and invests in projects, aims to maximise economic benefit and financial return
  - Utilises private sector fund management skills and expertise
  - Can include public sector governance structures too
- Projects
  - Apply for funds from UDFs, delivers projects and ensuing outputs, repay funds to UDFs

Requirements

- Public sector seed finance – e.g. ERDF (plus match), GPF
- Clear investment strategy with appropriate return levels
- Measurable targets
- Governance structure and minimum ten year life
- Possible state aid notifications to enable subordination of public funds
- Skilled and experienced and independent fund management team, with track record
- Robust approach to identification and selection of projects
- A healthy pipeline of viable projects, the more advanced and low risk, obviously the better
- Targeted investment to add maximum value
  - Meeting market gaps and addressing market failures, not competing with existing forms of finance
  - Providing finance where it is not available or affordable to projects on a normal commercial basis

EIB UK Managed Urban Development Funds

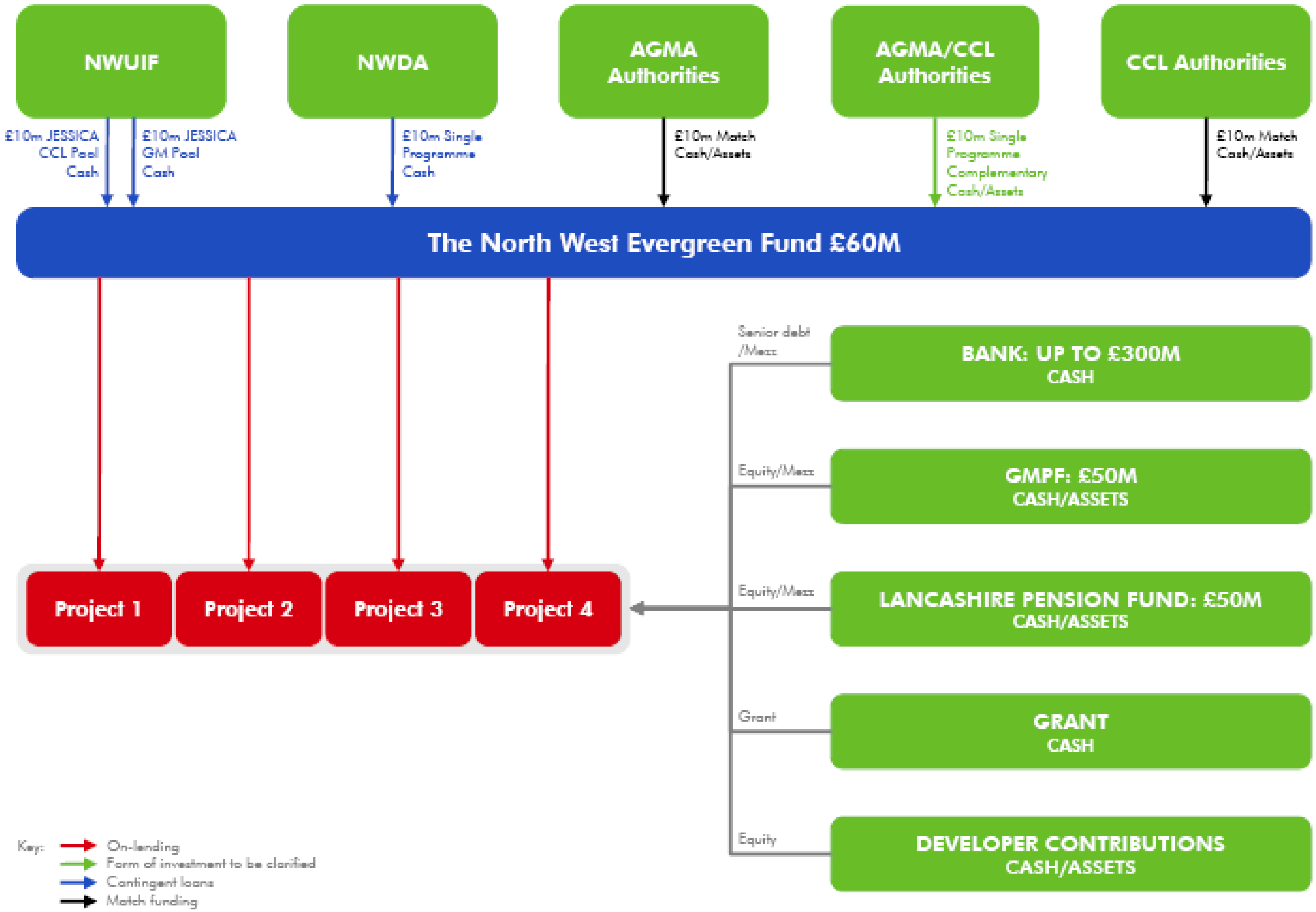
	Location	Focus	Holding Fund £	Private co-investment	Fund Manager
Foresight (equity)	London	Waste	35m	25m	Foresight
LEEF (debt)	London	EE - retrofit	50m	50m	Amber
Evergreen (mixed)	Rest of Northwest	Office dev	30m	-	CBRE
Chrysalis (mixed)	Merseyside	Office dev	30m	-	Igloo/ GVA/ RBC
SPRUCE (debt)	Scotland	Office dev/ EE/small RE	48m	25m	Amber

Typical JESSICA projects

- Urban Regeneration
  - Including the creation and refurbishment of BREEAM excellent commercial office accommodation
  - Land remediation
  - Enabling site related infrastructure

- Energy Efficiency
  - Including the retrofit of public buildings, museums, universities, social housing and potentially private sector property
  - Pre-development work can be linked to ELENA initiative

Example Funds - Public Approach - Evergreen



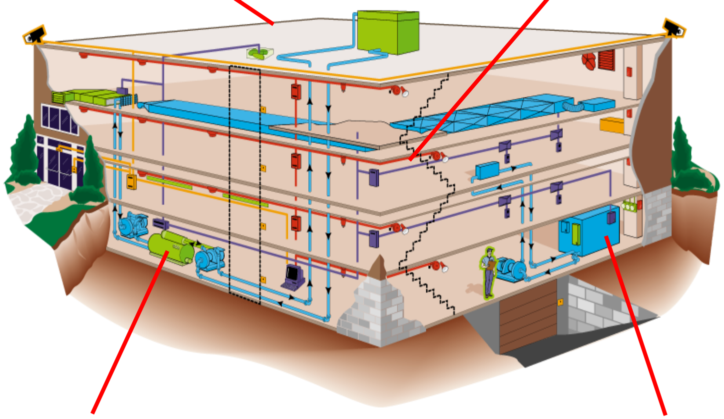
Private Approach - London Energy Efficiency Fund

- A GBP 100m Urban Development Fund, managed by Amber Infrastructure, with co-financing from Royal Bank of Scotland, blended with London Green Fund monies to provide **cheap loan financing for retrofit and low carbon heating projects in cultural, university, hospital, municipal, social housing and other public buildings.**

Low cost financing in exchange for carbon reduction benefits

- As a provider of cheap debt, return expectations for the fund are low, but the private sector finance provider still makes a commercial return, and **the fund manager has a significant component of fees linked to maximising carbon reduction and energy efficiency impacts**

AMBER



Leveraging other EIB products

- **EIB expects to provide further low cost funding** to LEEF to improve benefits to the public sector end users. The EIB managed **ELENA facility** is providing technical assistance for project preparation

National approach - multi-apartment renovation programme (LT)

- National plan to refurbish **24,000 apartment block buildings by 2020**
  - JESSICA target: 1000 renovation buildings between 2010 – 2015
- **Average energy savings** for a single building are estimated to be **circa 50 %**
- Multi-apartment renovation projects **support national and European objectives related to improving energy efficiency and security of energy supply.**
- In addition, programme launched in 2009 **seen as a major economic stimulus package for construction industry and job creation/retention.**
- Significant **social benefits from energy efficiency investment in low income housing, including eradication of energy poverty and improving quality of life.**
- Programme promotes the establishment of **housing associations, stimulating social inclusion and community participation.**

1.3 Implementation phases

0 Start

- Identification of the opportunity → **perceived gap**
- Agreement between the local Managing Authority, the EC and the EIB to **launch a feasibility study**

1 Feasibility

- Analysis of the feasibility of a **dedicated Financial Instrument within the national/ regional context**

2 Set up HF

- Definition of JHF **Investment Strategy**
- **Funding Agreement** (EIB – MA)
- Transfer of funds to JHF vehicle
- Nomination of Investment Committee

3 UDF Selection

- Call for expression of Interest for UDF/s
- Due diligence and **UDF selection**
- **Operational Agreement** with the JHF – UDF

4 Investments

- Investment in eligible **urban projects**
- **Reporting** and **monitoring** activities

2012 is the time for Managing Authorities to start considering how financial instruments can be used most effectively in 2014-2020.
→ the goal is to have <u>'ready-to-invest' financial instruments</u> as of 2014.

Future Opportunities

- 2014 -2020 EU Structural Programme has a greater focus on financial instruments, emerging themes include:
  - Scarce public funding needs to secure better leverage of private investment to meet EU 2020 targets.
  - Resultant move to greater and wider use of revolving financial instruments (loans, equity, guarantees), incentivised by 10% extra EU co-financing for this.
  - Energy efficiency and renewable energy a key theme - 20% of EU funding expected to be ring fenced for this priority.
  - Cities/urban agenda - with min 5% expected to be ring fenced for this priority

Making it happen

- 1) Develop the broad concept
- 2) Test the feasibility/market gap/investment appetite/strength of the potential project pipeline
- 3) Develop Investment Strategy
- 4) Procure Funds – via Holding Fund or directly

Begin the predevelopment process now to ensure you can hit the ground running in 2014.