Support to small municipalities in Sardinia, Italy

Andrea Bua, European Investment Bank

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The EIB’s experience with financial instruments in Italy

🌟 **Urban regeneration:** The EIB set up Holding Funds on behalf of the MAAs of the regions of Campania, Sardinia and Sicily; the Regions contributed EUR 328 million of EU Structural Funds for the programming period 2007 - 2013. The resources were used to support investments through loans and venture capital: the portfolios are fully performing.

🌟 **Research, Innovation and Human Skills:** At the end of 2016, the Ministry for Education, University and Research (MIUR) and the EIB created a Fund of Funds focused on research and innovation, with a budget of EUR 270 million of the NOP R&I 2014 - 2020 funds on a multiregional scale (focus on the eight regions of southern Italy). The MIUR Fund also represents an opportunity to develop a platform that attracts additional private resources, including those of the EIB, to increase the multiplication effect of scarce public resources without burdening the national budget. A new EUR 100m FoF has now been launched to support students with their university studies.

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**EUR 698m ESIF under management**
**78 Projects financed**
**2.5 x total investments mobilised**

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A consolidated and simple set-up

EC Structural Funds (ERDF)

Managing Authority

Funding Agreement (MA-HF manager)

JESSICA Holding Fund (managed by EIB)

Operational Agreements (EIB-Funds)

Contingent Loan

Fund

Final beneficiary

Fund

Final beneficiary

Fund

Final beneficiary

Fund

Final beneficiary
Advantages of financial instruments

**Risk tolerance advantages**

*Reduction of risks connected to the project structuring*

- Wide range of financial products:
  - Junior/subordinated debt
  - Mezzanine
  - Equity
  - Quasi-equity

- Risk coverage instruments:
  - Loss absorption mechanisms
  - Guarantees
  - Subordinated financing

**Financial advantages**

*Attractive conditions / incentives*

- Long term financing (up to 25 yrs) vs shorter term offered commercial banks
- Competitive pricing (EC reference rate, market conform)
- Upfront disbursements for project promoters (vs grants contribution)
- Co-financing and leverage effect
Financial instruments operations rationale: better impact

The main purpose of DFI operations is to invest ESIF resources assigned to the EIB into *economically viable projects* promoting *EU policy objectives*.

DFI must be a **complement** to the EIB core operations. They catalyse those projects that may not be financed with own resources. DFI are a unique source of resources for *impact finance and blending to foster regional cohesion in the EU*.

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**DFI: VALUE PROPOSITION**

**DFI: CAPITAL FOR IMPACT**

**FINANCE IN THE EU**

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Support to small and remote municipalities – Baridili

- This is one example of several similar projects with small municipalities in Sardinia. It concerns various energy efficiency measures: (i) installation of a photovoltaic system in a camper car parking; (ii) installation of solar panels for water heating in the municipal sports facilities; (iii) installation of energy-efficient LED street lighting in the local park.

- The projects is promoted by the municipality of Baradili, a small village with less than 100 inhabitants in the province of Oristano.

- **JESSICA Fund Sardinia contribution**: long-term loan of EUR 119k, covering all projects costs.

- **Expected benefits**:
  - Contribution to clean energy measures;
  - In the long-term, energy cost savings;
  - Modern street lighting.
Support to small and remote municipalities – Fordongianus

• The project concerns energy efficiency measures: energy efficient public buildings through the use of geothermal energy.

• **Beneficiary**: Comune di Fordongianus (890 inhabitants)

• **JESSICA Fund Sardinia contribution**: EUR 200k, covering all projects costs.
Support to small and remote municipalities – Burgos

• The project concerns energy efficiency measures: energy production plants from renewable sources on municipal buildings (school building, municipal office, sports facilities).

• **Beneficiary:** Comune di Burgos (920 inhabitants)

• **JESSICA Fund Sardinia contribution:** EUR 287k, covering all projects costs.
Support to small and remote municipalities – Tonara

• The project concerns the construction of two biomass boilers (moving grate boilers) for a total heating capacity of 500 kW, to be fed by woodchips. The project envisages the construction of a heating network providing energy supply to the schools and the municipal gym located in the surrounding area, allowing the disposal of the outdated and polluting oil-fired boilers.

• The project is promoted by the municipality of Tonara, a small town (2,000 inhabitants) in the province of Nuoro.

• JESSICA Fund Sardinia contribution: EUR 360k, covering all projects costs.
Support to small and remote municipalities – Muros

• The project concerns energy efficiency measures: energy production plants from renewable sources on municipal buildings and replacement of boilers.

• **Beneficiary**: Comune di Muros (860 inhabitants)

• **JESSICA Fund Sardinia contribution**: EUR 100k, covering all projects costs.
Support to small and remote municipalities – Ozieri

• The project concerns energy efficiency measures: realisation of a small wind plant connected to Parco della Sostenibilità.

• **Beneficiary**: Comune di Ozieri

• **Total project costs**: EUR 275k

• **JESSICA Fund Sardinia contribution**: EUR 248k
Support to small and remote municipalities – Torralba

- The project concerns energy efficiency measures: energy production plants from renewable sources on communal buildings (communal houses, primary school).
- **Beneficiary**: Comune di Torralba (975 inhabitants)
- **JESSICA Fund Sardinia contribution**: EUR 342k, covering all projects costs.
Impact but........need of communication

A Mezzogiorno innovative investment fund helps the economy and the people of southern Italy

Entering the hall, I smell coconut and orange. Constano’s banana cake and marmalade stuffed doughnuts. “It took up cooking classes at the Centro because I want to become a chef,” he says.

The Centro ANFAS in Salergius, a small village near Ceglie, is a place where people with special needs can develop special talents. Ceglie-based ANFAS, the national association of the families with people with disabilities, received a EUR 1.4 million interest-free loan from a fund managed by the European Commission.

In Puglia
Le stampanti 3D di Roboze
Leader dei mercati

Despite the work to be done, the Centro ANFAS in Salergius is open for business. It’s a haven for people with disabilities, providing them with a place to develop special talents.

“Here we offer a place where people can develop special talents,” says the Centro’s director, Giuseppe Lanaro. “We provide courses in cooking, baking, and other skills to help people develop their own personal projects.”

The Centro has received a EUR 1.4 million interest-free loan from a fund managed by the European Commission.

Comment
Il ruolo della spesa privata nel diritto allo studio

Intesa Sanpaolo rilancia un’opzione di credito importante in un Paese come il nostro che ha un numero di laureati inferiore rispetto all’Europa.

di Giuliano Amato
### Post-JESSICA: the context

Continuing high demand for investments in urban development, EE/RE in small municipalities but:

<table>
<thead>
<tr>
<th>Potential solution</th>
<th>Challenges</th>
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<tr>
<td>New JESSICA financial instruments</td>
<td>No resources available under the ESIF-funded Regional Operational Programmes (“ROP”) 2014-2020 of the concerned Regions</td>
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<tr>
<td>Direct loan to the Regions</td>
<td>Limited borrowing capacities (internal limits on debt)</td>
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<td>Direct funding to local small-scale projects</td>
<td>Limited risk appetite of banks, unfavorable conditions</td>
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<td>Direct loan to UDFs</td>
<td>SPVs or separate blocks of finance with limited creditworthiness on a standalone basis</td>
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<tr>
<td>Setting up new financial instrument with JESSICA refinements</td>
<td>Long maturities of the JESSICA sub-loans, the amounts returned are spread over a long time, lacking the critical mass</td>
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<td>Sale of existing JESSICA loans to reinvest in new portfolio</td>
<td>Portfolios not homogeneous/granular, compliance with EC regulation (potential audits)</td>
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The EIB’s Italian Urban Development Funds Programme will enable the anticipation of these refinements, providing EFSI-backed direct loans to UDFs with a de-linked repayment structure relying on the existing portfolios.

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Transaction: structure

Current system in place

- MA
  - as HF manager
    - Contingent Loan
  - Existing UDF
    - Loan to final beneficiaries
      - FB 1
      - FB 2
      - FB 3

Proposed project

- Proposed project
  - Reflows from the new portfolio
  - New UDF
    - Loan to final beneficiaries
      - FB 4
      - FB 5
      - FB 6
  - EIB Loan
    - (pre-financing of reflows from the existing JESSICA portfolio)
  - Repayment of EIB Loan
    - (EIB assumes credit risk on the existing JESSICA portfolio rather than on the new one)