

- ERDF/Cohesion Fund
- EUR 1.4 billion
- Loan and guarantee
- Urban development and energy efficiency
- Portugal

... using ESIF financial instruments to create cities with a future...

Financial instruments for urban development in Portugal – IFRRU 2020

Case Study



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Abbreviations

| Abbreviation | Full name |
|--------------|--|
| ADC | Portuguese Agency for Development and Cohesion |
| ADENE | National Portuguese Agency for Energy |
| ANMP | National Association of Portuguese Municipalities |
| ARU | Designated urban rehabilitation area |
| CEB | Council of Europe Development Bank |
| CF | Cohesion Fund |
| CPR | Common Provisions Regulation |
| EIB | European Investment Bank |
| ERDF | European Regional Development Fund |
| GBER | General Block Exemption Regulation |
| IFRRU 2020 | Financial instruments for urban rehabilitation and revitalisation 2020 |
| PAICD | Action plan areas for deprived neighbourhoods |
| PARU | Urban rehabilitation action plan areas |
| PNAEE | National Action Plan for Energy Efficiency |
| SPGM | Sociedade Portuguesa de Contragarantia Mútua |
| toe | Tonne of oil equivalent |



Table of contents

| | |
|---|----|
| Abbreviations | 2 |
| 1. IFRRU 2020 - Financial instruments for urban rehabilitation and revitalisation | 4 |
| 1.1 Executive Summary | 4 |
| 1.2 Key takeaways about IFRRU 2020 | 6 |
| 2. Design of IFRRU 2020 | 8 |
| 2.1 Context | 8 |
| 2.2 Ex-ante assessment | 8 |
| 2.3 The fund of funds | 9 |
| 2.4 Selection of financial intermediaries | 10 |
| 2.5 Timetable for design and implementation | 12 |
| 3. Set-up of the fund of funds | 13 |
| 3.1 Governance structure | 13 |
| 3.2 The IFRRU 2020 Managing Structure | 13 |
| 3.3 The IFRRU 2020 Investment Committee | 15 |
| 3.4 Management of financial and operational information | 16 |
| 3.5 State aid | 18 |
| 4. Implementation of the financial instrument | 19 |
| 4.1 Products to support projects | 19 |
| 4.2 The application process | 20 |
| 4.3 The Municipality Opinion | 21 |
| 4.4 Energy certification | 21 |
| 4.5 Application for funding | 22 |
| 4.6 Communication | 23 |
| 5. Achievements | 26 |
| 6. Lessons learned | 28 |
| 6.1 Main success factors | 28 |
| 6.2 Main challenges | 28 |
| 6.3 Outlook | 29 |



1. IFRRU 2020 - Financial instruments for urban rehabilitation and revitalisation

1.1 Executive Summary

IFRRU 2020 (Instrumento Financeiro para a Reabilitação e Revitalização Urbanas) is a financial instrument that has been established to support urban renewal across the entire Portuguese territory. It uses EUR 102 million of ESI Funds resources to mobilise EUR 1.4 billion of public and private financing for urban development, with the aim of generating a total investment of around EUR 2 billion.

Table 1: Main characteristics of IFRRU 2020

Funding sources

ERDF regional Operational Programmes (OPs) (Norte, Centro, Alentejo, Lisboa, Algarve, Açores and Madeira), Cohesion Fund (CF) programme (OP SEUR), national co-financing, European Investment Bank and the Council of Europe Development Bank.

Type of financial products

Fund of funds with four financial instruments offering loan and guarantee products.

Financial size

EUR 1.404 billion = EUR 64 million ERDF + EUR 38 million CF + EUR 20 million national co-financing + EUR 500 million EIB loan¹ + EUR 80 million CEB loan + EUR 702 million private funding.

Thematic focus

Low carbon economy, urban development and physical regeneration of deprived communities in urban areas.

Timing

July 2015 to December 2025.

Partners involved

Members of the Investment Committee:

Managing authorities of the 7 Regional OPs (Norte, Centro, Alentejo, Lisboa, Algarve, Açores and Madeira) and managing authority of OP SEUR (national level)
Institute for Economic Development of Madeira (IDE-RAM)
Directorate-General for Energy and Geology (DGEG)
Directorate-General for Treasury and Finance (DGTF)
Institute for Housing and Urban Rehabilitation (IHUR)
Portuguese Institute for Tourism (Turismo de Portugal)
National Association of Portuguese Municipalities (ANMP)

International Financial Institutions:

European Investment Bank (EIB)
Council of Europe Development Bank (CEB)

Other entities:

National Portuguese Agency for Energy (ADENE)
Agency for Development and Cohesion (ADC)
Agency for Management of Treasury and Public Debt (IGCP)
Cabinet for Planning, Strategy, Assessment and International Relations of the Ministry of Finance (GPEARI)
Finance General Inspection Agency (IGF)

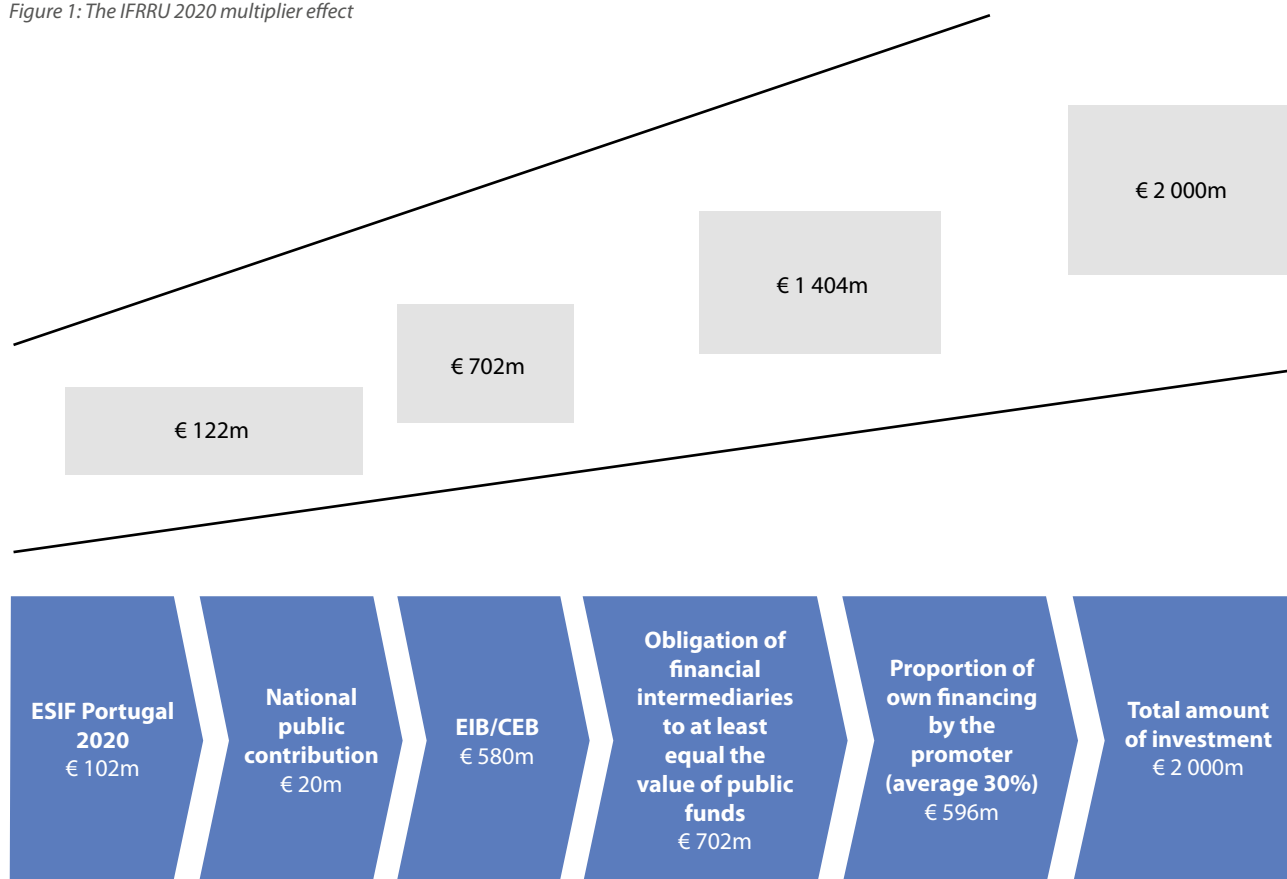
Financial Intermediaries:

Santander, BPI, Millennium bcp and Portuguese Mutual Guarantee Society (SPGM).

¹ An initial facility of EUR 300 million has been signed with scope for a further EUR 200 million to be contracted in the future.

IFRRU 2020 gathers financing from several sources, including ESI Funds from seven Regional Operational Programmes (OPs) - PO Norte, PO Centro, PO Lisboa, PO Alentejo, PO Algarve, PO Açores, PO Madeira - and one Thematic OP (PO SEUR) from Portugal 2020. It also uses finance from the European Investment Bank (EIB), the Council of Europe Development Bank (CEB) and the State Budget (national public contribution). This public financing, is used to attract private co-financing through the selected financial intermediaries. This generates a multiplier effect of fourteen for this financial instrument. Further investment at project level, typically by the project promoters, is expected to result in a total amount of investment of EUR 2 billion.

Figure 1: The IFRRU 2020 multiplier effect



The investment strategy of the fund of funds targets the improvement of buildings that are more than 30 years old, abandoned industrial spaces and units, social housing (including private units within a social housing building) and public space. Typically, the works will improve the general condition of the building and must include interventions to improve the energy efficiency of the building.

The financial instruments were **launched in October 2017** following selection of the financial intermediaries. By September 2019, 151 funding contracts were signed with a total value of investment of EUR 479 million. Projects have been approved for support in 54 different cities demonstrating how the financial instrument is successful at delivering finance to support urban development across a range of different localities and projects.



With a pipeline of over 1 000 eligible projects identified, the prospects for the future implementation of the financial instruments are strong. Under the leadership of the fund of funds a high level of engagement is being received from municipalities which is contributing to the strong demand for the fund's loan products from potential final recipients.

1.2 Key takeaways about IFRRU 2020

The IFRRU 2020 fund of funds is a national body established to act on behalf of the eight managing authorities supporting the financial instruments. It operates in a **multi-stakeholder environment**, which includes the public financiers, the private sector financial intermediaries, specialist ministries and agencies and more than 300 municipalities across Portugal, including those from Madeira and the Azores. The effective management of relationships between the large number of stakeholders is achieved through **an information system developed by IFRRU 2020** as part of its management role (and funded from its management fees) **to support the sharing of financial and other information**.

The information system that supports the fund of funds is able to manage information coming from various sources of funding with different interest rates and process this information according to the reporting requirements.

A key feature of the financial instrument is the **role of the municipalities**. Before a project can be granted a loan from an IFRRU 2020 financial instrument, it must secure **a binding opinion** from the municipality (the Municipality Opinion), where the project is situated. The purpose of the opinion is to confirm that the project is **consistent with the strategy for sustainable urban development for the territory**. In addition, each municipality nominates a focal point of contact who acts as a champion for IFRRU 2020 in the area, as well as managing the binding opinion process.

An important component of the financial instrument's investment strategy is its **energy efficiency strategy**. All the projects supported by IFRRU 2020 have to demonstrate improvements in energy efficiency. This is typically substantiated through energy certificates that are issued before and after the intervention by **independent experts authorised by ADENE** (National Portuguese Agency for Energy).

The financial intermediaries were chosen through a public tender. The design of the instrument requires that the IFRRU 2020 **products are offered by each of the banks across the entire Portuguese territory** (in total more than 1 000 offices). This generates more competition and therefore ensures that the final recipients can access finance at the most competitive terms.

Another feature of the design is how it has made it **simple for promoters to access the funds**. Applications for finance are made direct to one of the financial intermediaries, through its branch network at any time, without a limit to the number of applications that can be made.

The programme's **communication strategy** has also been an important factor in its successful implementation. In the first year, more than **100 public presentations** of the programme were made all over the country to promote the financial instruments to potential project promoters, municipalities and other stakeholders. An **international campaign** was also developed, with the help of embassies and the consulates, to promote the potential of IFRRU 2020 to expatriates and investors.

Coimbra Baixa Housing Development

This project is located in the Urban Rehabilitation Area (ARU) of Coimbra, a university city classified as an UNESCO World Heritage Site. It was the first housing project concluded with IFRRU 2020 financing. A derelict building has been remodeled to create 3 dwellings and a commercial unit on the ground floor.

This has attracted 12 new residents to the area and created 2 new jobs. The primary energy consumption needs of the building have been reduced from 57.19 toe to 5.29 toe (a reduction of 90%).

Financial intermediary: Santander.

Total investment: EUR 646 186 made up of EUR 299 805 ESI Funds and other public resources leveraged by a Santander allocation of EUR 346 381.





2. Design of IFRRU 2020

2.1 Context

Portugal is a country located on the Iberian Peninsula in south-western Europe. With a population of 10.37 million, in 2018 it had a GDP of approximately 76% of the EU28 average².

More than 40% of the country's population is concentrated in its two large metropolitan areas of Lisbon, with 2.8 million inhabitants, and Porto, with 1.7 million inhabitants. In addition, there are several medium-sized cities, with more than 50 000 inhabitants, including Braga, Guimarães, Aveiro, Coimbra, Leiria, Viseu and Funchal (which is on the island of Madeira), together with around 50 municipalities of between 10 000 and 50 000 inhabitants. Overall, approximately 60% of the country's population live in urban areas³.

The strategic importance of urban spaces to territorial cohesion and competitiveness in Portugal is reflected in the OPs for the 2014-2020 ESI Funds programming period. The OPs highlighted the need to support sustainable urban development to create a new 'development dynamic' that would help attract population to revitalised areas and create wealth and employment.

According to INE (Portuguese National Statistics Authority)⁴, approximately one million buildings in Portugal are in need of significant improvement. At the same time, housing represents about 17% of the final energy consumption in Portugal. As a framework for public policy, the National Action Plan for Energy Efficiency (PNAEE) established a set of measures to promote energy efficiency in this sector, which objective is to reduce energy consumption in buildings. This has facilitated the integration of energy efficiency and urban development measures within the IFRRU 2020 programme.

2.2 Ex-ante assessment

The starting point of the ex-ante assessment was the Partnership Agreement and Operational Programmes developed for the 2014-2020 ESI Funds programming period. Under the framework established by the Portuguese managing authorities in conjunction with the European Commission, both urban development and energy efficiency in private housing are required⁵ to be supported through financial instruments.

Separate ex-ante assessments were carried out for **physical, economic and social regeneration and the renewal of urban areas** and for **energy efficiency and efficient water and waste management**. The ex-ante assessments, which were concluded in 2015, were undertaken by independent evaluator teams appointed by the Portuguese Agency for Development and Cohesion (ADC).

² Eurostat GDP per Capita.

³ INE - Portuguese National Statistics Authority, 2018.

⁴ Census 2011.

⁵ Under the OP financial instruments must be used save for certain specific circumstances. For energy efficiency projects grants may be used only for EE investments in public buildings. For urban development, a list of specific projects, mostly relating to public spaces were approved for grant funding and included in the OP. A grant programme is also in place for social housing.

The ex-ante assessment for urban rehabilitation estimated the financing gap in the sector to be in the region of EUR 2-3 billion over the following seven years. It concluded that **financing costs were relatively uncompetitive** taking into account the profitability and risk of urban regeneration projects. In addition, the assessment identified the potential to **use ESI Funds to attract resources from institutions** including the EIB, other international financial institutions and private sector commercial banks active in the country.

At the same time, the ex-ante assessment for financial instruments in the **energy sector** identified a significant financing gap for energy efficiency interventions in **enterprises, public buildings and residential accommodation**. It also recommended the **interlinking** of financial instruments for energy efficiency with those for urban development, given the difficulty in separating interventions on buildings, which promote energy efficiency and those aimed at rehabilitation or regeneration. It was recognised that it would be undesirable for recipients to be forced to artificially separate projects so that they can secure finance from different sources.

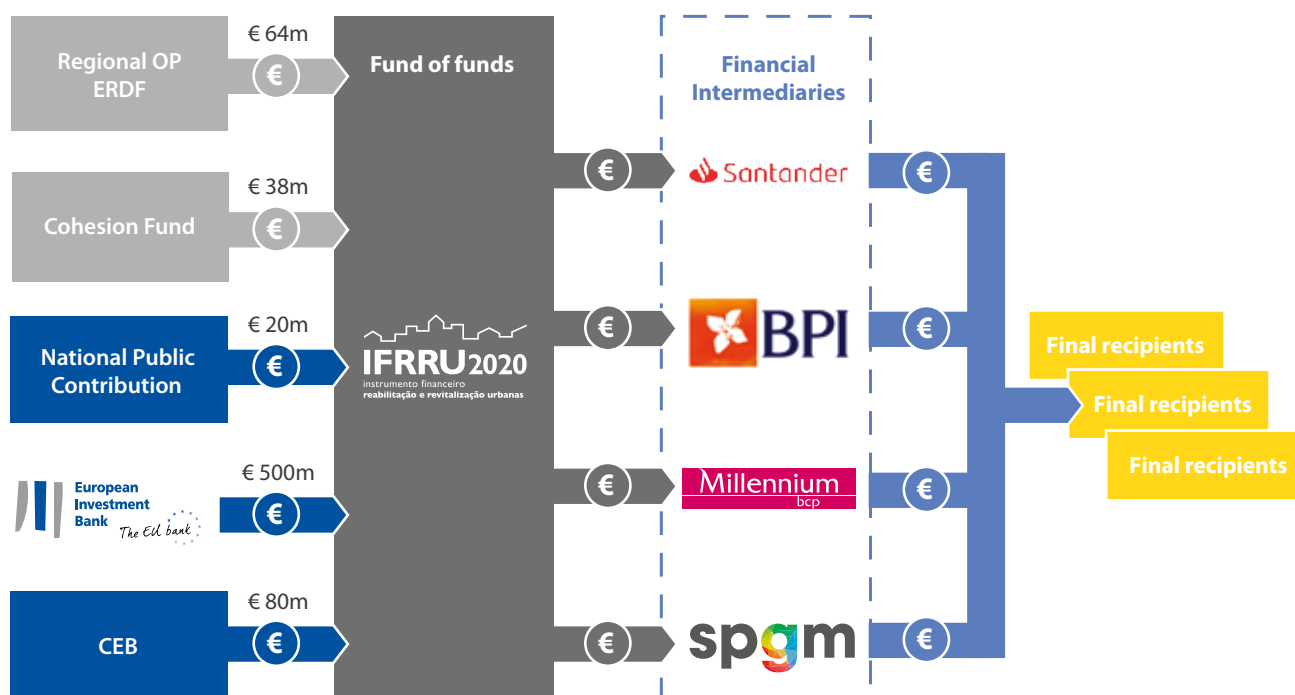
It was, therefore, concluded that a financial instrument would be created to support urban rehabilitation projects that includes a component of energy efficiency. Establishing a single instrument would provide project promoters with the opportunity to access funding for both urban renewal and energy efficiency through a single application to a combined financial instrument.

2.3 The fund of funds

In order to implement the recommendations of the ex-ante assessments, a fund of funds structure, known as IFRRU 2020, was established⁶ as a new national body holding a separate block of finance.

The overall design of IFRRU 2020 is shown in Figure 2.

Figure 2: Design of IFRRU 2020



6 Council of Ministers resolution No. 52-A/2015.



The partner managing authorities entrusted the implementation of the financial instrument to IFRRU 2020 under Art 38(4)(b)(iii) Common Provisions Regulation (CPR)⁷. In total, EUR 102 million of ESI Funds was committed to the fund of funds by the regional OPs that support urban development and the national energy efficiency programme established under the CF. This was combined with a EUR 20 million national public contribution and borrowing of up to EUR 500 million from the EIB and EUR 80 million from the CEB. IFRRU 2020, as a public body, benefits from the ability of the Portuguese government to borrow through the central government Agency for Management of Treasury and Public Debt (IGCP) at advantageous ‘Portuguese republic’ rates. This has been used to secure the support of the EIB through its Framework Loan product that provides finance for a range of different types of projects that meet the EIB’s eligibility criteria.

2.4 Selection of financial intermediaries

As a national government body, IFRRU 2020 was directly entrusted to act as the fund of funds manager as it met the definition of ‘in-house entity’, in accordance with the case law that applied prior to Directive 2014/24/EU coming into force⁸.

An ‘in-house entity’

Under the applicable rules before Directive 2014/24/EU (the Directive) came into force, a managing authority may entrust tasks of implementation of financial instruments to a **100 % publicly owned entity** over which it **exercises a control**, which is similar to that which it exercises over its own departments provided this entity carries out **the essential part of its activities for the controlling contracting authority** or authorities.

The Directive, which came into force in Member States on or before 18 April 2016 sets out in Article 12 revised conditions for the direct award of contracts to in-house entities. Three cumulative conditions must be satisfied which are:

- The entity must be controlled by the authority in a similar manner to how it controls its own departments;
- More than 80% of the entity’s activities must be carried out for the authority; and
- There is no direct private capital participation in the entity.

In 2017, the financial intermediaries were selected by the fund of funds through a competitive selection procedure undertaken with applicable European and national public procurement rules. The process was designed to be ‘open, transparent, proportionate and non-discriminatory, avoiding conflicts of interest’ in accordance with Art. 38(5) of CPR. The selection criteria was aligned with Art. 7 of the Commission Delegated Regulation (CDR) and included:

A. Quality of the application:

- A1. Coherence and relevance of the application in view of the objectives pursued;
- A2. Justification of the actions planned based on the evaluation of the financial markets failure.

B. Adaptation of instruments to the targeted goals:

- B1. Methodology of identification and selection of the final beneficiaries;
- B2. Level of management fees;
- B3. Effect on accessibility and affordability of financing for final beneficiaries.

⁷ Regulation (EU) No 1303/2013 of the European Parliament and of the Council of 17 December 2013.

⁸ For more information, see ‘Guidance for Member States on the selection of bodies implementing financial instruments (2016/C 276/01).

C. Capacity demonstrated by the management team to manage Investment Funds (IF):





- C1. Adequacy of the proposed governance model to ensure that decisions concerning credit and risk diversification are taken in a transparent manner and in accordance with the relevant market practice. The governance structure should ensure the impartiality and independence of the financial intermediary manager;
- C2. Adequacy of the management team for the implementation and execution of the IF;
- C3. Ability to demonstrate increased activity level compared with the current one;
- C4. Proposed measures to avoid conflicts of interest.

D. Demonstrated ability to mobilise resources:

- D1. Leverage effect of OP resources and mobilisation of financial resources other than Portugal 2020.

Furthermore, it is required that the successful banks have the necessary resources to contribute at least 50% of all funds committed by the financial instrument.

A total of four financial institutions were appointed to act as financial intermediaries under IFRRU 2020 as follows:

| | |
|---|--|
|  | <p>Banco Santander Portugal is a private sector bank in Portugal and part of the Santander group. It has a network of over 533 branches across all parts of the country.</p> <p>Under IFRRU 2020, Santander has received a global allocation of EUR 767 million to manage. It is marketing the IFRRU 2020 products through advertisements on radios, newspapers and real estate market reference magazines.</p> <p>A dedicated page on the bank's website provides a convenient portal for potential applicants to apply for loans under the scheme. Information on the IFRRU 2020 products is also available on the bank's App.</p> <p>In addition IFRRU 2020 has formed part of further marketing initiatives, including the 'Conversas Soltas' initiative and the 'Box Santander Advance', which are described further below.</p> |
|  | <p>Banco BPI is the fifth largest financial institution operating in Portugal in terms of assets (EUR 31.6 billion), with a market share of 10% in loans and in Customer deposits.</p> <p>BPI is part of the CaixaBank Group (which holds its entire share capital) and focuses on the commercial banking business in Portugal, offering a broad range of services and financial products to corporate, institutional and individual customers. BPI has received from IFRRU 2020 a global allocation of EUR 400 million to manage.</p> <p>Therefore, BPI created the BPI/IFRRU 2020 Line – Urban Rehabilitation, the only product in Portugal in which reimbursement of the subsidised component of the loan occurs later, while benefiting from a 50% commission reduction compared to BPI's general pricing.</p> |
|  | <p>The Portuguese commercial bank Millennium bcp is a Portuguese owned private bank based in Lisbon. Under IFRRU 2020, it has been allocated EUR 290 million to manage.</p> <p>Millennium bcp unveiled the IFRRU 2020 solution through its country roadshows and has been present at the numerous debriefing sessions promoted by the programme's managing body and many municipalities.</p> <p>Its teams have experienced professionals with close relationships with Portuguese people and companies. They maintain a large branch network nationwide.</p> |
|  | <p>The mutual guarantee society, Sociedade Portuguesa de Contragarantia Mútua (spgm) was established to support SMEs through guarantees and other operations. Under IFRRU 2020, they have received a global allocation of EUR 14 million to establish a guarantee fund to support projects with insufficient collateral to benefit from the IFRRU 2020 loan funds. The guarantee can be used to support lending by the other IFRRU financial intermediaries from their own resources (ie not the ESIF resources).</p> |



2.5 Timetable for design and implementation

The steps taken to set up the financial instrument are described in Table 2.

Table 2: Design and implementation of IFRRU 2020

| Time period | Action taken |
|-------------------|---|
| July 2014 | Partnership Agreement signed with European Commission for Portugal 2020. |
| Oct 2014-Nov 2015 | Ex-ante assessments for FIs for urban regeneration and energy efficiency undertaken. |
| Dec 2014 | OPs finalised foreseeing the use of FIs for urban regeneration. |
| Jul 2015 | Council of Ministers decision RCM 52-A/2015, of 23rd July - Establishes the framework for implementing IFRRU 2020 and creates IFRRU 2020 Managing Structure, which starts to operate. |
| Dec 2015 | Monitoring Committees examine the ex-ante evaluations for FI and approve the selection criteria for IFRRU 2020. Protocol signed with IGCP (Portuguese Agency for Management of Treasury and Public Debt). |
| Jul 2016 | Protocol signed with ANMP - National Portuguese Municipalities Association. |
| May-Jul 2016 | Applications for the selection of IFRRU 2020 Management Structure. |
| Sep 2016 | Finance Agreement with the eight OPs for ESI Funding. |
| Feb 2017 | Beginning of the public tender for the selection of the financial intermediaries. |
| Mar 2017 | Funding Agreement between CEB and the Portuguese Republic. |
| Jul 2017 | Protocol with DGTF - Directorate-General for Treasury and Finance. |
| Aug 2017 | Funding Agreement between EIB and the Portuguese Republic. |
| Jun-Jul 2017 | Selection of financial intermediaries. |
| Jul-Sep 2017 | Signature of contracts with financial intermediaries (prior to the approval by the Portuguese Court of Auditors). |
| Oct 2017 | Publication of technical guidance on IFRRU 2020 and Energy Efficiency by ADENE (Portuguese Agency for Energy) for the qualified experts. |
| Oct 2017 | Communication to DG COMP for the creation of IFRRU 2020 in the framework of General Block Exemption Regulation (GBER) ⁹ . Call opening for the selection of urban regeneration projects. |

⁹ COMMISSION REGULATION (EU) No 651/2014 of 17 June 2014 declaring certain categories of aid compatible with the internal market in application of Articles 107 and 108 of the Treaty.

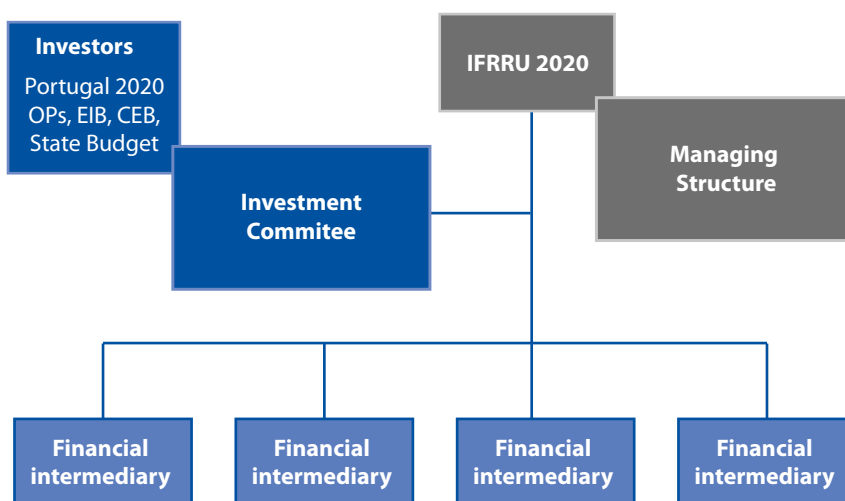
3. Set-up of the fund of funds

3.1 Governance structure

The IFRRU 2020 fund of funds governance is summarised in Figure 3 below. It has two key bodies that are responsible for the strategic direction and implementation of the fund of funds:

- The **Managing Structure**, which is responsible for the establishment and maintenance of the overall structure, together with reporting and treasury management; and
- The **Investment Committee**, which oversees the implementation of the financial instruments including the instrument's investment policy, business plans, communications plan, performance management and audit.

Figure 3: The IFRRU 2020 governance structure



3.2 The IFRRU 2020 Managing Structure

The IFRRU 2020 Managing Structure was created on the establishment of the IFRRU 2020 as a national public managing structure¹⁰ in July 2015. The team is made up of a total of seven professionals with a range of backgrounds and experience from both the public and private sectors. The team is led by a Chief Executive, who is accountable to the Secretary of State of Housing and the Ministry of Infrastructure and Housing for the delivery of the IFRRU 2020 programme. Oversight of the strategy of the fund of funds is the responsibility of the President of the Investment Committee.

¹⁰ A public managing structure is a mission structure which is a type of public body set up under Portuguese law to manage a specific activity.

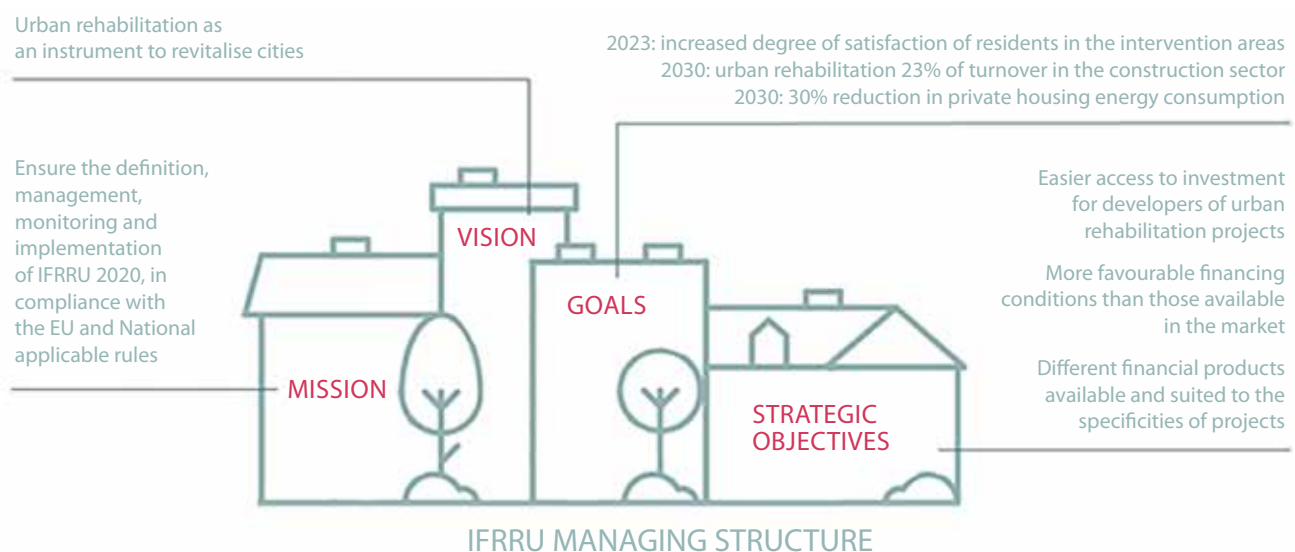
The main tasks of the IFRRU 2020 Managing Structure include:

- Launching and managing the procedures for the selection of the financial intermediaries for the financial instruments, and presenting to the Investment Committee its recommendations for the organisations to be selected;
- Preparation of operating agreements between IFRRU 2020 and the selected financial intermediaries and subsequent submission for approval by the Investment Committee prior to its formalisation;
- Monitoring the implementation of operational agreements;
- Provision of regular information to the Investment Committee on the implementation of operational agreements and on the performance of the financial intermediaries;
- Treasury management of IFRRU 2020;
- Provision of technical support to the OP managing authorities in relation to the collection of necessary information for the presentation to the national and European authorities responsible for audit and control and monitoring;
- Development of the Investment Strategy and the Communication Plan of IFRRU 2020 to propose to the Investment Committee and their implementation, in coordination with the institutions represented on the committee and the management bodies of the financial intermediaries; and
- Provision of technical support to the managing bodies of the financial intermediaries.

The Managing Structure is funded by the OPs that finance IFRRU 2020 and the national budget. In addition to its formal tasks, it has developed a proactive approach to stakeholder management. It has built strong partnerships with the eight managing authorities supporting the project, other investors such as the CEB and the EIB, over 300 municipalities and the private sector financial intermediaries.

To ensure it effectively performs its functions a clear framework has been established for the Managing Structure which is shown in Figure 4.

Figure 4: IFRRU 2020 Managing Structure



3.3 The IFRRU 2020 Investment Committee

The design and set-up of the IFRRU 2020 investment committee was strongly influenced by the experience in Portugal with the European Commission's JESSICA (Joint European Support for Sustainable Investment in City Areas) initiative. In 2011, the Portuguese government established three financial instruments under JESSICA. These funds, which were set up with the EIB's support in the role of the Holding Fund Manager, aimed to support urban development through a mixture of loans, equity and quasi-equity. The experience of the JESSICA project was an important factor in the development and implementation of IFRRU 2020, increasing the knowledge and understanding within the government and its ministries of financial instruments.

A key lesson learned from the JESSICA financial instruments was the importance of an Investment Committee structure to ensure the successful alignment of interests between the stakeholders and implementing bodies of the various financial instruments.

The IFRRU 2020 Investment Committee is composed of all the managing authorities of the stakeholder OPs, under the presidency of the managing authority of OP Centro 2020. It also includes the board members of IFRRU 2020 and representatives from the municipalities (ANMP), the Portuguese Directorate General of Energy and Geology (DGEG), the Directorate General of Treasury and Finance (DGTF), the Portuguese Institute for Housing and Urban Regeneration (IHRU) and the Portuguese Institute for Tourism (Turismo de Portugal). Its role includes the appraisal and approval of a number of key decisions, based on the recommendations of the IFRRU 2020 Managing Structure including:

- The IFRRU 2020 investment policy;
- The procedures and terms of reference for the call for tenders for the selection of the financial intermediaries (retail funds);
- The business plans submitted by the financial intermediaries;
- The communication strategy and plan of IFRRU 2020;
- The funding agreement between IFRRU 2020 and the financial intermediaries;
- The release of the IFRRU 2020 new phases, as well as the performance evaluation;
- The deliberation on increasing and decreasing the funds to be mobilised by IFRRU 2020; and
- The designation of external auditors and external accountants.



3.4 Management of financial and operational information

In order to ensure the efficient management of financial and operational information between relevant stakeholders, the IFRRU 2020 Managing Structure has developed a tailor-made information system to meet the specific characteristics of the fund of funds. The system was developed to ensure a close monitoring of the operation of the instrument on a daily basis, collecting (and allowing updates of) a broad set of data about each project, storing and enabling the processing of this data.

Pestana Churchill Hotel, Madeira

This project is located in the Câmara de Lobos Urban Rehabilitation Area (ARU), as well as in the priority territory of PARU (Urban Regeneration Action Plan) on the island of Madeira. Financing from IFRRU 2020 was used to support the conversion of the old fish market of Câmara de Lobos and a Council office into a high quality hotel. Outside the traditional tourist resorts, the Câmara de Lobos village had experienced a decline of its traditional fishing industry.



The project helped regenerate the area and boost its reputation, not only economically (with 20 new jobs created), but also from a social point of view. The development of the hotel has been important for the community established in this village, creating a renewed sense of ownership and pride. The energy efficiency measures reduced the building's primary energy consumption needs from 211.34 toe to 84.03 toe (a reduction of 60%).

Financial intermediary: BPI.

Total investment: EUR 2 914 500 provided in two equal tranches, the first from BPI's own resources and the second from ESI Funds and other public financing through IFRRU 2020.

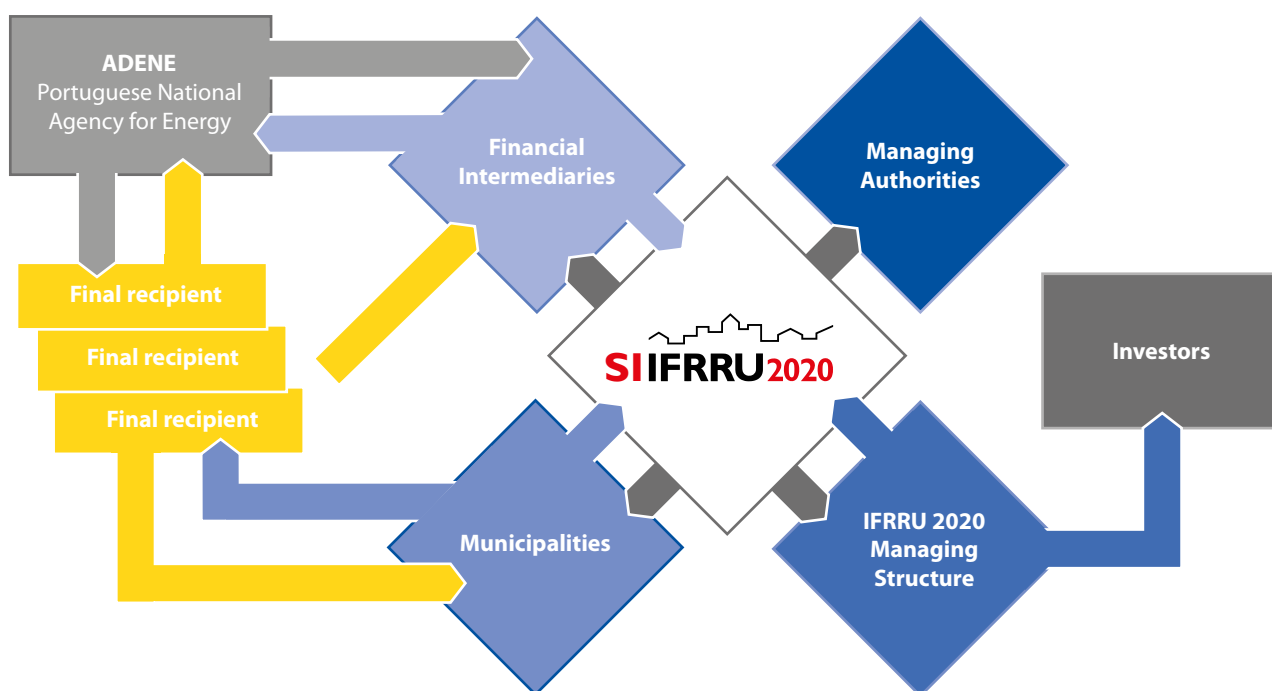
The information system is web-based and can be used with any type of device, in any location with a web connection. It is used by the following stakeholders:

- The IFRRU 2020 Managing Structure;
- The four financial intermediaries;
- The managing authorities of the eight participating operational programmes; and
- More than 300 municipalities across the country.

The system also collects information related to energy efficiency (obtained from the national energy certification system managed by ADENE) to process it in a way that makes the analysis by the banks faster and more straightforward during the decision-making process of a proposed project.

A schematic diagram showing the stakeholders involved is shown at Figure 5.

Figure 5: IFRRU 2020 information system



An important feature of the system is the involvement of the four financial intermediaries who use the system to fulfil the majority of their reporting obligations. The participating banks upload into the system all the data they hold in relation to both the contracted operations that are already ongoing, and projects that have applied for financing in the future. This allows the IFRRU 2020 Managing Structure to follow the evolution of IFRRU 2020's execution in real time, using a broad set of data updated by the banks on a monthly basis. All information regarding the disbursement (and reimbursement) of funds is also recorded in this system. For example, the IFRRU 2020 payments to the financial intermediaries are recorded with a reference to each source of funding.

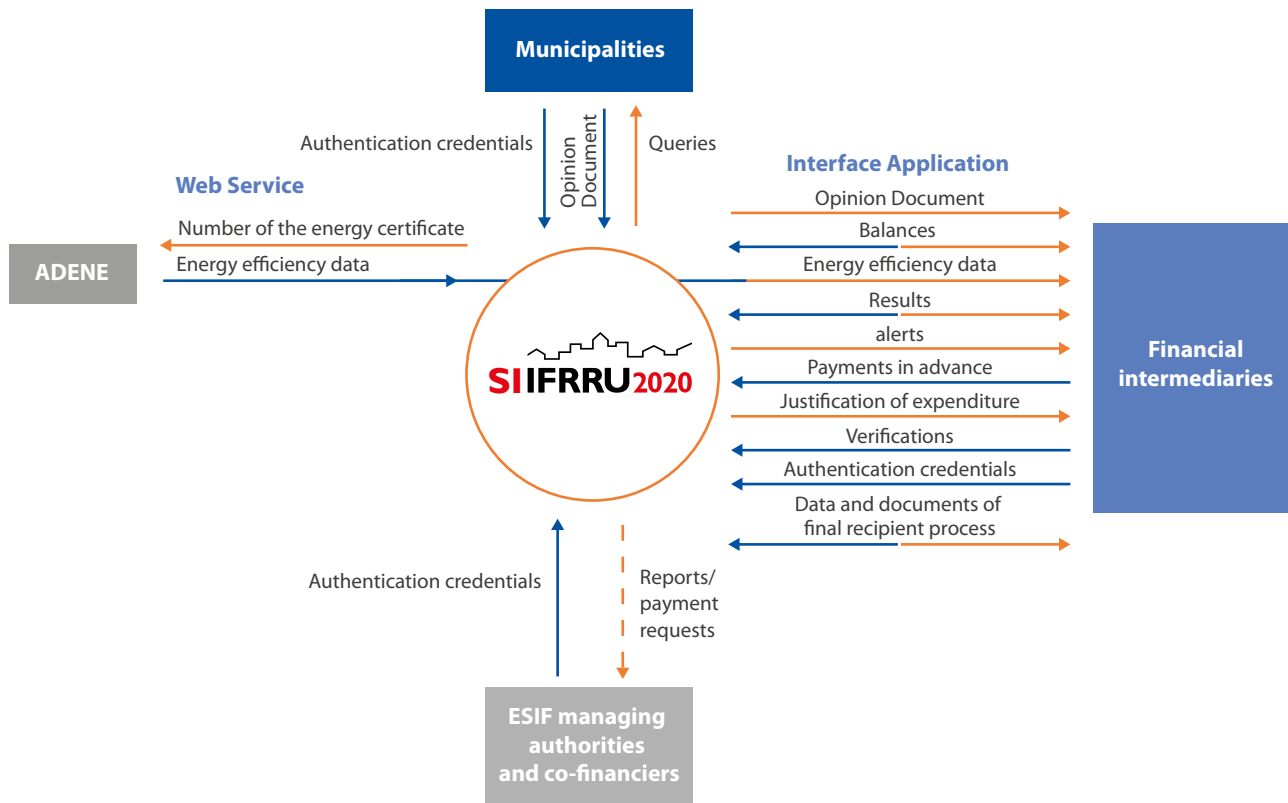
The managing authorities use the system to access information related to the operations using ESI Funds provided by their operational programme. Additionally, all information regarding payments between the MAs and IFRRU 2020 Managing Structure is also recorded in the system.

The Portuguese municipalities are also regular users of this system in a number of ways. Firstly, the focal point for each municipality, uploads the Municipality Opinion in support of eligible projects in their area. Later, the municipality can consult the system whenever necessary to ascertain the current status of the projects in their area, allowing them to check, for example, progress in terms of contracting with the banks and, once financing is secured the status of the project's execution.



The various flows of information are summarised in Figure 6

Figure 6: Information flows in IFRRU 2020



3.5 State aid

The support to projects by the IFRRU 2020 programme is undertaken in compliance with GBER¹¹ and/or the *de-minimis*¹² rules.

The key provisions of GBER relied on by the financial instrument are Art 16 GBER for urban rehabilitation projects located in all Portuguese regions and Art 39 GBER for the energy efficiency component.

A different approach is applied in Lisbon, which is not an Assisted Area within the meaning of Art 16 GBER. As a result, support granted to projects located in Lisbon are undertaken in compliance with Art 39 GBER in respect of the energy efficiency component and either Art 17 GBER for SMEs, or for larger enterprises the *de-minimis* rules.

11 Commission Regulation (EU) N°651/2014 of 17 June 2014 declaring certain categories of aid compatible with the internal market in application of Articles 107 and 108 of the Treaty.

12 Commission Regulation (EU) No. 1407/2013 of 18 December 2013.

4. Implementation of the financial instrument

4.1 Products to support projects

IFRRU 2020 has included two different products within its investment strategy, a funded risk sharing loan instrument and an unfunded guarantee product.

The loan instrument aims to create improved financing conditions for urban development projects, including those which incorporate energy efficiency measures, by providing low cost loans with more advantageous terms in relation, for example, to duration, grace periods and collateral requirements.

The loan products are implemented by three financial intermediaries, Santander, BPI and Millennium bcp. Under the terms of the funding agreements each intermediary must offer the loans across the whole of the Portuguese territory. The products were launched in October 2017 by each of the financial intermediaries. The key terms of the loans are set out in Table 3.

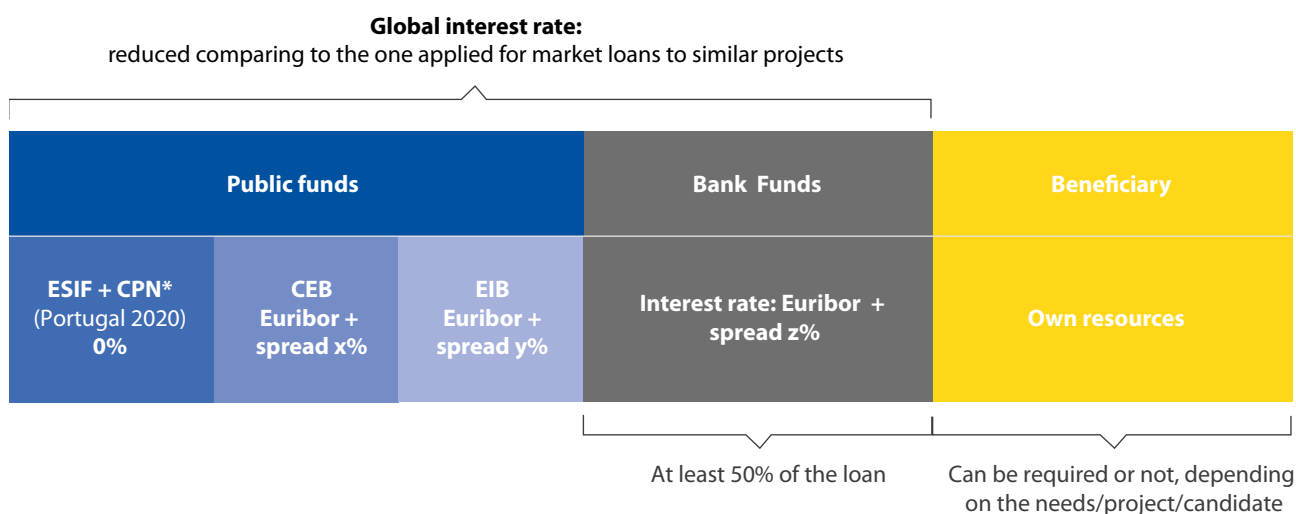
Table 3: Key terms of the loans under IFRRU 2020

| | |
|-----------------------------|--|
| Final recipient | Any entity, including natural and legal persons, public and private sector organisations. |
| Eligible projects | Projects in designated urban rehabilitation areas (ARU) and urban rehabilitation action plans (PARU) to improve buildings aged 30 years or more and abandoned industrial units or spaces. Projects in action plans for deprived neighbourhoods (PAICD) to improve social housing aged 30 years and over, integrated private housing units and public space. |
| Fixed interest rate | Below market price based on transparent pricing that passes on the benefit of lower cost ESI Funds and other public funding. |
| Preferential terms | Grace period of investment period plus six months (maximum 4 years); and May cover up to 100% of investment needs. |
| Average loan amount | EUR 2.3 million. |
| Loan period | Up to 20 years. |
| Eligible investments | Investment in the renewal of the buildings which may be used for any purpose including, housing, economic activities or public/collective use. |

The pricing of the loan product at below market rates is achieved through a combination of low cost public funds with competitively priced co-financing from the financial intermediaries. Figure 7 shows how by contributing the ESI Funds resources at zero cost and passing on the cost advantages of the financing from the EIB and CEB, IFRRU 2020 achieves a reduction in the 'global interest rate' charged to final recipients by the financial intermediary. The competitiveness is further enhanced both by asking financial intermediaries to propose the rates to be charged during the competitive selection process, and through the impact of the ongoing competition between the three different financial intermediaries in the market.



Figure 7: Loan pricing methodology



The guarantee instrument, which is managed by Sociedade Portuguesa de Contragarantia Mútua (SPGM) has been designed to support projects that do not have sufficient collateral to benefit from the loan products. The guarantee is made available to private enterprises for eligible projects within a PARU or PAICD. The guarantee uses ESI Funds to cover up to 70% of the value of the loan, which must be provided by one of the three banks acting as a financial intermediary from the loan product.

The guarantee product can only be used to fund lending from the Banks' own resources. The guarantee cannot be used to support an application for a loan from an IFRRU 2020 risk sharing loan.

4.2 The application process

To access support from IFRRU 2020, an applicant must apply directly to one of the financial intermediaries. Applications are made via the bank's branch network and website and can be made at any time. This process is therefore, from the point of view of the project promoters as similar as possible to the standard market practice for securing a loan.

There are three key elements to the application process as shown in Figure 8, namely: (1) the Municipality Opinion; (2) the Energy Certificate; and (3) the Application for funding.

Figure 8: The application process



4.3 The Municipality Opinion

The Municipality Opinion is required to verify that the project is situated in an urban rehabilitation area (ARU) and additionally whether it is within either of the two action plans PARU and PAICD. A project promoter must contact the municipality to obtain a binding opinion from the authority that the project falls within the relevant urban development plan and is thus eligible for support. It is a requirement of the IFRRU 2020 Investment Strategy that the project is located in an ARU. Projects within a PARU or PAICD (which are designated areas for additional support within an ARU) may also benefit from the best financial conditions with lower interest rates.

In order to manage this process, each municipality has identified an individual or department to act as the focal point for IFRRU 2020. Details of the focal point for each municipality are available on the IFRRU 2020 web page. This process ensures that the projects supported by the financial instrument are aligned with the relevant urban development plans of the municipalities. It also provides a straightforward mechanism for the financial intermediaries to rely on when appraising potential applications.

Further, by creating local focal points the financial instrument benefits from a network of local contacts that can promote and raise awareness of the benefits of the programme at the same time as managing the formal opinion process. Under the protocol between IFRRU 2020 and the municipalities, the Municipality Opinion document must be delivered within a maximum of 20 working days.

4.4 Energy certification

All projects supported by IFRRU 2020 must deliver improvements in the energy performance of the building after its renovation. In order to assess this, it is necessary for the promoter to commission as part of the project cost, a consultant to carry out an energy certification before and after the works supported by the financial instrument.

Prior to the request for funding, the candidate must either certify the building/units or update an existing energy certificate, through one of the experts qualified by ADENE. The audit carried out by the expert for this certification identifies the current energy performance of the building and, specifically for housing, the measures that result in the best balance between cost and benefits in energy efficiency (due to the specific funds that are available for energy efficiency in housing – OP SEUR/Cohesion Fund).

In order to properly instruct the application for funding, ADENE has developed a specific approach and guidelines for qualified experts, as well as training sessions specialised in IFRRU 2020 procedures all over the country.

Once a project is completed, a further audit must be undertaken by an expert qualified by ADENE. This may be the same expert who did the original audit or a new expert chosen by the applicant. All information in relation to the audit is updated to the IFRRU 2020 information system to enable an easy verification of the improvements in energy performance as a result of the projects funded under the programme.



4.5 Application for funding

Once an initial application is received by one of the financial intermediaries, a full application is prepared including the following elements:

- Description of the project, including:
 - Rationale of the investment costs, as well as the identification of risks associated with the project, for example, due to the existence of archaeological findings in the area;
 - Verification that the costs are reasonable, based on at least 3 valid quotes for the work (or public procurement procedure, if applicable). Alternatively the bank will often require an independent assessment to verify the costs; and
 - Where the building is intended for economic activities, a business plan, including financial feasibility study related to the project, cash flow forecast, evaluation of the financial risks associated with the project; profitability and feasibility indicators and sensitivity analysis.
- Documents evidencing that all necessary approvals and licences have been granted for the work to be carried out. In Portugal, most projects must be approved by the relevant local authority in accordance with the national and local legal framework, known as ‘the prior control of the urban operation’. Where applicable, documents evidencing environmental licensing (such as an Environmental Impact Assessment) must also be supplied; and
- Completed application form - a single model of this form (available on IFRRU 2020 Webpage¹³) was developed (for all the intermediaries), to simplify the process if the candidate intends to apply to more than one institution.

The IFRRU 2020 project cycle is shown in Figure 9.

Figure 9: the IFRRU 2020 project cycle



13 <https://ifrru.ihru.pt/>.

4.6 Communication

The IFRRU 2020 Managing Structure has established a far reaching communication strategy to support the programme. The strategy aims to both raise awareness of the financial instrument and build capacity amongst project promoters and municipalities to bring forward investment-ready projects.

Communication activities undertaken include:

- Over 100 **public sessions** which have been delivered to potential final recipients and stakeholders interested in knowing more about IFRRU 2020. These sessions also involved the financial intermediaries and have been held throughout the country, including in the outermost regions of Azores and Madeira;
- **Specialised sessions** for the sector which have been held in conjunction with major events including the Lisbon Urban Rehabilitation Week, the Porto Urban Rehabilitation Week and the Portimão Urban Rehabilitation Week. Other specialist sessions have been organised together with sector associations including Real Estate Promoters Association (APPII), Construction Sector Association (AICCOPN); Property Owners Association (ALP), Hotel Association (AHP). The IFRRU2020 team has also participated in the Real Estate Exhibitions in Porto, Lisbon and Algarve;
- **Collaboration protocols** have been put in place with several key entities related to the sector, including the organisation of specific sessions with experts and consultants within the bodies. Protocols have been put in place with the Portuguese Engineers Association, Portuguese Technical Engineers Association and the União das Misericórdias e União das Mutualidades in the social sector and a collaboration with the Portuguese Architects Association;
- **International action** through a protocol with Portugal Global - Trade & Investment Agency (AICEP). The IFRRU 2020 team work with consulates and embassies and the emigrant support offices in each municipality to promote the opportunities created by the programme. In addition the team have participated in international real estate exhibitions;
- **Participation in events** for Portuguese investors from communities abroad organised by the Gabinete de Apoio ao Investidor da Diáspora (GAID);
- A dedicated **website** including comprehensive information was created in Portuguese, as well as in English, French and Spanish;
- **Promotional videos** were created, which summarise the opportunity that IFRRU 2020 creates for potential beneficiaries, including testimonials of promoters (versions in Portuguese, English, Spanish and French);
- Leaflets in Portuguese, English, French and Spanish;
- A periodic newsletter sent to all stakeholders; and
- Maintenance of a YouTube channel and LinkedIn account, with regular updates.

In addition, the financial intermediaries have developed their own marketing campaigns integrated within the promotion of their conventional business. Figure 10 sets out in more detail the marketing campaigns of the financial intermediaries.

Figure 10: marketing campaigns for IFRRU 2020

Marketing IFRRU 2020 by financial intermediaries

The three different financial intermediaries have employed a range of innovative approaches to marketing their products under IFRRU 2020.

Santander developed two initiatives to bring together stakeholders in the sector:

‘Conversas Soltas’ – a new, unique and innovative communication concept that aims to bring the Bank closer to the reference audiences in the business and companies segment, including conferences with stakeholders specifically related to urban rehabilitation in different regions of the country (each conference focused in a specific region); and

‘Box Santander Advance’ – a new concept that brings the Bank closer to companies and universities, consisting of a mobile physical space that is temporarily placed in strategic locations in the country. The temporary box is then used to promote products and was used to raise awareness of the IFRRU 2020 products in the several areas.

BPI has produced a dynamic and appealing film¹⁴ about the experience of three IFRRU 2020 beneficiaries. The three projects featured in the film demonstrate the importance of each of the different projects for the development of the urban area in which they are located.

Millennium bcp has developed as part of its marketing strategy the “IFRRU 2020 Kit”.

This kit has been distributed throughout the commercial network for delivery to potential IFRRU clients and includes:

- A Brochure that explains in a simplified way what IFRRU 2020 is and the main features of the financing line;
- An IFRRU 2020 Checklist, a list of the documents required to apply;
- The Funding Application Form, which can also be filled electronically;
- The State Aid Declaration, in which the client accepts to communicate all types of support from the EU or intention for application; and
- A form to request the binding opinion from the Municipality.



14 <https://www.youtube.com/watch?v=1InY5kBELk4>.

Industrial unit in Vila das Aves

The project which is located in the North of Portugal has converted an old textile factory into a high tech business space for digital design and production in the fashion industry. The project is located in the Urban Rehabilitation Area (ARU) of Vila das Aves, an area that was affected in the past by the decline of the textile industry.



This project has resulted in the rehabilitation of a 2 723 m² area to create new different spaces suitable for the various business areas, which is expected to lead to a high growth of the company in the context of its sector with around 35 employees. The energy efficiency measures also reduced the building's primary energy consumption needs from 83.32 toe to 61.31 toe (26%).

Financial intermediary: Millennium bcp.

Total investment: EUR 1.8 million of which ca. EUR 550 000 funded from public resources and ca. EUR 700 000 from Millennium bcp.



5. Achievements

The IFRRU 2020 model has successfully delivered a platform to mobilise regional investment through a national model. To achieve this, IFRRU 2020 has developed a number of features that together provide a robust and practical framework within which the financial instruments operate. These include:

- establishing a **specialist team within the Managing Structure** to deliver the project on behalf of the eight managing authorities. By pooling resources the managing authorities have been able to develop a fund of funds at a scale that can **attract senior professionals** to manage the programme, at the same time achieving significant **economies of scale** across the eight OPs;
- **developing the information system** to provide all the stakeholders the ability to contribute to the origination, approval, monitoring and reporting of projects supported by the financial instruments;
- building a **strong partnership with municipalities** through the protocol signed with the National Association of Portuguese Municipalities (ANMP). The involvement of municipalities has ensured that the financing is directed towards projects that support the local strategic plans for urban development. Furthermore, the role of the focal point has enabled municipalities to play an active role in the promotion of IFRRU 2020 to local promoters.
- selecting **three financial intermediaries**, all with national coverage. As well as mobilising private investment the IFRRU 2020 model ensures **products are offered on competitive terms** and promoters have the freedom to select from several different products the support most suited to their needs; and
- actively **promoting the IFRRU 2020 products**. The fund of funds developed a communication strategy that has targeted all relevant sectors to raise awareness of the availability of the products. This has been complemented by a range of different campaigns promoted by the financial intermediaries and the work of the municipality focal points.

The financial instruments began offering IFRRU 2020 products to the public in October 2017. At the end of September 2019, a total of 151 funding contracts had been signed for investment of EUR 479 million. The financial instruments have supported projects in all seven regions of the country, delivering impact for all the regional operational programmes supporting the fund of funds.

Furthermore, IFRRU 2020's partnership with municipalities has led to projects being approved in 54 different cities across the country. In total more than 1 300 Municipality Opinions have been issued to potential final recipients.

The strength of the project pipeline is also demonstrated by the fact that over four hundred applications currently being considered by the financial intermediaries with a total investment requirement of over EUR 1 000 million. The financial results, including the geographical distribution of financed projects are shown in Figure 11.

Figure 11: Financial results of IFRRU 2020 (as at end September 2019)



The results that are expected to be delivered by the projects financed by IFRRU 2020 can be seen in Figure 12. The projects signed by the end of September 2019 are expected to deliver housing for 995 new residents, the renovation of 770 households and the creation of 2 684 jobs. In addition, the energy efficiency measures supported by IFRRU 2020 during this period are expected to reduce greenhouse gas emissions by 8 308 ton (CO₂ equivalent).

Figure 12: Results of IFRRU 2020 (as at September 2020)





6. Lessons learned

6.1 Main success factors

6.1.1 A national coverage, but a local approach

The National Portuguese Municipalities Association (ANMP) protocol is a major pillar of IFRRU 2020 because municipalities are at the heart of urban development in Portugal. They are best placed to define priorities for urban development in their area. Critically, they are also responsible for granting the license to undertake an urban project. The development of close working relationships with the municipalities and the establishment of a network of focal points has ensured that IFRRU 2020 has a streamlined process for approval of projects that ensures the Municipality Opinion procedure supports both the bank and the project promoters in funding and delivery of the scheme.

6.1.2 Creating a competitive loan environment

Competition between financial intermediaries was an important requirement in the design of the financial instruments. This has ensured competitive offers for loan pricing, not only during the selection procedure, in order to find the best partners to implement IFRRU 2020, but also during the operation, since the banks compete in the whole country to provide the best product to potential urban development projects. The coverage of the whole territory by all the financial intermediaries, instead of allocating a region to a specific financial institution, is expected to lead to good results coming from the competition that will benefit the final recipients.

6.1.3 Making communication easy

If the market does not know that a product exists then, in effect, the product actually does not exist. Bearing this in mind, the communication of IFRRU 2020 is based on a sustained effort to transform a complex product into something simple and easy for the public to understand. For this reason, communicating IFRRU 2020 was defined as a crucial task, not only through a wide range of channels such as the internet, through the dedicated website and social media, but also through direct contact with potential final recipients. This is achieved through one-to-one meetings, public information sessions and a dedicated email helpdesk to respond to specific questions from potential project promoters. In addition, the dissemination at international level aimed to reach the Portuguese communities abroad and attract foreign investment into the country.

6.2 Main challenges

6.2.1 Managing multiple stakeholders

A key challenge from the outset was the management of the multiple stakeholders. Key factors in addressing the needs of multiple stakeholders has been the information system which provides all relevant stakeholders with a shared view of the current status of the applications and investments being managed by the different financial intermediaries. In addition the IFRRU 2020 Managing Structure has put in place protocols with key partners or representative bodies. By establishing clear ways of working IFRRU 2020 has established a strong network of partners that underpins the implementation of the financial instruments.

6.2.2 The multiplier effect

Combining different sources of funding from different financing providers and with different interest rates was a demanding challenge which has ultimately resulted in securing a financing multiplier of fourteen. To achieve this, the programme benefited from the more advantageous lending conditions (including price) resulting from securing loans from the EIB and CEB. These are managed by the Portuguese State, through DGTF and IGCP and are passed on to IFRRU 2020. The pricing benefit is then passed on to the final recipients as outlined in Section 4 above.

Additionally, combining ESI Funds from eight OPs with EIB, CEB and national resources was a complex process which needed a specific managing architecture. The development of this model was complex but critical to the success of the project.

6.2.3 Supporting deprived areas

IFRRU 2020's investment strategy targets the support of viable projects that deliver economic and social results. As a result, the financial instruments have successfully supported projects in all regions of the country in a range of different types of cities. During the initial two years of the programme, however, the products have been used less often to support urban development in the action plan areas for deprived neighbourhoods (PAICD), since in these areas there is a successful grant programme funding the improvement of social housing. Consideration should be given to whether a complementary grant programme would enable the benefits of IFRRU 2020 to be further extended, including through the combination of grants and loans.

6.3 Outlook

IFRRU 2020 has established a viable model for a country-wide financial instrument to support urban rehabilitation and energy efficiency. For the first time in Portugal an ESI Funds financial instrument has been used to finance the redevelopment of housing, as well as commercial property. In addition, the close partnership with the municipalities through the ANMP has demonstrated how a financial instrument with national coverage can have a local approach and, therefore, help create 'cities with a future'.

Further, the IFRRU 2020 model has established operational procedures and an information sharing platform to enable the successful combination of funds from the eight OPs of ESI Funds in the 2014-2020 programming period with other sources of funding such as EIB, CEB, national budget and commercial banks. This has allowed IFRRU 2020 to have a multiplier effect of fourteen times so that approximately EUR 100 million of ESI funds has supported the creation of a fund of funds of EUR 1.4 billion. This ability to mobilise additional resources is essential, given that the amount of ESI funding available is far exceeded by the needs in the country.

As a result, IFRRU 2020 can demonstrate significant added value to the Portugal 2020 OPs, illustrating the benefit of establishing a specialist fund of funds to implement financial instruments on behalf of several managing authorities. It is expected that the IFRRU 2020 experience will contribute to the next ESI Funds programming period, providing a road-map for the implementation of financial instruments for urban rehabilitation and energy efficiency. The model also has the potential to support similar measures to provide sustainable finance in new priority sectors, such as the environment and the circular economy.



In the meantime, the work to implement the current programme of investments continues with the fund of funds' Managing Structure working closely with the financial intermediaries. The pipeline of projects is large, with over 1 300 certificates having been issued by municipalities. It is expected that the funds have the potential to be fully committed by the end of the investment period in 2022.

This support of urban rehabilitation and energy efficiency projects, in buildings intended for housing, economic activities and social purposes creates the DNA of IFRRU 2020. The successful delivery of its programme of investment has the potential to meet the objective of the fund of funds to mobilise EUR 2 billion to support eligible projects. This, in turn, will help achieve the long term strategic objective of the partner managing authorities to promote inclusive, intelligent and sustainable growth, which are the key elements to develop smart cities for the future.

