October 2018

Multi-Region Assistance Project-Revolving Investment for Cities in Europe (MRA-RICE)

European Commission

Den Haag

MANCHESTER CITY COUNCIL

MAYOR OF LONDON

Comune di Milano

We, the four MRA-RICE cities, know from our own experience that a financial instrument deployed by a city can be effective as a tool for financing sustainable urban development. Following the award of funding by the European Commission, we have come together to explore the feasibility of developing a multi-region thematically focused financial instrument for urban development under the MRA-RICE project.

Over the past year, we have worked together to establish the common financing needs of cities to identify those sectors in which financial instruments under the European Structural Investment Funds (ESIF) can (and often already do) make an important contribution to financing projects aligned with a city's policy priorities. We have sought to identify common themes of urban ESIF financial instruments and have developed the MRA-RICE Blueprint City Fund as a result that synthesises best practices and practical know-how from the partner cities.

In addition, we have sought to identify the range of needs within cities for advisory and other technical assistance to both establish a successful city fund and support the development of a pipeline of bankable projects within the city to take advantage of the investment available. Our proposals are designed to be simple and replicable so that they can be adopted by cities across Europe to help them develop urban ESIF financial instruments across a range of different sectors.

Our experience is that financial instruments provide long-term sustainable revolving finance for our cities. We hope that the MRA-RICE Blueprint can help other cities benefit from these funding models in the future.

The cities of London, Manchester, Milan and The Hague

Contents

Saskia Bruines

Deputy Mayor and Alderman for Education, Knowledge Economy and International Affairs in The Hague

The Hague is a city of opportunities and ambitions. A good example is the energy transition: we are taking concrete and meaningful steps to become a climate-neutral city by 2030. In the coming years, we are investing a great deal in the energy transition of the urban environment. We want to disconnect homes from gas and connect them to renewable energy. Residents and businesses can receive finance from funds that are managed by a professional fund manager. We want to create a financial instrument so that residents and businesses can thus fulfil important social objectives, such as reducing CO2 emissions and creating jobs. Furthermore, we will receive part of our contribution back once the loan is repaid or the investment has been recouped. In this way, we make smart and effective use of public resources. We let the city's growth work for us.

Saskia Bruines

Cities are catalysts for change in the EU

More than

70%

of the EU population lives in urban areas

Cities are at the heart of the EU's policy agenda. More than 70% of European citizens live in urban areas and this is set to increase in the future.

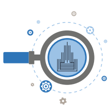
Every day, cities across Europe set the direction of their urban development to address the most pressing challenges, such as a growing population, climate change and digital transformation.

By developing comprehensive strategies and defining long-term policy goals, cities undertake actions to support affordable housing, promote projects in energy efficiency, revitalise city areas and improve public transport. Strategic plans can be successfully implemented only if cities have access to financing. Without the strong involvement of public and private capital, it remains difficult to transform a city's vision into reality.

The MRA-RICE partner cities have been successful in establishing city funds that boost investments in targeted sectors.

As a result, they have developed a blueprint of the City Fund – a flexible framework that can be adopted by cities across the EU as the basis for a financial instrument for urban development.

The proposed model is designed to be simple, replicable and adaptable to all areas of investment.

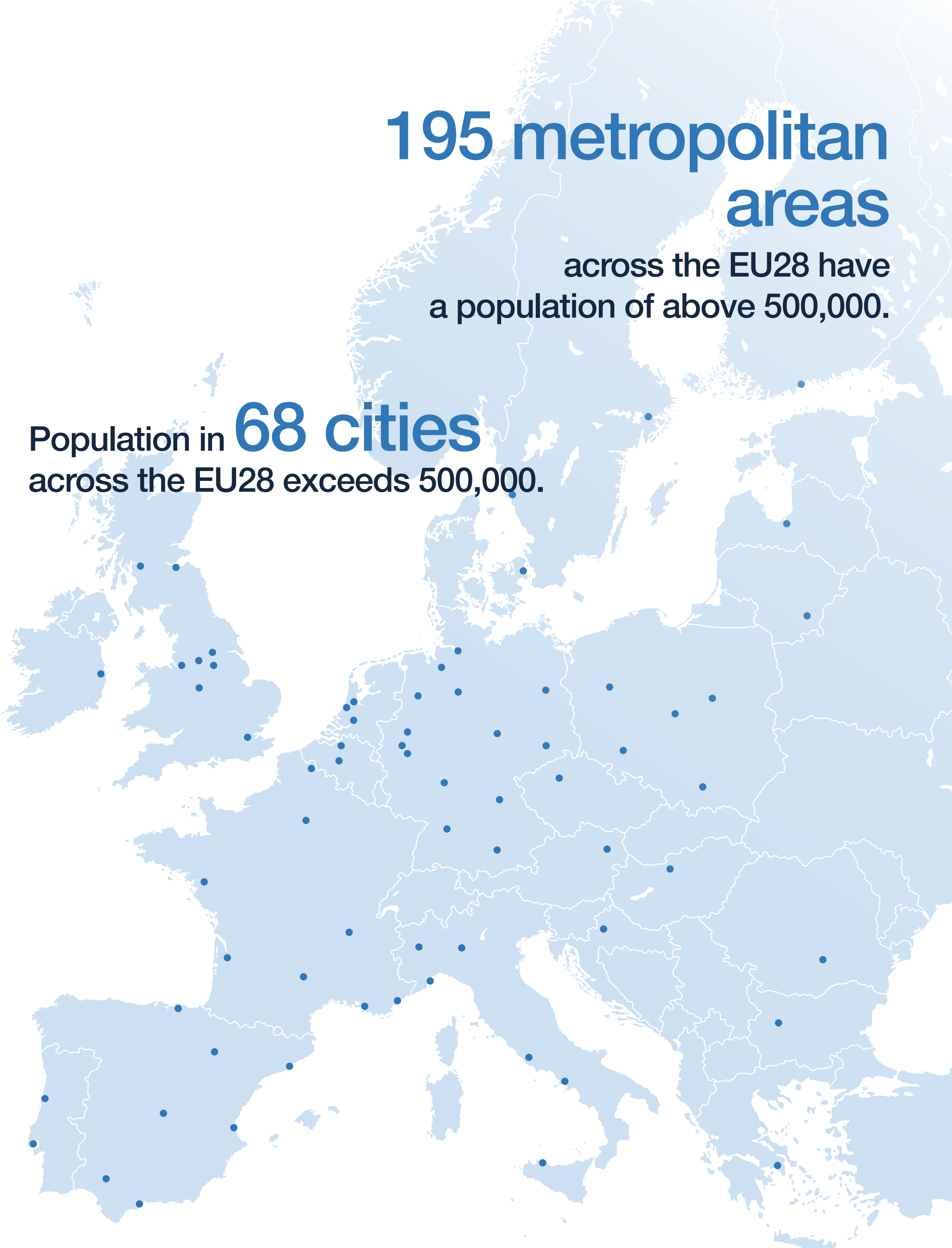


Look for this icon to find out more about the MRA-RICE partner cities' experience.

195 metropolitan areas

across the EU28 have
a population of above 500,000.

Population in **68 cities**
across the EU28 exceeds 500,000.



EU cities with population above 500,000 habitants

Financing needs

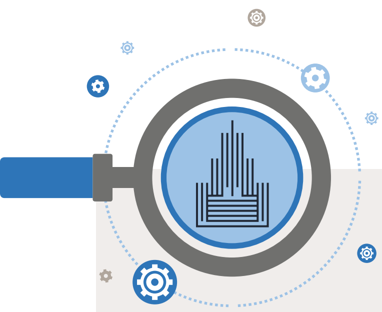
5 key sectors identified

Using the European Structural and Investment Funds (ESIF) to address market gaps

Public resources such as ESIF play a crucial role in addressing market gaps, enabling many projects to access funding that would otherwise be unavailable or too expensive.

Where cities have access to ESIF resources such as the ERDF, they can successfully implement financial instruments that are targeted to their local needs. The MRA-RICE partner cities show that financial instruments are flexible tools that can be adapted to meet different sectoral requirements, successfully mobilising other public and private investment into projects through:

- loans;
- hybrid instruments that combine loans, equity and grants; and
- equity or quasi-equity for higher-risk-profile investments.



Financing challenges for the City of Milan

To support urban development, the City of Milan has defined the strategic goal of turning the city and its metropolitan area into a “smart city.” Two sectors have been identified for support from financial instruments:

- The renovation of Milan’s municipal markets, an urban development project, requires financing that is not easily available in financial markets due to the low return and/or long payback period; and
- Energy-efficiency projects that are not currently served by the financial market because of too long a payback period or too low a return for market standards/perceived risk.

For the two investment areas specified, the types of financial products that could be explored are a guarantee or a concessional loan instrument.

The financing needs of cities are mainly split among the following sectors

Transport

Capital-intensive projects that generate limited income streams; need for long-term capital with a grant component.

Energy

Projects of a variable investment size, with the potential to generate income streams (or financial savings); need for debt.

Economic development

Higher-risk projects including SMEs and start-ups, as well as the development of new commercial/RDI facility projects; need for debt and equity.

Housing and workspace

Including urban development/regeneration projects; need for long-term debt.

Green and blue infrastructure

Higher-risk projects that are not directly revenue-generating investments; need for equity.

Green and blue infrastructure

Green and blue infrastructure is increasingly recognised as a critical component of healthy, prosperous and successful cities. High-quality green spaces and waterways can deliver measurable financial and non-financial benefits to the city, including reduced flood risk, reduced heat stress, improved air quality, and other socio-economic benefits. The Manchester Green and Blue Infrastructure Strategy 2015-25 aims to develop new business models and financing strategies for the delivery and long-term maintenance of green and blue infrastructure.

Manchester Climate Change Agency
Jonny Sadler

Investment strategy and financing products

A crucial activity for cities establishing a financial instrument is the definition of the future investment strategy. As promoters of the financial instrument, cities can ensure the investment strategy is aligned with its policy priorities for sustainable urban development. This investment strategy will then be refined by an independent fund manager to ensure the strategy matches the city's priorities, with the pipeline of projects and requirements of potential third party investors.

The investment strategy will describe the financial products of the city fund that best meet the financing needs for projects and market failure in terms of financing. So far, the most successful products for supporting urban development are senior debt and subordinated debt. These products are being used effectively in all three of the partner cities with existing financial instruments where there is a long-term market failure. Debt instruments are easy to understand and deploy alongside co-investment at project level. For example, in Manchester the Evergreen Fund invests senior debt alongside other public and private investors.

MANCHESTER
CITY COUNCIL

North West Evergreen Fund

Scope	• Financing for development phase in low-carbon infrastructure and in science, technology and innovation projects
Products	• The fund can provide debt and equity products • To date, only debt products have been offered, including senior debt (in about 90%) and subordinated debt
Loan conditions	• Project-specific, depending on the market failure • Size: GBP 2m to 12.5m • Tenor: up to 5 years

MANCHESTER

MAYOR OF LONDON

Mayor of London's Energy Efficiency Fund

Scope	• Financing for investments in renewables, energy efficiency and decentralised energy
Products	• Senior debt, which constitutes over 90% of investments made by the fund, plus equity, which represents up to the remaining 10%
Loan conditions	• Project-specific, depending on the market failure • Size: GBP 1m to 10m • Tenor: up to 20 years

LONDON

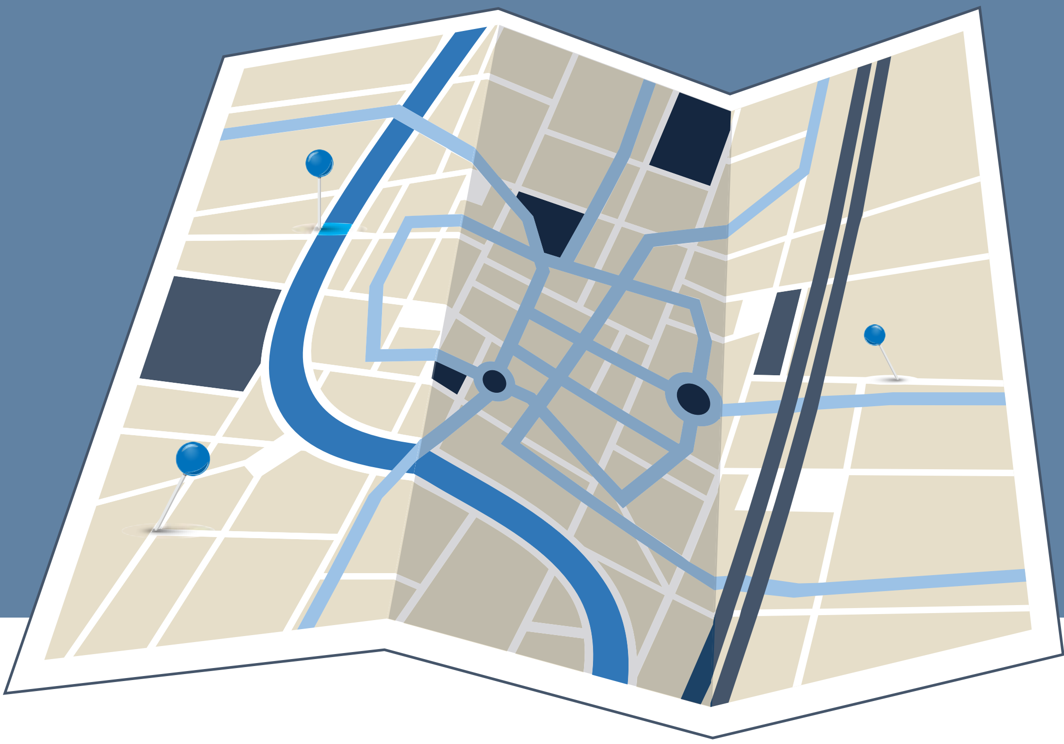
VREDE EN RECHT

Den Haag

Energiefonds Den Haag

Scope	• Financing for energy projects, with a focus on renewable energy production
Products	• In theory the fund can provide debt, guarantees and equity products • In practice, the fund invested 99% in debt products, including senior debt and subordinated debt, and 1% in equity products
Loan conditions	• Project-specific, depending on the market failure • Size: flexible – a single investment cannot exceed 20% of the ED capital • Tenor: about 12 years on average

THE HAGUE



Blueprint: MRA-RICE City Fund

Transform a city's vision into reality

The blueprint of the MRA-RICE city fund gathers the best practices observed among MRA-RICE partner cities, i.e. The Hague, London, Milan and Manchester.

The new MRA-RICE blueprint city fund is a flexible model that can be adapted to the specific needs of cities across the EU to support urban development.

Through the creation of the city fund, cities have the opportunity to operationalise their vision and strategy. The development of an urban investment strategy is led by the cities, while the involvement of an independent fund manager drives its implementation.

The vision for the blueprint of the MRA-RICE city fund is:

> "A **city-led** financial instrument, **independently managed**, with an investment strategy **aligned to the city's strategic priorities**, that achieves **significant leverage** of the public investment."

How did The Hague establish its city fund?

As one of the four largest cities in the Netherlands, The Hague is a frontrunner in driving sustainable urban development. The financial market crisis and a shift in the public mindset – which now expects the city to embrace a more facilitating role, rather than that of initiating and subsidising, led The Hague to participate in the JESSICA pilot (2011) to explore new ways of supporting joint investment in sustainable urban development.

The European Commission manuals led us to formulate a number of questions, to which we needed to find answers. What does a market failure look like in the city? Which projects have enough commercial potential and only need a financial kick-start? Do we want to make investment decisions at public administration level, and if so, are we equipped to do so? How can we use a relatively small budget when starting a publicly financed urban development fund?

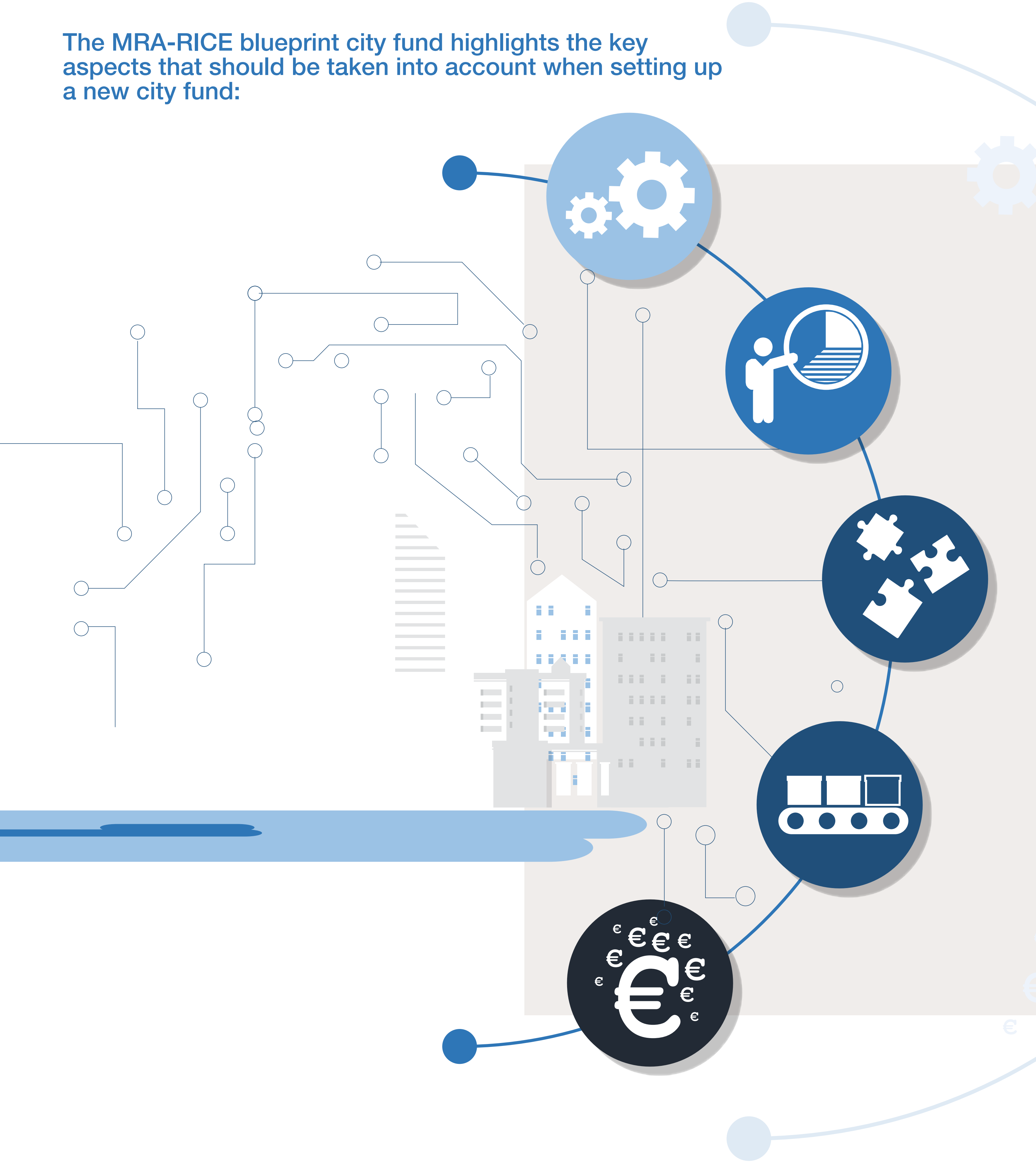
The pilot project helped us overcome several technical hurdles and enabled us to perceive them more as elements of a solid and secure foundation for future investments. We learned to define indicators for societal return and build trust in market mechanisms to fulfil them within the agreed investment strategy. This is how investment decisions are taken – at arm's length from politics, which is also an important step for attracting market investors. The external professional fund managers succeeded in investing in relevant projects.

What proved to be a challenge for the city at the time of investing in revolving instruments was not lack of money, but rather the relatively small scale of the pilot. One of the difficulties was for the fund manager to have a connection with existing project networks in the city and align common goals and projects accordingly. The key takeaway here is to remember about the project pipeline. The technical assistance team supporting the development of the project pipeline is essential. The other setback is the need to repeatedly explain how the mechanism works: how the city manages the strategy and how individual investment decisions are left to an independent fund manager. Finally, starting as a small fund and with only public funding is a challenge to scale up and attract private investors, who are interested in bigger investments.

We are confident that these challenges will be addressed, particularly since the fund model has already proven to be successful and flexible enough to result in a multi-sector investment across eight development funds.

Secretary of the Holdingfund The Hague
William van den Bungelaar

The MRA-RICE blueprint city fund highlights the key aspects that should be taken into account when setting up a new city fund:



Capacity

The city takes the lead in the creation of a city fund, acting as the key sponsor of the initiative, creating a local team, with experts who have knowledge and experience in both fund-financing and urban development to establish a city fund with an independent fund manager.

Independent fund manager

The presence of an independent fund manager enables the city to differentiate between political and investment decisions, as well as to build trust among the investors who financially contribute either to the city fund or directly to projects, by focusing on the fund performance.

Structured design

A structured design that follows the best practices observed among MRA-RICE partner cities and brings replicable structure, ensures that there is a balance between professional, independent fund management and investment decision-making within the fund. It also ensures that the city strategically oversees and monitors the instrument.

Products

Access to financial and capacity-building instruments that facilitate the realisation of the city investment strategy by providing funding and technical assistance to urban projects that fall under the city's investment strategy.

Investment-friendly

Combining public and private funds through the involvement of public resources that attract private investors who otherwise would not invest due to the high-risk profiles of investments or the long-term investment horizon.

Blueprint of the city fund

MRA-RICE blueprint design – flexibility to mobilise investment to meet a city's needs

Investors with diversified risk profiles

Co-investment is a key driver to successfully implementing the city strategy by launching strategic urban projects. Thanks to the involvement of public capital, private-sector investors become interested in joining the scheme and deploying additional capital.

Structure

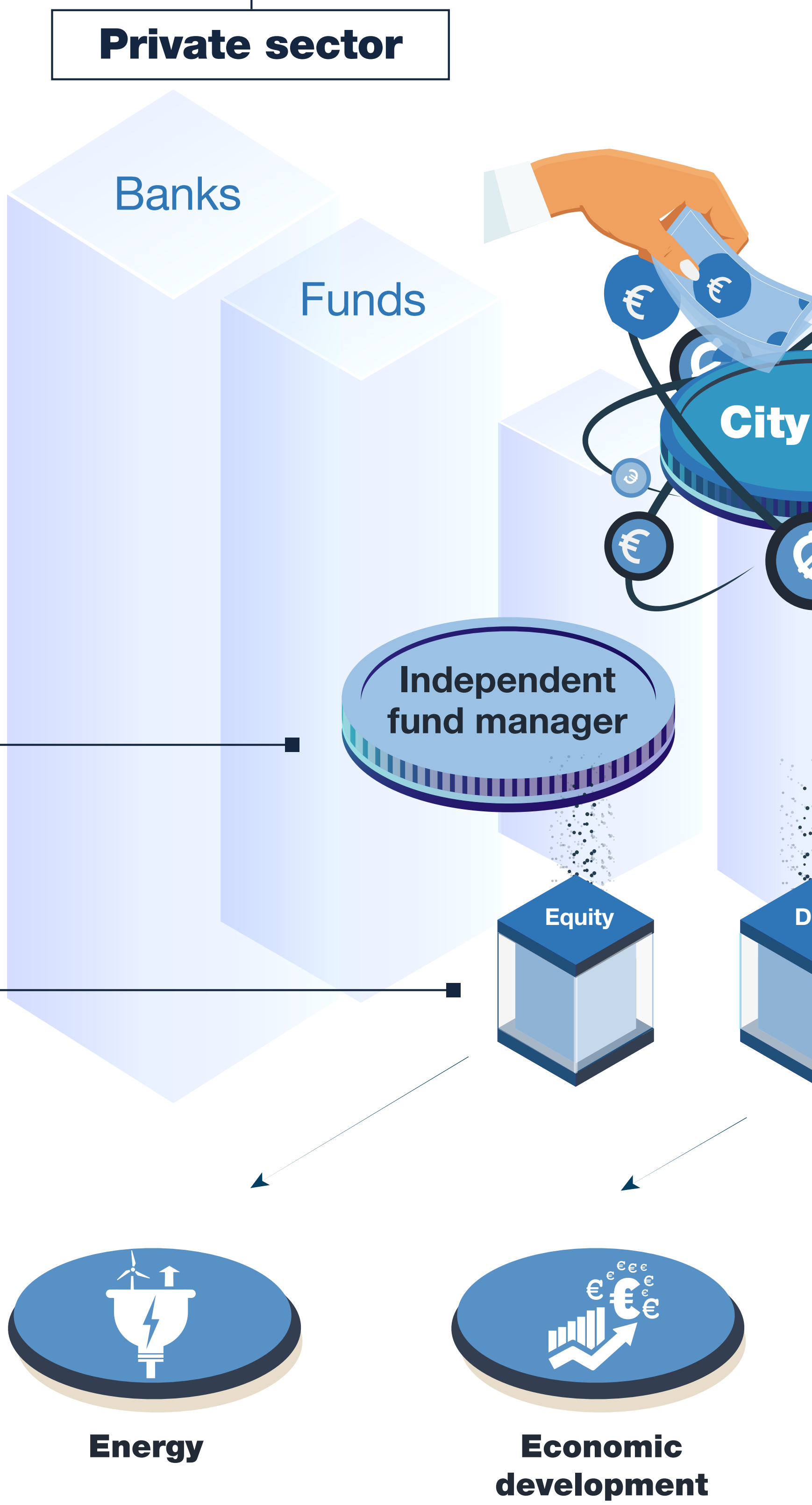
The MRA-RICE blueprint defines a replicable structure that can be applied by cities that do not have past experience with city funds.

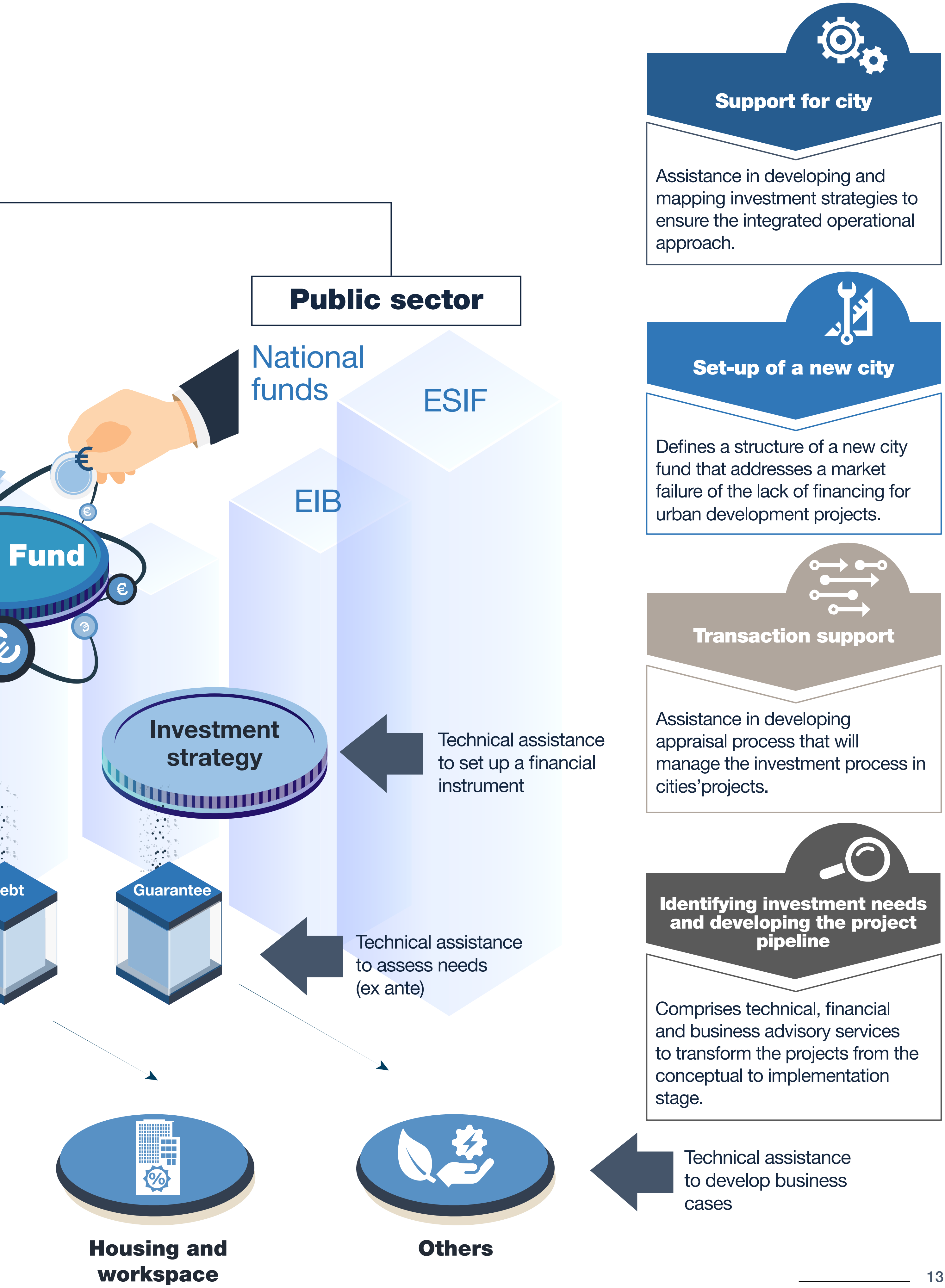
Products

Understanding individual projects' needs and the market gap will help you identify the right products.

Focus area

Categorising your investment priorities based on their sectoral allocations and risk profiles will help you secure financing for projects.




Support for city
Assistance in developing and mapping investment strategies to ensure the integrated operational approach.
Public sector
National funds
ESIF
EIB
Fund
Set-up of a new city
Defines a structure of a new city fund that addresses a market failure of the lack of financing for urban development projects.
Transaction support
Assistance in developing appraisal process that will manage the investment process in cities'projects.
Investment strategy
Technical assistance to set up a financial instrument
ebt
Guarantee
Identifying investment needs and developing the project pipeline
Technical assistance to assess needs (ex ante)
Comprises technical, financial and business advisory services to transform the projects from the conceptual to implementation stage.
Technical assistance to develop business cases
Housing and workspace
Others

Experience with City Funds

The Hague

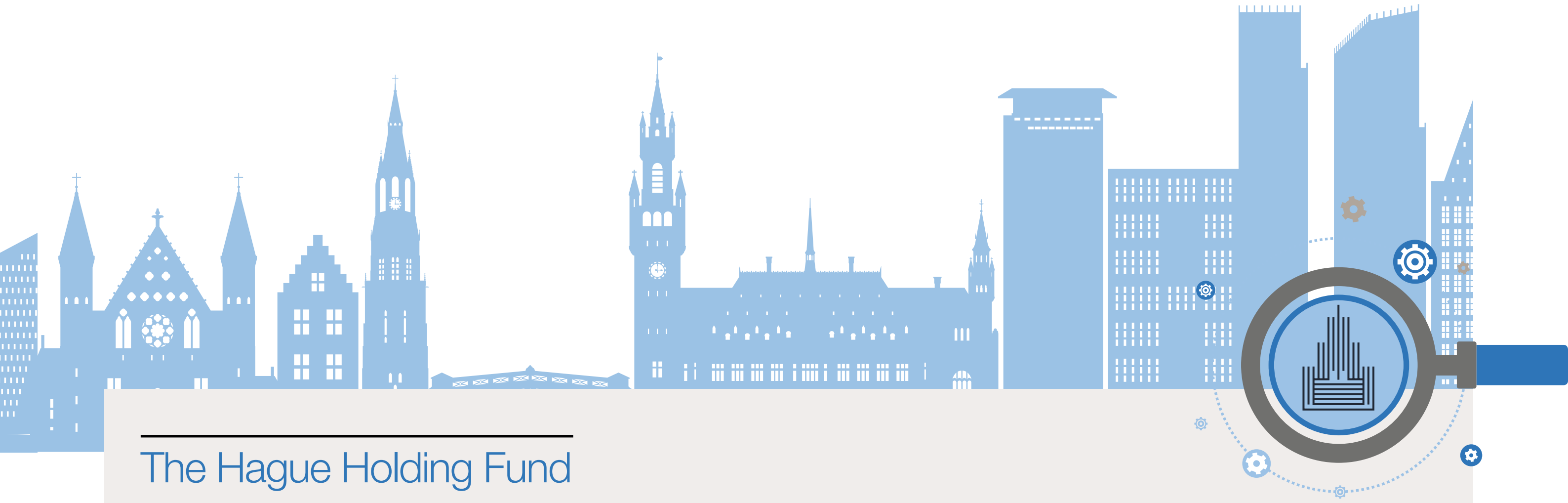
Energiefonds Den Haag

The city of The Hague decided to establish a dedicated financial instrument, the *Energiefonds* Den Haag (ED) Fund, to support energy projects in sustainable urban development. The fund uses the ERDF money to facilitate investment in energy projects that cannot be supported by commercial financing and to achieve the objectives in the city's sustainable development plans.

To support the fund, the city took steps to boost its internal capacity by creating a team comprising subject matter experts and public-sector funding professionals. The involvement of an independent fund manager was also important to facilitate the smooth implementation of the city strategy into investment-ready projects.

heid

Access to appropriate financing and technical assistance services was a critical factor in transforming the city's vision into reality.



The Hague Holding Fund

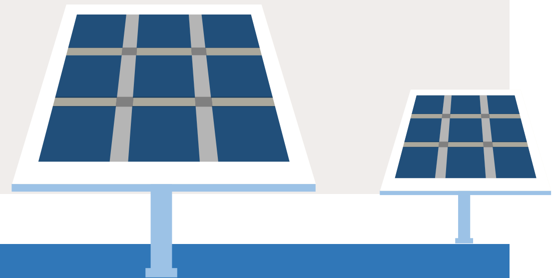
To address the financing needs of urban development projects in energy, as well as to reflect the objectives formulated in the city's sustainable development strategy, the city of The Hague has established a dedicated financial instrument that uses ERDF resources to support investments in sustainable energy.

So far, the city has invested in an *Energiefonds Den Haag* (ED Fund), investing in renewable energy sources, and a "sustainability fund for associations of homeowners" (VVE fund). Further ways to facilitate investments in other parts of the energy transition are being explored.

Both funds are set up as sectoral city funds, which have become part of the multisector holding fund HEID. In terms of governance, the funds operate under a limited partnership agreement. This set-up brings a flexible scheme, which enables investors to enter and exit the fund according to their preferences.

The aim of the ED Fund is to co-finance energy projects in sustainable urban development plans with loans, guarantees and equity investments. So far, thanks to the flexible structure, the city has managed to grow the ED Fund from an initial EUR 4m to its current size of to EUR 18m, while the fund geographically upscaled from city to regional level.

Fund Manager, Holdingfonds Economische Investeringen Den Haag
Ton Overmeire



ED investeert in uw toekomst.
Mede mogelijk gemaakt door het Europees Fonds voor Regionale Ontwikkeling van de Europese Unie en bestuurd door SVn.

De Uithof – a carbon-neutral sports centre

Sportainment Center 'De Uithof' in The Hague is one of the largest indoor sports centres in Europe for ice (speed) skating, indoor skiing and snowboarding, climbing walls, kart tracks, and all kinds of sport, fitness and games facilities. With two of the ED Fund's loan facilities, the Sportainment Center was able to embark upon various energy-saving projects, such as heat pumps, LED lighting, electric ice and kart machines and – most recently – a 2.4 megawatt solar PV system. All these investments contribute to a climate- and carbon-neutral sports centre.

London

Mayor of London Energy Efficiency Fund (MEEF)

The Greater London Authority (GLA) decided to use the ERDF funding to set up the Mayor of London Energy Efficiency Fund (MEEF) to contribute to the achievement of London's target of becoming a zero-carbon city by 2050. The GLA has successfully developed a model for leveraging public money through the city funds.

Public-sector involvement plays a key role in reducing the projects' risks and attracting private-sector investors. **Since available public money is shrinking, while the needs of emerging sectors are increasing, this approach is of critical importance.**

MAYOR OF LONDON'S ENERGY EFFICIENCY FUND

The use of public capital via **revolving instruments** is a solution for cities in order to firstly leverage the size of their co-financed investment, and secondly to reinvest invested capital and revenues received in future investments.

Greenwich Peninsula ESCO Limited

In December 2015, London Energy Efficiency Fund (LEEF) funded the largest new-build energy centre and residential heat network in Europe at the landmark Greenwich Peninsula regeneration development.

Public and private co-investing

MEEF has been capitalised by GBP 43m of public capital funded by the ERDF and up to GBP 456m of private-sector capital from a number of investors and banks. MEEF's approach is to ensure that public capital is invested on a State-aid-compliant basis by making use of the GBER and other State aid measures. MEEF will invest the public capital on flexible terms in the project.

Examples may include longer tenors for public-sector debt or competitive interest rates, which, when blended with private-sector funds, leads to an overall enhancement in the viability of the project while also addressing market failure. This will allow MEEF to crowd in private sector funding, which will be provided on a fully commercial basis. Furthermore, the MEEF structure allows for an aggregation effect for private-sector fund managers, allowing private-sector funding to reach projects that would previously have been too small for individual investments by banks. This can be achieved through an innovative fund structure that allows investors to ring-fence their investments in specific projects.

Amber Infrastructure Limited
Peter Radford, Development Team

London Energy Efficiency Fund

The design and implementation of the MEEF benefited from GLA's experience in setting up the London Energy Efficiency Fund, which was launched in 2013. LEEF could be described as a 'pilot fund' designed to use limited public resources to attract and unlock private capital to boost the scale and pace of delivery of low-carbon projects to meet our environmental targets. Prior to LEEF, the GLA developed technical assistance (TA) programmes to encourage and support public bodies to make their building more energy-efficient, as well as to support larger-scale decentralised energy schemes. However, the inability to secure funding was a key barrier to establishing these low-carbon infrastructure projects, particularly those of small or mid-size.

As result, we carried out a detailed study to determine, among other things, how best to leverage funding into these projects, drawing on our experience of using public funding (i.e. ERDF) via FIs to leverage private funding for SME development.

Working with the EIB, we used the study and our experience of SME funds to design an investment strategy and structure that would allow the involvement of key market players, including private-sector investors and investment fund managers. Once the fund manager was appointed and the fund established, we set up a governance arrangement that gave the fund manager enough flexibility to operate the fund without excessive interference on our part, while also allowing us to have sufficient oversight and scrutiny.

LEEF has committed GBP 72m in low-carbon projects and mobilised GBP 350m of external capital as a result. Building on this success and experience, we have now created a GBP 500m successor fund, MEEF, using GBP 43m ERDF to leverage GBP 456m from private investors. MEEF was established using the lessons learned from LEEF.

GLA
Kenroy Quellennec-Reid, Senior Programme Manager

Technical assistance

The city as a key sponsor of the city fund

Numerous cities do not have extensive experience in setting up city funds. Therefore, they need professional support in designing and establishing a new financial instrument at city level. Technical assistance programmes, such as fi-compass, the European Investment Advisory Hub and URBIS, are supported by the European Commission to make it easier to prepare and implement a new city fund.

To ensure the successful implementation of urban funds, cities need to build their own capacity by creating dedicated teams of experts in financial instruments. The experience of MRA-RICE partner cities with financial instruments proves that strong internal teams responsible for overseeing the cities' investments was of critical importance in ensuring that a city reaches its strategic policy objectives.

In order to facilitate the smooth development and provision of technical assistance services, cities should ensure that they create adequate internal capacity by creating teams of thematic experts.

Manchester's Core Investment Team

To support the establishment of the Northwest Evergreen Fund, the city of Manchester set up a dedicated team of professionals at the city administration.

The small team of investment professionals was put in charge of developing an investment strategy taking into consideration the city's key policy objectives, overseeing the implementation of the Fund, and leading an open procurement process for the Fund's independent manager.

This solution enabled the city to ensure that the Fund's investments were aligned to the city's urban policy priorities, while ensuring that the Fund's operations were managed independently.

The steps a city needs to take to implement a financial instrument are shown in the road map overleaf. The existing technical assistance initiatives available to support cities seeking to implement financial instruments are also shown.

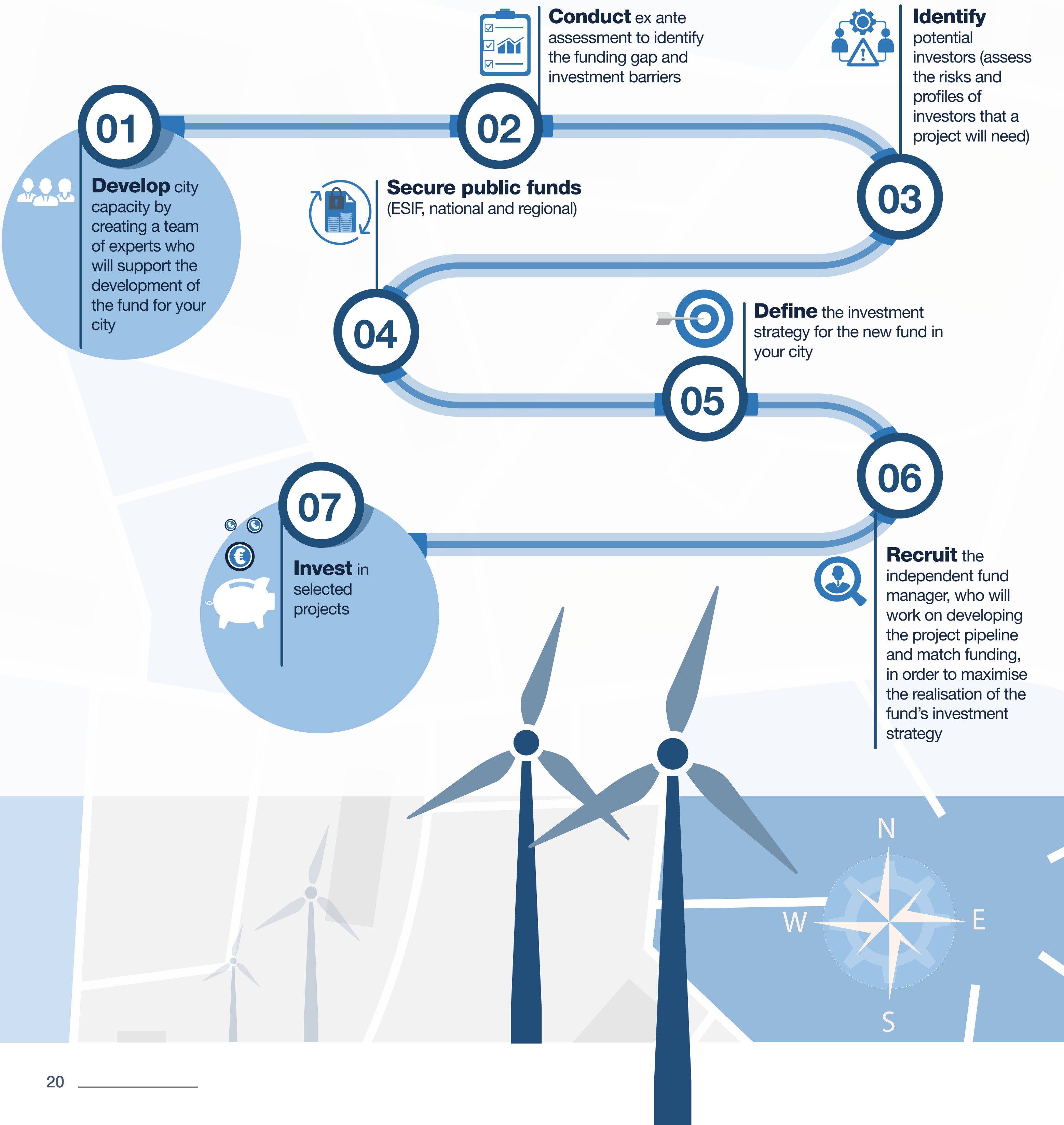
Technical assistance needs in Milan

It has been experienced that the process of developing a city fund is not an easy task.

It requires specific know-how and adequate timing, given that various stakeholders, such as administrative officers, political representatives, financial operators and technical operators are involved in the process. Furthermore, different decisions have to be made at city-strategy level regarding specific sectors to be selected, the proposer's potential financial commitment, and advisor selection. A combined team of internal and external professionals could strongly facilitate the achievement of the goals.

In the specific case of Milan, based on the strategy identified (Milan as a Smart City) and the two specific sectors selected (energy efficiency and urban regeneration), the market analysis conducted has demonstrated that there are various financial gaps. In both sectors, there are projects that can produce the cash flow necessary to repay and remunerate the sources of funds. However, those projects find it difficult to access the private financial market for different reasons, including matching between the cash flow generated by the projects and the repayment schedule requested by the financial operator, weakness of the industrial operators, and lack of expertise in the specific project typology of financial operators. To effectively overcome those gaps, different financial instruments should be implemented. Tailoring a financial instrument around a specific problem also means ring-fencing the associated risks and identifying possible co-investors more easily.

Road map for your city



Existing technical assistance initiatives

fi-compass offers general information, practical tools and learning opportunities that guide you step-by-step through the life cycle of ESIF financial instruments

www.fi-compass.eu

European Investment Advisory Hub

Europe's gateway to investment support

The **European Investment Advisory Hub** supports the identification, preparation and development of investment projects

eiah.eib.org

URBIS

URBIS raises awareness of the existing instruments, provides tailor-made technical and financial advice to cities and explores innovative financing approaches to boost urban investments

eiah.eib.org/about/initiative- urbis

European Investment Bank The EU bank

ELENA provides technical assistance to projects in energy efficiency and sustainable transport, for the implementation of energy efficiency, distributed renewable energy and urban transport projects

www.eib.org/en/products/ advising/elena

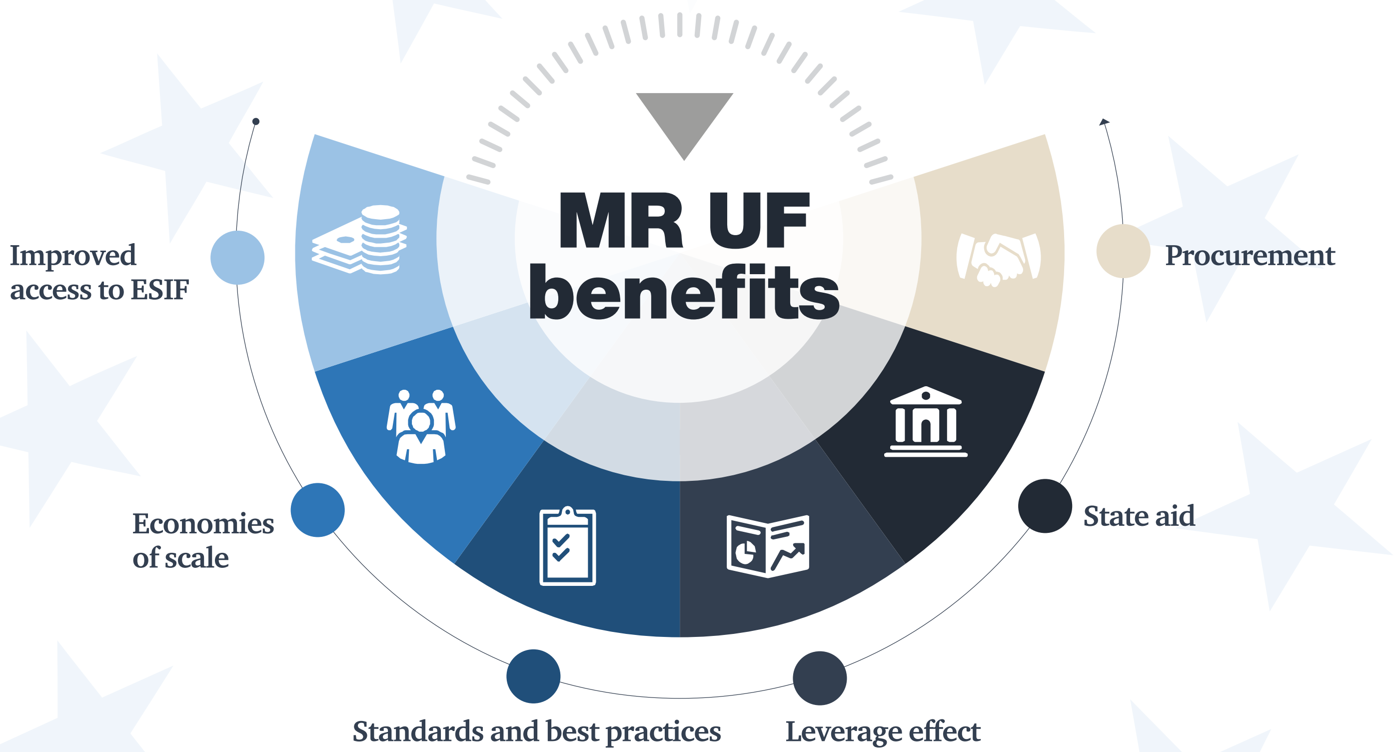
Multi Region Urban Fund – A Juncker Fund for cities?

Unlocking financing for urban projects

To finance city projects in the future, partner cities explored the potential to establish a new urban fund at EU level, known as the Multi-Region Urban Fund (MR UF).

This new EU fund could potentially provide cities with multiple opportunities to access ESIF, as well as other national and EU funding, to facilitate cities' investments.

The partner cities have identified the need for a flexible model that would allow the fund to participate in different-sized city funds. The MR UF could also attract existing technical assistance services to assess the feasibility of a financial instrument implemented at local level and help the cities develop internal capability to set up and monitor their financial instruments.



Improved access to ESIF

The MR UF could offer alternative and additional access to EU Funds, which could be particularly beneficial for cities with limited access to ESIF via managing authorities

Economies of scale

Standard procedures and appraisal tools associated with the MR UF could simplify local implementation, allowing funds to be set up more quickly

Standards and best practices

The MR UF could help to facilitate the development and sharing of best practices across the network of city funds

Leverage effect

Aggregating investments across the range of project types and geographies could potentially enable the MR UF to offer a more diversified portfolio of projects, thus attracting more private investment

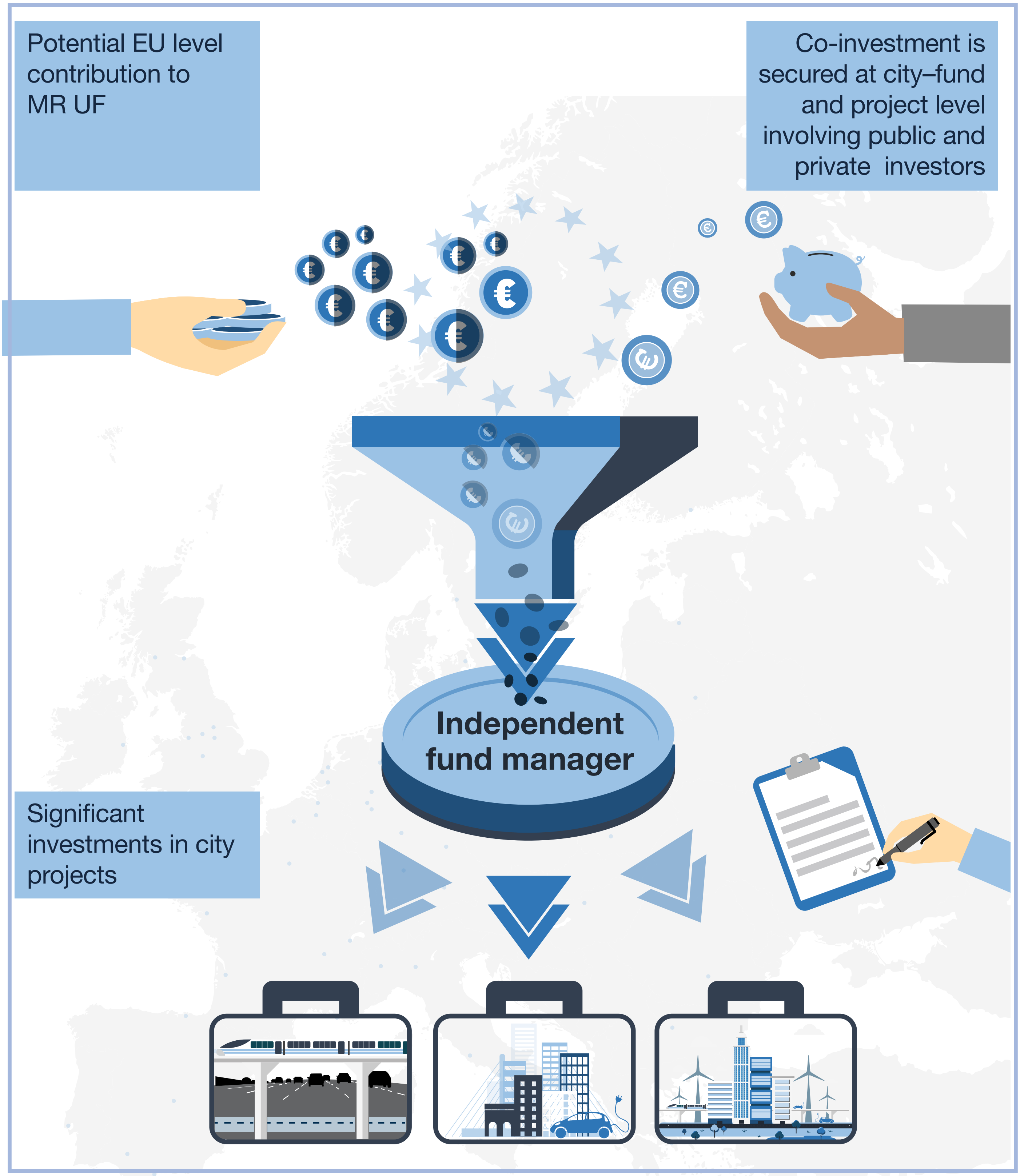
State aid

City funds established with the MR UF could benefit from greater State aid flexibility

Procurement

Procurement with the MF UF could result in greater flexibility, thus making it easier to implement financial instruments

Limited access to European Structural and Investment Funds resources can be a key financial barrier for many cities seeking to develop a financial instrument, even where there is funding for urban development at a national level.



The partner cities recognise the important role of regional authorities in ensuring that ESIF is invested to meet the needs of all EU citizens. Nevertheless, the current arrangements can result in administrative and policy barriers that prevent cities from accessing ESIF to directly fund their sustainable urban development strategy through measures such as an MRA-RICE City Fund. This barrier could be addressed if existing ESIF resources available for investment in cities were more directly accessible for cities to use in operations such as an MRA-RICE City Fund.

In 2016, the Pact of Amsterdam identified the need for the Urban Agenda for the EU by recognising that “Urban Areas of all sizes can be engines of the economy which boost growth, create jobs for their citizens and enhance the competitiveness of Europe in a globalised economy.”

The “Better Funding” pillar of the Urban Agenda aims to contribute to “identifying, supporting, integrating, and improving traditional, innovative and user-friendly sources of funding for urban areas at the relevant institutional level, including from European structural and investment funds (ESIF) (in accordance with the legal and institutional structures already in place) in view of achieving effective implementation of interventions in urban areas.”

https://ec.europa.eu/futurium/en/urban-agenda

The Multi-Region Assistance - Revolving Investment in Cities Project (MRA-RICE) benefited from a EUR 2.3m grant provided by the European Commission and involved four partner cities: The Hague, Greater London Authority, Milan and Manchester.

European Commission