

# JOINT EUROPEAN SUPPORT FOR SUSTAINABLE INVESTMENT IN CITY AREAS



European Regional  
Development Fund

Investing in your future



# JESSICA



## WHAT IS JESSICA

JESSICA is an initiative of the European Commission, the European Investment Bank (EIB) and the Development Bank of the Council of Europe which has been proclaimed on 30 May 2006 with the purpose of encouraging sustainable investments, growth and creation of new jobs in urban areas of the EU by:

- Ensuring subsidiary resources for loans to public-private partnerships and other projects for development of urban environment in EU regions;
- Provision of financial and management expertise by international financial institutions, such as the EIB;
- Creation of stronger incentives for successful implementation of projects by the beneficiaries through combining grants with loans and other financial instruments;
- Ensuring long-term sustainability through the revolving nature of the financial resource.

## JESSICA IN BULGARIA

- 29 July 2010 – the Minister of Regional Development and Public Works signs a Financial Agreement with the EIB for establishing a Holding Fund within JESSICA;
- 7 October 2010 – the Parliament ratifies the Financial Agreement with the EIB for establishing a Holding Fund;
- 19 October 2010 – the financial agreement for JESSICA enters into force;
- Period – 3 years;
- Initial amount of the financial resource under JESSICA – 61.2 mln. BGN from Operational Program ‘Regional Development’;
- General objective: establishing funds for urban development which will finance public-private partnerships or other urban development projects.



## STRUCTURE OF THE HOLDING FUND WITHIN JESSICA

### Managing Authority of OP Regional Development:

- Is Responsible for implementation of the JESSICA initiative;
- Provides the JESSICA funds from OP Regional Development;
- Formulates the implementation strategy for JESSICA;
- Exercises overall control and monitoring on the initiative's implementation.

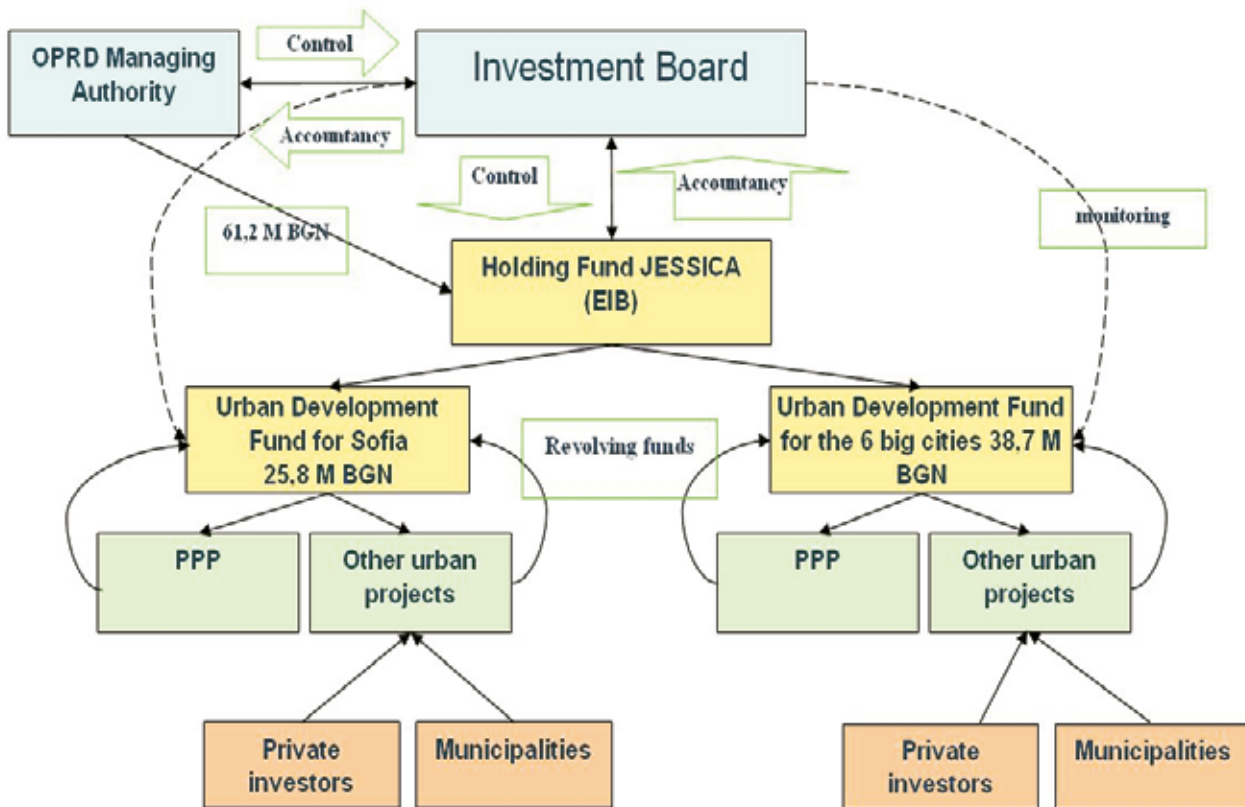
### European Investment Bank

- Manages the Holding Fund under JESSICA;
- Implements the investment strategy of JESSICA and may propose alterations;

- Assist the establishment of Urban Development Funds in Bulgaria;
- Invests in Urban Development Funds;
- Assists project identification.

### Investment Board of the Holding Fund:

- Consists of members of the MRDPW, MF, MEET and the CM;
- Performs control on the operations of the Holding Fund;
- It is supported by a JESSICA Department within the Managing Authority of OPRD (3 assistants for European programs and projects);
- Supervises the implementation of the investment strategy and may propose alterations.



■ The Urban Development Funds will invest the resource under JESSICA in public-private partnerships by granting:

- loans;
- bank guarantees;
- equity.

■ Final beneficiaries can be municipalities and public-private partnerships between municipalities and private investors.

## INVESTMENT STRATEGY OF THE JESSICA HOLDING FUND FOR BULGARIA

### Strategic objectives of the Holding Fund in Bulgaria:

- Assistance for the Cohesion Policy in the context of urban revitalization;
- Creating opportunities for various forms of public projects or public-private partnerships in the field of urban development;
- Assist the start and financing of sustainable solutions for urban problems in mid-term and long-term plan.

### Focus on the 6 big cities in Bulgaria and Sofia, with indicative distribution of the resource:

- Indicative – 25.8 mln. BGN for Sofia
- Indicative – 38.7 mln. BGN for Plovdiv, Varna, Burgas,

Russe, Stara Zagora, Pleven;

- Coverage of each region at NUTS II level.

### Basic criteria for selection of UDFs (eligibility criteria):

- Reliability and reputation;
- Experience in financial management;
- Experience in PPP investments and/or urban development projects;
- Understanding of the objectives of the Managing Authority of OPRD;
- Organizational capacity;
- Capacity for ensuring co-financing.

## Technical and financial criteria for selection of a UDF:

- Conformity of the investment strategy with OPRD;
- Established property title in the structure of UDF;
- Experience, competence and efficiency of management;
- Adequate and appropriate internal control, accountancy and book-keeping;
- Financial standing of the investors and other partners in UDF;
- Substantiated provisions on cash flows and evidence of sufficient rate of return;
- Operations budget of the UDF, including fees for its management;
- Measures for exiting of the UDF from investments in urban development projects;
- Exit clauses for the UDF from investments, including the follow-up utilization of resources returned to UDF.

## Criteria for selection of projects under JESSICA:

- Maturity of the project;
- Conformity with the eligible activities within Priority 1 of OPRD:
  - social infrastructure, residential buildings, urban environment, urban transport, industrial zones; business and trade centers and entertainment centers; sports facilities;
- To be socially important and offer public access to the implemented investment;
- Level of economic return of the project, net impact on the respective region and outside of it, if the project is not implemented;
- Conformity with the integrated plan for sustainable urban development:
  - Master plan / Detailed spatial plan and Municipal Development Plan (in the period until 2013);;
  - Integrated plan for urban regeneration and development (in the period after 2013).

## FINANCIAL INSTRUMENTS OF JESSICA, PROVIDED BY THE URBAN DEVELOPMENT FUNDS

UDFs should not try to finance the entire project investments but to share risks with fund external project

investors/lenders through the following financial products:



Growing importance for project financing and financial leverage

Growing investment risk for UDF actors

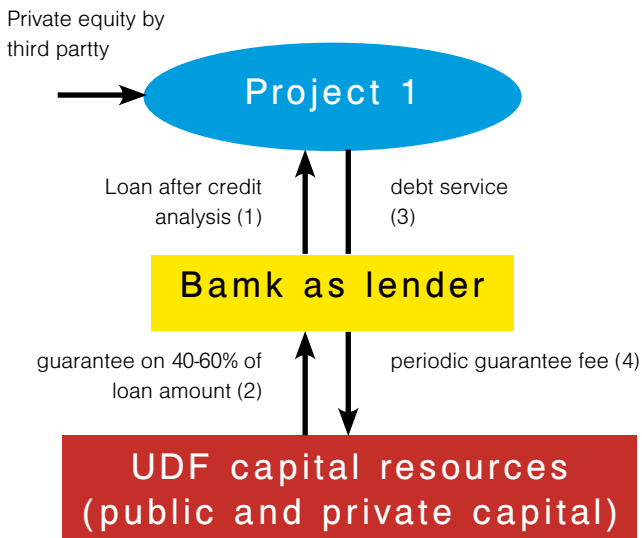
The types of financial instruments bear various level of risk for the Urban Development Fund and theoretically they bear various level of financial return:

- **Guarantees:** higher risk for the UDF, but lower return;

- **Equity:** opportunity for maximum return of the investment at highest risk for the UDF (high level of unpredictability of end-product realization, high level of investments).

## JESSICA FINANCIAL INSTRUMENTS:

### Example scheme of financing for projects with guarantee schemes



(1) The company which develops a project may apply for a loan from the financial institution. .

(2) Should it be required by the financial institution, the company may seek guarantees on part of the loan from the Urban Development Fund. The Urban Development Fund shall consider the business plan of the applicant in the light of its economic efficiency and conformity with the Operational Programme

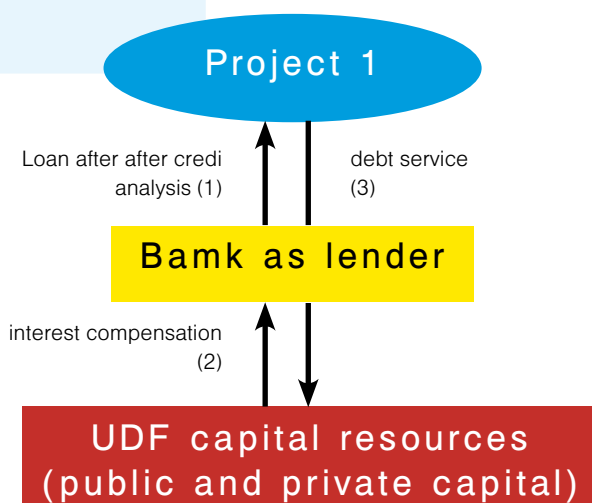
- Legally binding obligation to the UDF to pay the balance amount of the credit, including the outstanding interest, in case of default of the beneficiary;
- **Purpose:** easier access to external financing;
- **Limitation:** obligatory ensuring 100% private equity and debt financing.

and the other criteria and, in case it approves the business plan, provides guarantee to the financial institution.

(3) Thus the applicant receives the requested loan and can realize an investment, respectively serving the loan periodically.

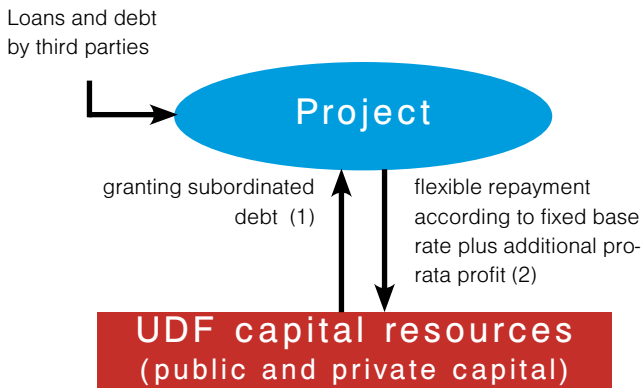
(4) The return of the UDF is in the form of a periodic guarantee fee.

### Example scheme of financing for projects with investment loans



- The most significant source of external financing;
- In Member States where only banks are allowed to issue loans, the UDF shall cede to the crediting bank a subsidy on the interest – lower interest rate for the borrower;
- In the Member States with no contrary legislation, the loan is issued by the UDF with a lower interest rate than that on the market, due to the public participation in the fund's capital resource;
- In contrast to the provided guarantees, the granted loan considerably increases both the administrative burden and the risk for the Urban Development Fund;
- Due to the low revenues of the fund, compared to the high amounts granted in the form of loans, this type of financing should be limited to low risk projects with periodic return;
- The final beneficiary of this financial product shall be the contractor on the project. The product has positive impact on the internal return rate of return of the contractor of the project.

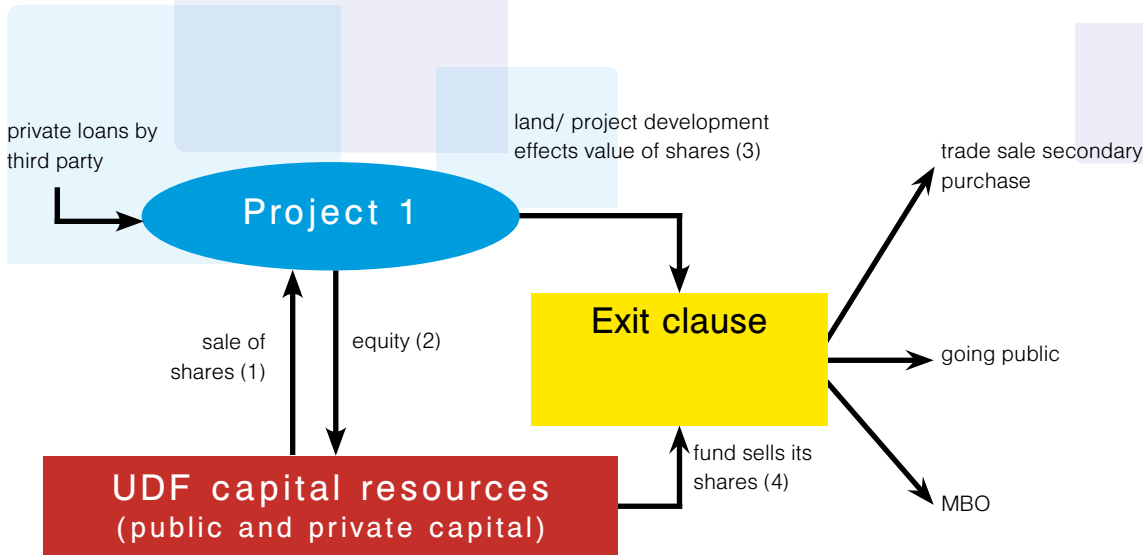
## Example scheme of financing for projects with mezzanine capital



- The mezzanine type of financing or quasi capital is a combination of typical bank loan and equity;
- Various instruments are used: subordinated debt, convertible bonds, preferred stock;
- **Beneficiaries:** private contractors who do not have sufficient capital at hand;

- The mezzanine capital finances 15 to 20 % of the entire investment;
- The UDF is not practically and actively involved in the project management and granted capital does not incur debt to the final beneficiary. That is why, the mezzanine funds can be used successfully to increase the leverage effect of JESSICA and attract other investors. The return of mezzanine funds consists of the fixed current interest and the share of profit distribution;
- The great advantage of the mezzanine capital is its high efficiency. On one hand, the UDF has capacity to grant small amounts in a number of projects. On the other hand, the mezzanine capital does not require active management in the development of urban projects by the UDF, This could limit the costs for management of the UDF.

## Example scheme of financing for projects with share interests



- (1) The project company may sell shares in the form of stock in the UDF.
- (2) The UDF shall provide equity to the company, in result of which the manager of the UDF will be capable of playing active role in the project management.
- (3) Thus the candidate will get the necessary capital and

realize an investment, targeted at achieving positive effect on the shares' value.

- (4) The return of the UDF shall be in the form of financial resource after the sale of shares.

The existence of considerable share capital attracts various sources of financing.

## EXAMPLES OF URBAN DEVELOPMENT FUNDS

### Example 1: Granting of energy efficiency loans

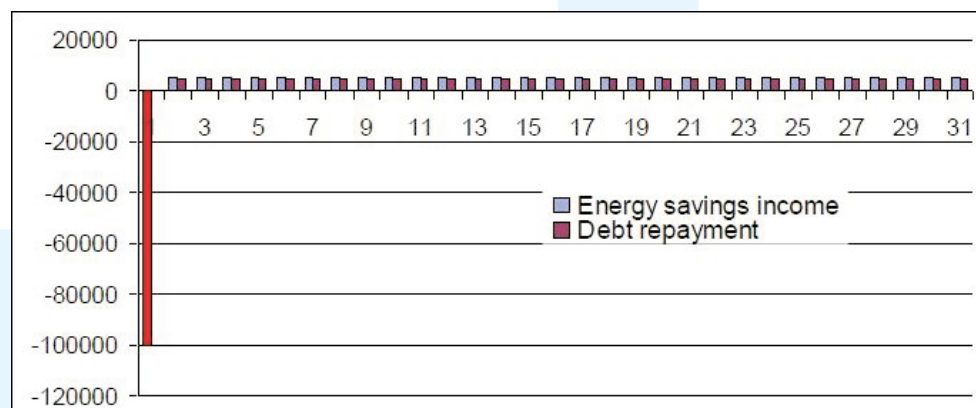
#### KEY INDICES AND BASIC PARAMETERS OF A LOW RISK FUND

1. Business strategy	
Types of eligible projects:	Renovation activities
Geographic scope:	Nationwide
Thematic scope:	Specialized fund
2. Financial products and beneficiaries	
Revolving financial instruments:	Loans (interest below market rate)
Beneficiaries:	Private households
3. Governance structure	
Actors:	Public
Refinancing sources:	Public capital
Legal status:	Interest in a public bank
Impact on urban development:	Moderate

#### Low financial risk for the UDF because of:

- regular income;
- existing asset;
- small single investments.

#### Financial return from granted loans:



### Example 2: Fund for rehabilitation of former industrial zones

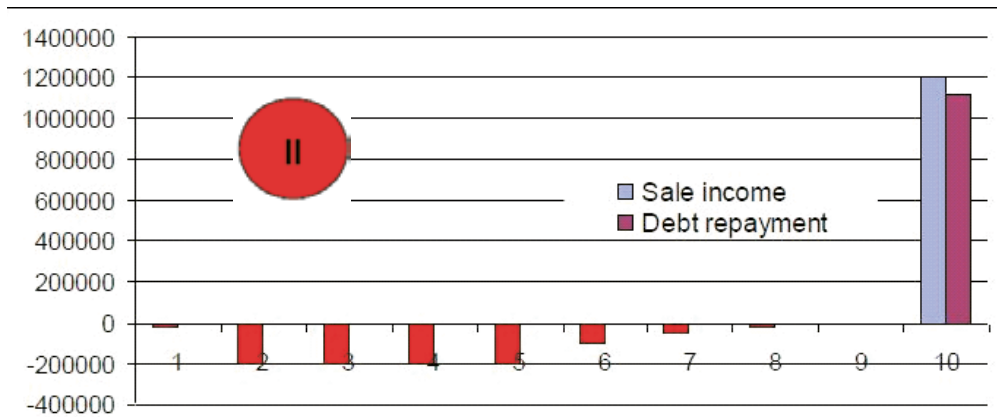
#### KEY INDICES AND BASIC PARAMETERS OF A HIGH RISK FUND

1. Business strategy	
Types of eligible projects:	Intermediary asset purchase + urban renewal
Geographic scope:	Cities
Thematic scope:	Multifunctional
2. Financial products and beneficiaries	
Revolving financial instruments:	Equity and mezzanine capital
Beneficiaries:	Private investors
3. Governance structure	
Actors:	Public and private investors
Refinancing sources:	Public and private capital
Legal status:	Separate legal entity
Impact on urban development:	High

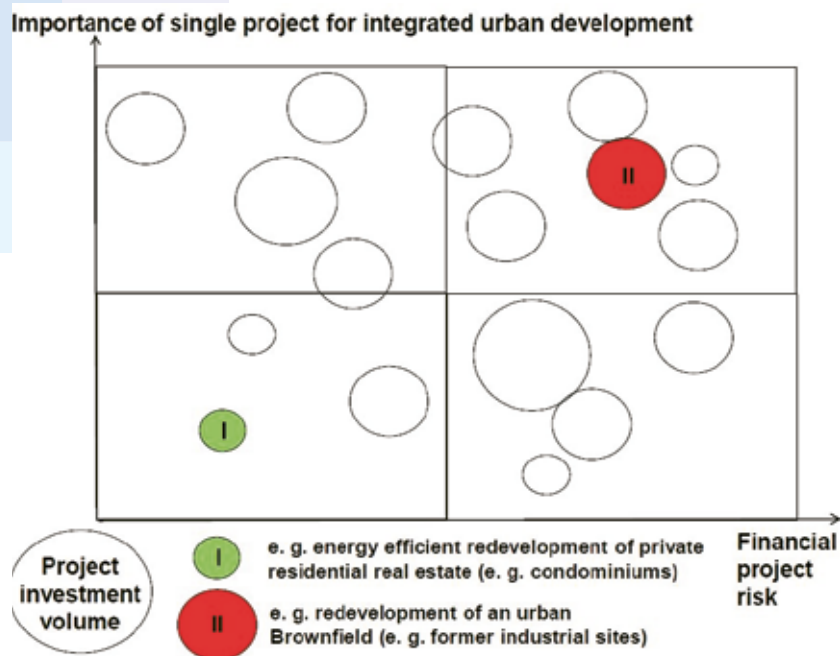
## High financial risk for the UDF because of:

- only selling price as income;
- asset not yet existing;
- high single investment

## Financial returns from granted loans



## Distribution of the risk in financing urban development projects by the Urban Development Fund



- The Urban Development Fund should find optimal balance between high risk, but strongly positive

projects, and the low risk projects which would have relatively limited effect on urban development.



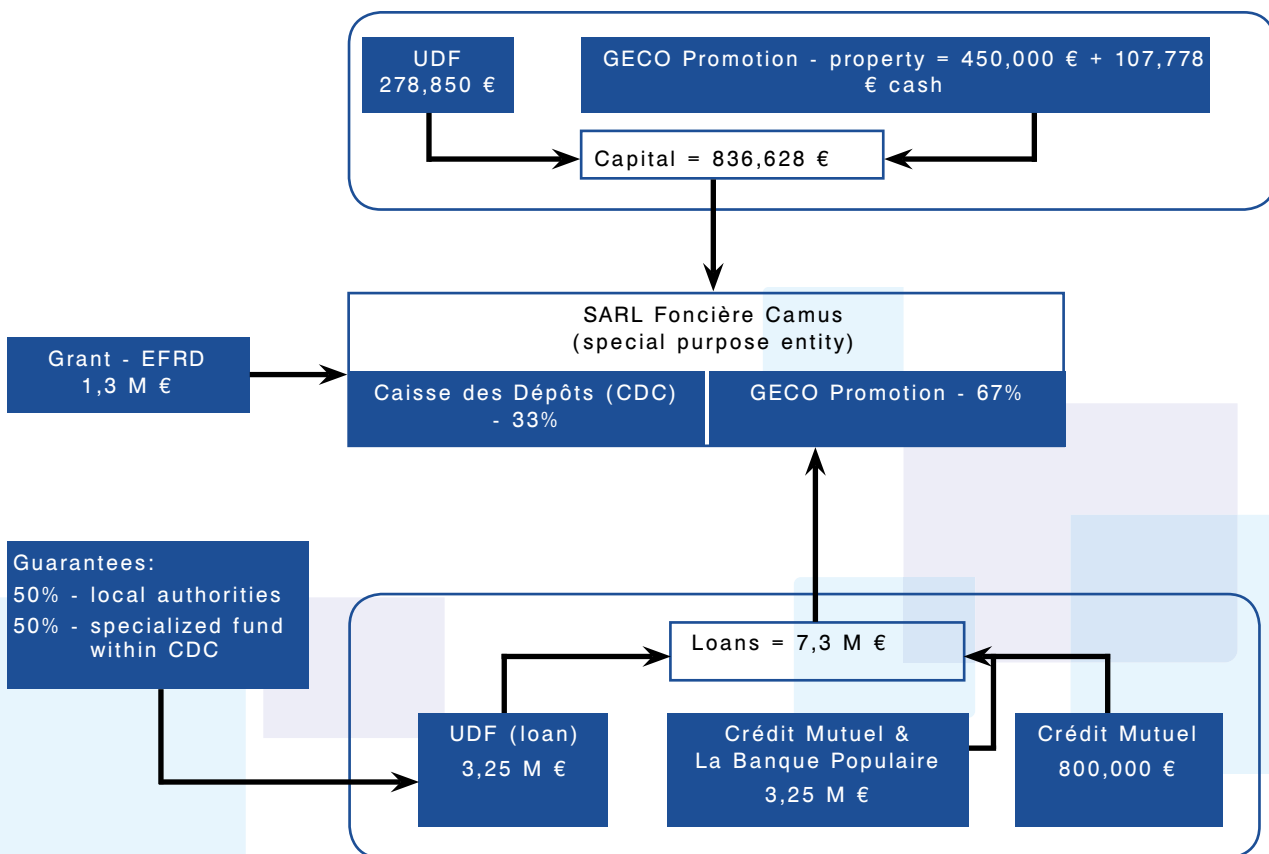
# GOOD EU PRACTICES: URBAN DEVELOPMENT PROJECT FONCIÈRE CAMUS, VALLES D'OIS - FRANCE

## Background:

- an old residence for women in a region differentiated in the 60's for immigrants from Algeria;
- uninhabited for many years;
- demolished in 2005;
- area – 6,292 m<sup>2</sup>.

## Project:

- 8.8 mln. EUR;
- 7-storeyed office building with shopping section;
- 5,382 m<sup>2</sup> - offices;
- 910 m<sup>2</sup>v - shopping section (ground floor);
- 33 car-parking cells.



## Impact:

- 95% of the building is rented;
- more than 150 jobs have been created;
- improved economic status of the region;
- improved image of the district – decreased bias and fears of potential investors.

# GOOD EU PRACTICES: URBAN DEVELOPMENT PROJECT PARK EXPO - LISBON

## Background:

- a large industrial zone on the river bank;
- used as crude oil refinery;
- port operator;
- military and other storage facilities;
- highly polluted soil.

## Park Expo 98 – 100% public limited liability company, established for the purpose of:

- organizing and carrying out the World Exhibition in Lisbon 1998 (Expo'98);
- manages a large scale urban project for reconstruction which results in the construction of a new urban area.

## The project has been implemented in three phases:

I. 1993 – 1995:

- Removal of existing facilities and acquisition or alienation of land;
- Decontamination of the soil.

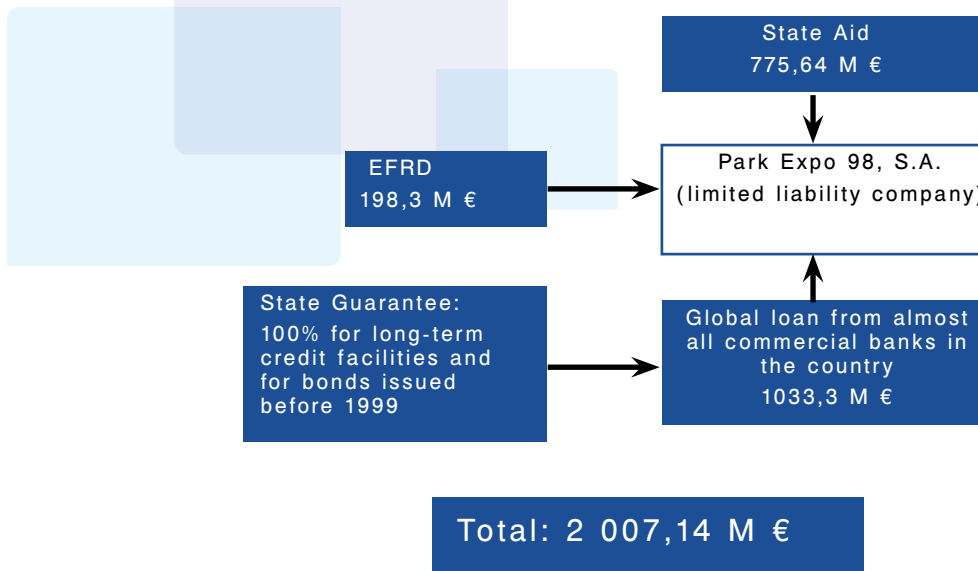
II. 1995 – 1998:

- Construction of buildings and open areas for the Expo '98
- Construction of the new central railway station 'Orient'
- A new section of the metropolitan – connection to the city.

III. 1999 – and currently

- Marketing and advertising of buildings and land plots;
- Large scale construction;
- Review of the framework plan.


## Good EU Practices: urban development plan Parque das Nações - Lisbon



## Impact:

- New utilization of a derelict industrial site;
- The environment condition has improved and the area has been cleaned from pollutants;

- Overall development of the city, especially the eastern area of Lisbon;
- The shore has been cleaned and open for the public;
- New facilities are created – railway station, metropolitan, etc.



The project's nature indicates that the unilateral distribution of the risk can not be evaded. With consideration of the area coverage, the large scale of investment, it is evident that a private investor is incapable of developing the region

Elaborated under project: BG161PO001/5-01/2008/005  
"Communication, information and publicity" of Operational Programme  
Regional Development 2007-2013,  
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